

Asia Asset Finance PLC
Annual Report 2016/17

Towards
**Warp
Speed**
Growth



A Muthoot Group Company



ASIA ASSET
FINANCE PLC
The unconventional finance company

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Towards
**Warp
Speed**
Growth

Over the years, Asia Asset Finance has grown exponentially in line with its ambitious growth. Growth levels achieved by us supersedes the industry growth standards and we are proud to say that we have grown at warp speed growth. Our growth levels are attributed to the close affinity we as a company have had with our customers over the years, steadily building trust and confidence as their partner.



Annual Report 2016|17



Scan this QR code with your smart device to view this version of the Annual Report online

Goal, Vision & Mission

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

“Empowering people transforming lives.”

Towards the Customers

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

Towards the Shareholders

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

Towards our Family of Employees

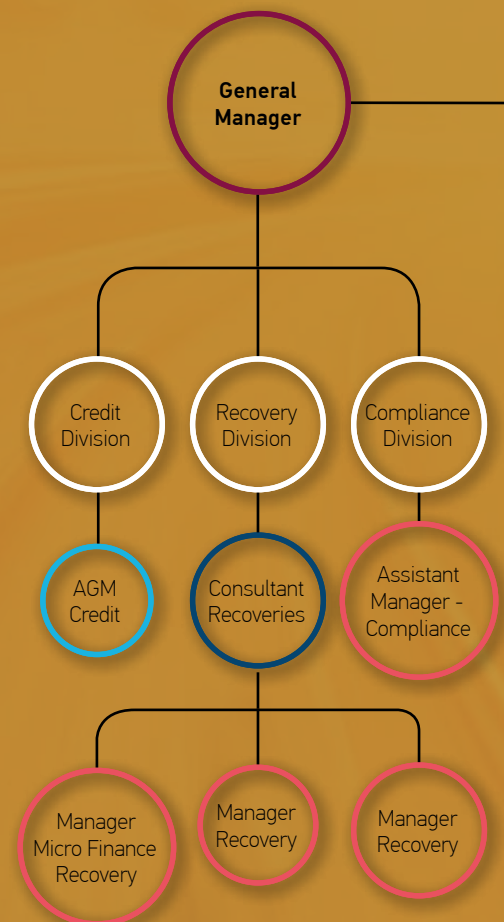
A Company that fosters and harnesses equality amongst employees along with personnel development and to create the perfect work-life balance in the organization.

Towards Society

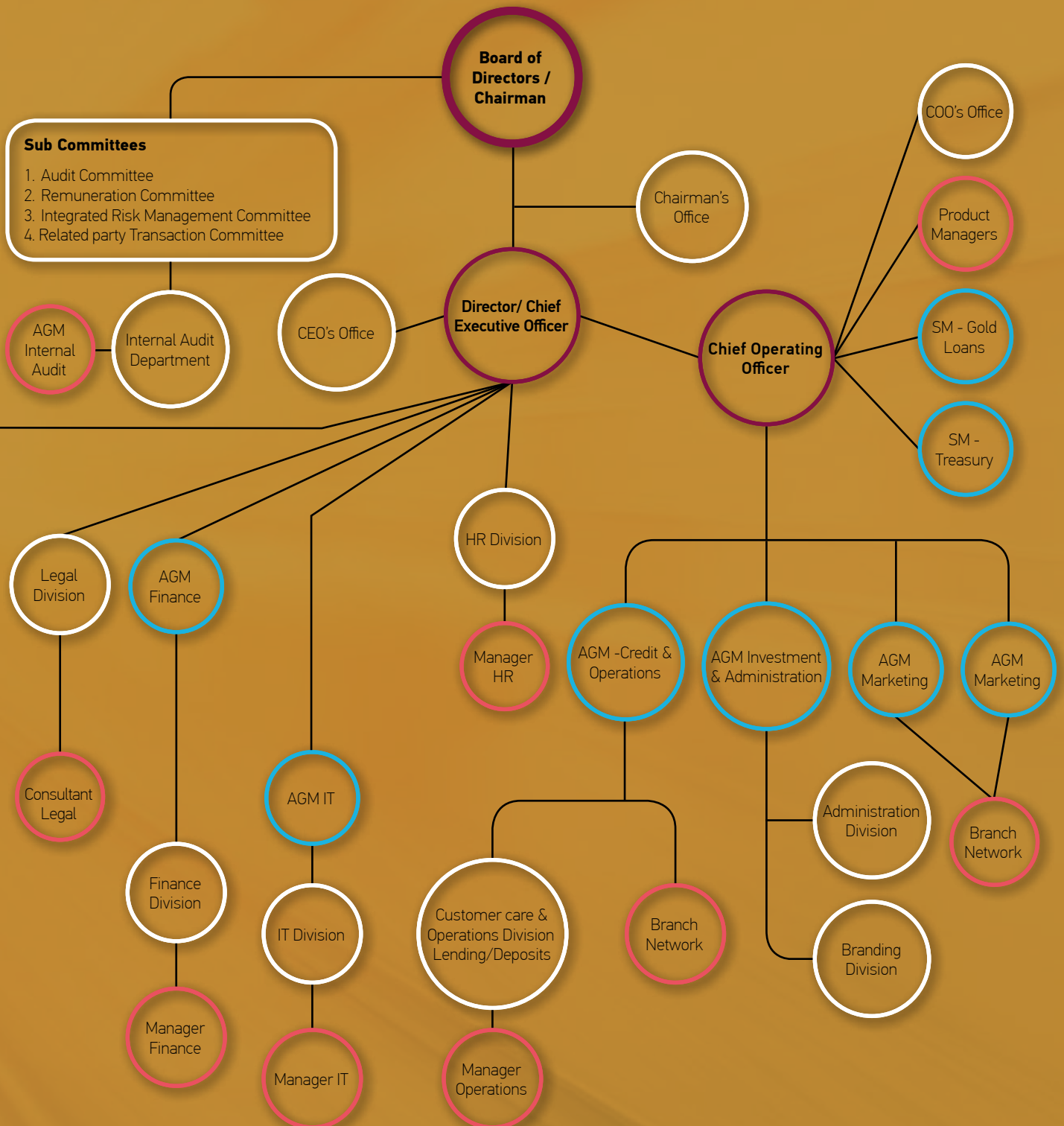
To be an ethical financial service provider, promoting the betterment of the societies we work and live in while maintaining transparent financial records and practices. We aim to provide financial solutions to all segments in our society and eliminate financial exclusion in our society.

Towards the Values of our Company

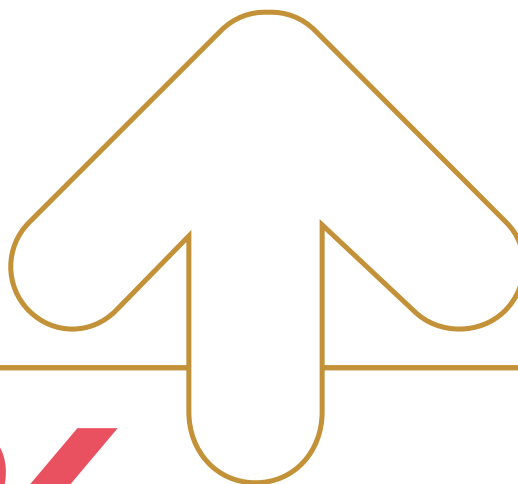
- Honesty and Integrity
- Flexibility
- Innovation
- Passion for Excellence
- People Oriented
- Genuine Concern for the Client



Organizational Structure



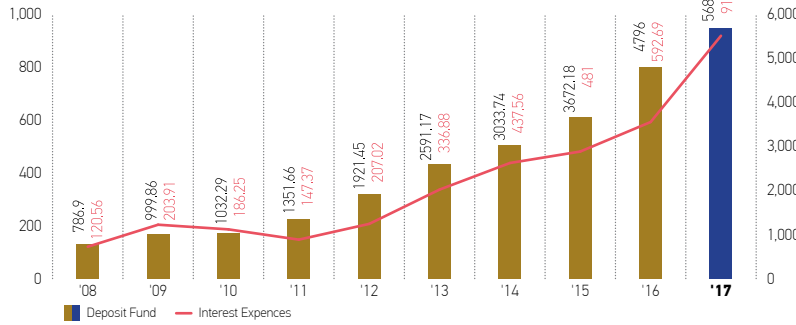
Financial Highlights



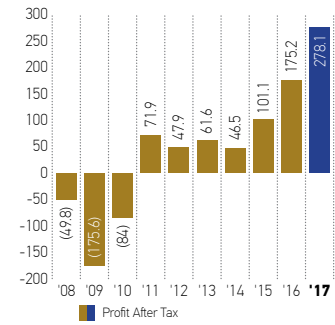
Profit Growth 59%

	2016/2017	2015/2016	% Change
Finance Performance(Rs. Mn)			
Gross Revenue	2,021	1,265	59.72
Net Interest Income	1,101	672	63.84
Profit Before Tax	315	209	50.72
Taxation	58	47	22.20
Profit After Tax	278	175	59.00
Position as at the year end (Rs.Mn)			
Cash and Cash Equivalents	602	691	(12.87)
Loans and Receivables	8,263	6,528	26.58
Total Assets	10,027	8,115	23.55
Fixed Deposit	5,681	4,796	18.45
Financial ratios (%)			
Profitability Perspective			
Operating Profit	18.50	20.28	
Net Interest Margin	13.76	11.90	
Return on Assets (ROA)	2.75	2.16	
Equity Holders			
Earnings per Share (Rs.)	0.33	0.21	
Net Asset Value per Share (Rs.)	2.07	1.74	
Price to Book Value (Times)	3.94	6.19	
Return on Equity (%)	16.01	11.99	
Earning Yield%	25.38	16.15	
Debt Holders			
Debt to Equity Ratio (Times)	4.70	4.38	
Interest Cover (Times)	1.34	1.35	
Statutory Ratio			
Tier 1 (Minimum Requireemnt 5%)	18.99	22.27	
Statutory Liquidity Ratio (Times)	16.65	14.45	
Non Performing Ratio	6.45	9.07	

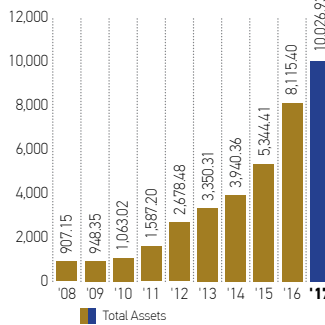
Fixed Deposit Vs Interest expenses



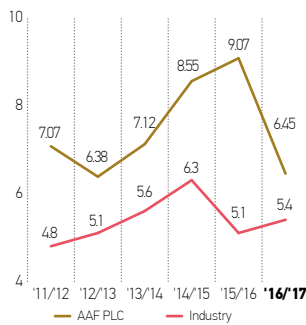
Profit After Tax (Rs.Mn)



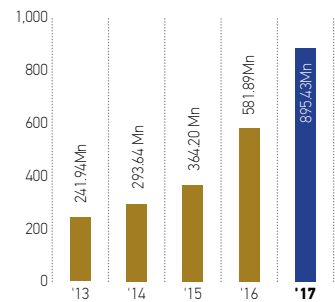
Total Assets (Rs.Mn)



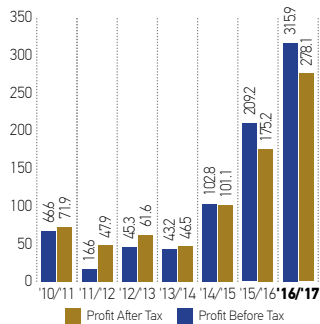
NPA Movement



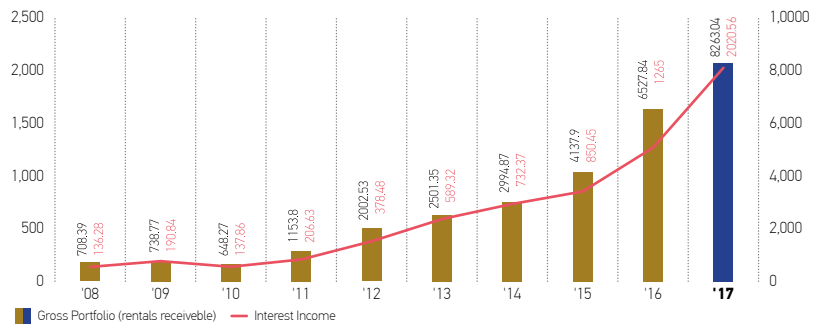
Movement of Operating Expenses (Rs.Mn)



Profitability (Rs.Mn)



Portfolio Vs Interest Income



Group Managing Director's Message

The Company's sustained admirable FY 2017 performance has yet again demonstrated the synergies generated under the leadership and guidance of The Muthoot Group. Since Muthoot taking the role as the parent of AAF in FY 2015, the Company's overall profitability has increased by 177% and the overall asset base increased by 88%. Company has registered 59% growth in its Net profit and 24% increase in overall asset base during FY 2017.

Muthoot Group, having a business legacy of over 130 Years and a presence in over 4 countries (US, UK, UAE and Sri Lanka), is proud to be a part of the Sri Lankan financial services sector through our investment in Asia Asset Finance PLC (AAF), which maintains a history of over 45 years. The Muthoot Group is always in the pursuit for investment opportunities within and outside the country as part of its expansion plan. Our association with AAF is a part of our strategy to make an entry into the financial service sector of Sri Lanka considering the close relationship both the countries enjoy and the vast opportunities available in the Sri Lankan financial sector for rendering yeomen service to the society. AAF was embraced to the Muthoot group in the year FY2015.

With over 4,300 branches across India, most of them in the rural/unbanked areas and staff strength of over 30,000, Muthoot Finance, the flagship company of The Muthoot Group, is considered to be pioneers of Financial Inclusion serving over one lakh plus customers per day. Muthoot Finance has been awarded "The Most Trusted Financial Service Brand" two years consecutively by The Brand Trust Report 2016 & 2017. We believe AAF has the potential and the capabilities to carry out the Business principles of Muthoot Finance viz. ethics, value, Reliability,

dependability, trustworthiness, integrity and Goodwill under the guidance of The Muthoot Group.

The CEO's Statement provides further details of the financial achievements of the Company during FY 2017. Gold Loans, introduced in FY 2016 by Muthoot to AAF and the technical expertise of Muthoot have contributed dramatically to strengthen the Gold Loan product of AAF. During the FY 2017 Gold Loan portfolio has shown 70% increase from Rs.695 million to Rs.1188 million. The presence, of Muthoot has contributed to diversify the funding sources for AAF which in turn mitigated the companies risk profile and has resulted in improving its rating. The knowledge sharing has resulted in implementing a sound internal control model for AAF. We believe these actions will safeguard the interests of all stakeholders. Muthoot does not wish to limit its knowledge sharing only for the gain of financial returns. As a company, we believe in creating strong values and good business practices across our group of companies to create an environment, which allows our customers to obtain maximum benefits through our services and to create a healthy relationship between the customers and our staff.

Muthoot is working closely with AAF for building a work culture which can be a benchmark for high quality customer service. Muthoot is confident that AAF will continue to improve and strengthen its business operations, whilst maintaining strong values, on which Muthoot operations are built.

We would wish to congratulate the management and the staff of AAF, for their excellent financial performance during FY 2017, and thank our customers for the confidence reposed in AAF for their banking

needs. Continued patronage and support of customers will be strength to AAF. We assure you that the Muthoot Group will provide all necessary inputs and assistance to strengthen and improve AAF and to make it one of the most reliable and trustworthy finance companies in Sri Lanka. We wish AAF all the very best for the FY 2018 and we are confident that AAF will continue to excel in its performance during the coming year, whilst maintaining good business practices.



George Alexander Muthoot

Managing Director
Muthoot Finance Limited



Group Managing Director's Message



Our association with AAF is a part of our strategy to make an entry into the financial service sector of Sri Lanka considering the close relationship both the countries enjoy and the vast opportunities available in the Sri Lankan financial sector for rendering yeomen service to the society.



**Profit
Growth**

59%

**Towards
Warp
Speed
Growth**

With focus and concentrated management action that this company can continue to grow over the next 5 - 7 years, at which point it will reach a stage; of rapid and unusual growth, which I wish to term "Warp Speed Growth".



Chairman's Message

Growth of
Microfinance portfolio

Rs.1.6Bn

Rs.889Mn



During the Financial Year 2017, the net profit of the Company increased by 59% over 2016. This increase was despite the Company increasing its loan loss provisions for the year to Rs.227m up from the Rs.84m of last year.

Chairman's Message

It is with pleasure that I invite you to the 06th Annual General Meeting of Asia Asset Finance PLC which was originally Finance and Land Sales, and its history dating back to 1970.

On about 2004 when Finance and Land Sales changed hands the Company acquired Asia Capital Ltd. The Company obtained the listing at the Colombo Stock Exchange in 2012, when it was renamed Asia Asset Finance PLC in 2012. I became involved in Asia Asset Finance consequent to acquiring of Asia Capital in 2009. Subsequently I came on to the Board of Asia Asset Finance in 2009.

In 2010, I became the Chairman with the retirement of Mr. Daya Muthukumarana, the former Chairman. I recruited Mr. Rajiv Goonewardene, a recent graduate with a Master's Degree in accounting, as the Chief Executive Officer, the architect of the turnaround.

Another significant milestone of the Company was when Muthoot Finance Company, the leading Non Banking Institute in India purchased the majority Share Holding of Asia Asset Finance in 2015.

In 2013 September I became full time Non Executive Chairman. Given this history of my involvement in Asia Asset Finance I take particular pride in the outstanding growth of the Company. In some sense this meeting is a 'Bitter Sweet' meeting for me, as this will be my last Annual General Meeting as Chairman, of Asia Asset Finance, PLC, due to the effect of the regulation by the Central Bank, the time limit as a Member of the Board of Asia Asset Finance PLC. I will be completing nine years in March 2018.

During the Financial Year 2017, the net profit of the Company increased by 59% over 2016. This increase was despite the Company increasing its loan loss provisions for the year to Rs.227m up from the Rs.84m of last year. This increase of the provisioning was to enhance the Quality of the Asset Base; such conservatism was adequately rewarded by an improved credit ratings. The lacklustre economic environment faced by the Company impacted its activities adversely both from the demand side and the supply side.

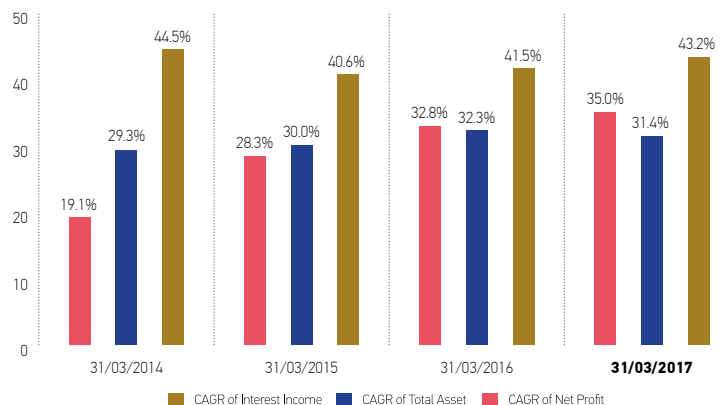
On the demand side, Government regulations regarding lending for transportation inhibited the growth of our loan book. Also the Monetary Board reluctance to open new branches for Finance Companies impacted our ability to extend our footprint to new geographical areas during the financial year was a setback for the Company's profit performance. Despite these limitations the Asset Base of the Company grew by 24%.

To borrow an imagery drawn by the eminent Economist, John Kenneth Galbraith, in his book the 'The Affluent Society'; this was

indeed a Herculean effort; and the equivalent of a squirrel pushing a loaded wheelbarrow up a hill. I wish to applaud the Management, led ably by your young CEO Mr. Rajiv Gunawardene. Due to the Assets quality of the company increasing, provisioning and enhanced collections efforts the Company received a BBB + rating by Rating Agency ICRA in December 2016. The Company hopes to further improve its credit rating in the coming year; its goal is to improve its credit rating by a further two notches.

The compound annual growth rate of profits over the last ten years is over 35%. The corollary is that the compound annual growth rate in interest income over the same period is approximately 43%. I wish to highlight this long period growth as the key feature of Asia Asset Finance PLC, and is the theme of this year's Annual Report. Meanwhile the compound growth rate in assets is only 31%.

CAGR Based on 2007



In fact, AAF growth has been so spectacular, that I looked around for a concept from popular culture to illustrate it. Those of us who are fans of science fiction, is no doubt familiar with the Gene Roddenberry's Star Trek cartoon strip, and its spin off movies. Hence, the theme of this year's Annual Report is "Towards Warp Speed Growth".



On the supply side, due to tight monetary policy of the Central Bank, the Management anticipated a looming shortage of funds in the market towards the conclusion of the financial year, to ensure that it remains solvent. In the month of January 2016 the monetary authorities increasing the bank reserve ratio the company anticipated tightening liquidity toward the end of the year. To deal with that situation, the company contracted some of its lending activities and accelerated collections and also enhanced its fund raising activities. All of these actions had a negative impact on profitability for the year, against the budgeted levels of activity we anticipated tightening did materialize. However, the company was solvent and was prepared to meet that emergency.

It is my belief that with focus and concentrated management action that this company can continue to grow over the next 5 – 7 years, at which point it will reach a stage, of rapid and unusual growth, which I wish to term "Warp Speed Growth".

It is interesting to note that the compounded growth rate in profitability over the last ten years is almost in lock-step with the compounded growth in rate turnover over the same period. Meanwhile, the growth rate 35% in profitability has out stripped the compounded 31% rate in the Asset Base. As an Analyst, I find this unusual, particularly given the very long time frame. The challenge then is to determine whether such performance can be continued.

In fact, AAF growth has been so spectacular, that I looked around for a concept from popular culture to illustrate it. Those of us who are fans of science fiction, is no doubt familiar with the Gene Roddenberry's Star Trek cartoon strip, and its spin off movies. Hence, the theme of this year's Annual Report is "Towards Warp Speed Growth".

The other popular concept from Star Trek is 'Beam Me Up Scotty'; and I would like this enterprise to go boldly where no other enterprises have gone before. Indeed, is such

achievement of "Warp Speed Growth" feasible for this Company? It is my considered opinion that indeed such levels of growth can be achieved.

After analysis, of cost to income ratios of many Finance Companies, we observe the following:

1. Growth in size is associated with a reduction in cost to income ratio after studying of over thirty Finance Companies, we observe the following:

Such indication can be empirically demonstrated the cost to income ratio of Asia Asset Finance PLC is 85%. If indeed the size of Asia Asset Finance was to double its size from 10 to 20, particularly cost to income will drop to 70%.

2. We have also noted that companies that are focused on one or few segments of the market indicate the lowest cost to income ratio. Our mathematical model

Chairman's Message

indicates that such focus accounts for a reduction of cost to income ratio by 15%. Potentially Asia Asset Finance PLC may be able to reduce its cost to income ratio to 55% by doubling its size and focusing on a narrow segment of the market; thus making it an industry leader consistent with the most successful finance companies in the country.

It is my contention that with the rapid increase in size of Asia Asset Finance and its success on activities, we have a single market segment, consisting of Gold Loans, Micro Finance and Small Business Loans, will continue to drive down the cost to income ratio of Asia Asset Finance.

In fact these recent growth and steady has reduced Asia Asset Finance cost to income ratio, e.g. Over the last ten years the cost to income ratio has been driven down [132% to 85%]; The Company's future strategy is to continue growth in size and to focus on its core market and to increase margins, and to continue to increase in size.

Further the relative size of the Company market share in Gold, Micro Finance and Small Business Loans, is very small although the Company has developed competencies in all three areas. If matched by fund availability the Company is expected to grow rapidly. The potential for market development is present.

Finally, the branch network of the Company is still relatively small with only 17 branches and two service centres as at the date of writing. The company has a significant geographical scope for growth and market development.

The potential for greater market penetration is present and market development provides great growth potential in the future, to grasp

Warp Speed Growth. Finally the branch network of the Company is still small.

Another popular phrase in Star Trek is when the exasperated engineer of the ship yells, "I am giving her all she's got Captain". I would like this enterprise to go boldly where no other similar enterprise has gone before. Indeed, this is achievement of such 'Warp Speed Growth'.

In giving these levels of performance I am happy that the CEO and the Management is giving the Company all they got. Given my increasing age, it is my wish that 'Warp Speed Growth' is achieved before Scotty Beams Me Up.

The concept of a 'Warp Speed Growth' is that growth levels keep increasing until it reaches a point of take off, subject to economic condition, the growth of our business environment and economies of scale. I believe such a level of take off is approximately six to seven years away. The growth of that Company is boiler plate for AAF and a model to be emulated. It is with some pride that I wish to state that I detected a similar company in the Financial Sector, with a growth trajectory akin AAF, back in year 1999 and invested in that company myself; and for my clients with substantial positive returns on the back of the continued growth. It is possible for AAF due to its relatively continued modest market share in its industry potential of its key markets, where they have developed adequate competencies in core processors is present. The potential for market development can be realised if the Central Bank supports its supports its ambitious branch expansion strategy.

The future is for AAF to continue expanding its 'Footprint' by opening more branches,

training and development its staff; and being supported by which I believe will be a benign macro-economic environment, including availability of credit for our target segments consisting of clients at the 'Bottom of the Pyramid'.

For the purpose of continued growth equity finance is available from our majority shareholder, who is the largest Non Banking Financial Institution in India. The significant constraint for growth however, may be the Monetary Policy of the Central Bank that has adopted a tight Credit Policy, which in turn has reduced the availability of funding for Private Sector growth we also anticipate increase interest in rates by the Monetary Authority in the US, which impact will be a constraint debt funding from the overseas markets.

Indeed, can such Warp Speed Growth be achieved? We believe, it can be, given the focus on the 'Bottom of the Pyramid' as a priority sector by the policy makers. We believe that sector is less likely to be impacted by the monetary constraint.

The Company is likely to shed some of its old products and enter into new innovative areas of activity and continuously balance and reinvigorate the product line. Due to the inherent entrepreneurship of our leadership and staff, they will support Warp Speed Growth within a reasonable time frame. My tangible example took twelve years to achieve the 'Warp Speed Growth'. Over the last ten years AAF has grown at a compounded growth rate of over 31%. I have no doubt that the level of growth will be enhanced by another 15 years, based on both the existing balance of the company and on future innovation and country potential.

I have no doubt that level of this enhanced growth for a further fifteen years based on the existing portfolio of the Company with the non-performing loans adjusted for provision has been reduced to below 0.5% of the assets of the Company. The Company has recorded growth over the first quarter and we expect continued growth over the coming financial year. The Company received approval for four branches towards the tail end of last year. During the course of the coming year, the Company plans to re-locate another branch, to a better location and apply for approval for one or two more branches that complements our product line of Gold Loans, Micro Finance and Small Business Loans. Meanwhile the compound growth rate in assets is only 31%. The new branches are expected to enhance profitability in the coming years.

During the course of the year, the rating Company efficiency took notice of the improved asset quality and awarded a BBB+ rating for the company. The Net Assets Value as at the end of the Financial Year was Rs. 1,736,891,866/- approximately Rs.2/- per share, the Company paid its First Dividend in the month of August 2017, but despite the

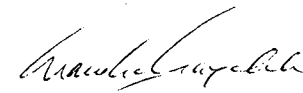
high quality of profits growth and dividends assets of Company was trading at only Rs.1.70 per share as at the time of writing, this is disappointing.

It is the intention of the management to further tighten the provisioning policy during the coming years. During the course of the year the Treasury Department took further steps to diversify the funding sources of AAF

Over the last two years AAF has moved away from exclusively being finance, by depositors' funds to a combination of bank funding and securitization. It has obtained funding lines with all local private banks operating in the country.

In conclusion, I wish to thank my fellow members of the Board for supporting me during the current year and during my entire tenure at Asia Asset Finance, particularly Mrs. Priyanthie Peiris, who ensure that I operate within the regulations and requirements of the SEC, Mr. Daya Muthukumarana, former Chairman of Asia Asset Finance, during the period of turnaround and in particular Mr. Rajiv Gunawardene, my nephew, who

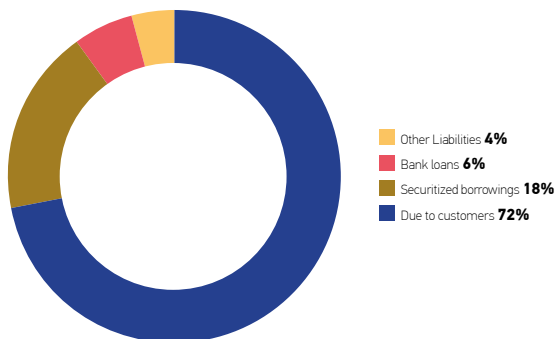
had done an outstanding job in leading the Company. I wish to also thank the members of the Board from the Parent Company, Muthoot Group, and in particular Mr. George Alexander, Managing Director of Muthoot Group, who counseled me with his cautious, well thought through wise and perceptive comments.



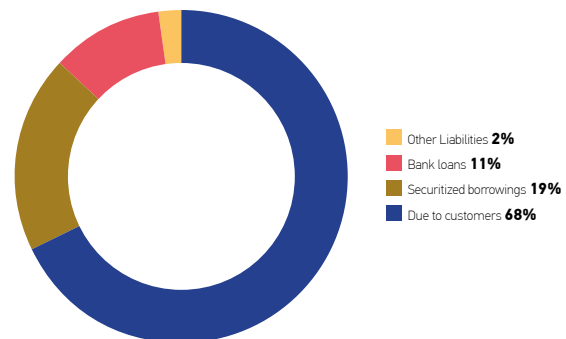
Manohan Nanayakkara

Chairman

Liabilities Structure As At 31st March 2016



Liabilities Structure As At 31st March 2017





**Total Assets
Base**

10Bn

Towards

**Warp
Speed
Growth**

The Company is asset base reached a total of Rs 10 Billion. Also, the Company was rewarded with a BBB+ ICRA Rating due to the overall improvement in the business operations and identifying the synergies between Muthoot Finance and Asia Asset Finance PLC.



Chief Executive Officer's Message

Return on Equity

16%

Total Equity 1.7 Bn



The ROE and ROA of the Company increased to 16% and 2.7% respectively. Whilst the earnings per share increased from Rs 0.21 to Rs. 0.33 during the financial year.

Chief Executive Officer's Message

Asia Asset Finance PLC, completed the 2016/17 financial year by delivering to the expectations of all our stakeholders. The Company reported a profit of Rs 278 Million, which was a 59% growth from its previous year. The Company's asset base reached a total of Rs 10 Billion. Also, the Company was rewarded with a BBB+ ICRA Rating due to the overall improvement in the business operations and identifying the synergies between Muthoot Finance and Asia Asset Finance plc. The Company announced a dividend of Rs 0.07 its first dividend in the history of Asia Asset Finance Plc, making it a triple milestone year for the Company.

Despite the achievements of the Company, the economic environment was volatile and uncertain. This slowed down the growth momentum of the operations during the latter stages of the financial year. The adverse policies which were introduced without a reasonable time line such as the loan to value ratio on vehicles stagnated the business of the organisation. Furthermore a liquidity shortage in the market and higher inflation propelled the cost of funding of the operations.

How We Performed

Asia Asset Finance PLC, excelled in the performance during the year under review. The total assets of the Company grew by 24% reaching Rs.10 Billion, which included a 42% growth in the loans and advances of the business. The Company continued to maintain a healthy recovery ratio where more than 10% of the asset base was held in liquid assets. Overall liabilities grew by 25% to Rs 8 Billion, with the largest contribution coming from Securitisation and bank borrowings increasing by 54% to Rs 2.47 billion, whilst the deposit base grew only by 18% reaching a total base of Rs 5.6 Billion. The management



was of the view that bank borrowing and securitisation will help address to minimise the maturity mismatch between the loans and the borrowings. Hence as a result the Company cashflow management has improved significantly. The ROE and ROA of the company increased to 16% and 2.7% respectively. Whilst the earnings per share increased from Rs 0.21 to Rs 0.33 during the financial year.

The Company total equity grew by 19% increasing to Rs. 1.7 Billion and which increased the net asset value per share to Rs 2.07. indicating a strong foundation for the company.

The Company profitability as previously mentioned reached Rs 278 Million, due to strong performance by the company maintaining a healthy NIM ratio of 13.76%. The interest income passed the Rs 2 Billion Mark where the interest income increased by 60% from the previous year. The main contribution was made from Gold loan

income and Micro Finance, where the average growth rate exceeded 80%.

The interest expense also grew by 55% reaching Rs. 919 Million from the previous year interest expense of Rs 592 Million. The interest costs have been showing increasing trends where the weighted average deposit rates have been on an increasing trend, where year on year interest cost increased by 13.8%, reaching a total interest cost of 14.34%

The operating expenses also grew 46% with both the general administration costs and the personnel costs increasing by 37% and 34% respectively. The key reason for the increase in costing has been investments made on the infrastructure and investment made on training and development of our valued staff members.

The most significant increase in cost has been the impairment of the loans and advances. The impairment cost grew by 171% increasing the amount to Rs. 227 Million from

Rs.278 Mn

The Company's profitability reached Rs 278 Million, due to strong performance by the Company maintaining a healthy NIM ratio of 13.76%. The interest income passed the Rs 2 Billion Mark where the interest income increased by 60% from the previous year.

the previous year of Rs 84 Million. The main reason for the increased provision has been the steps taken to clean the loan portfolio on certain products, which were discontinued, whilst these figures might seem high, the company anticipated increased provisioning and have worked within the budgetary framework of the company.

Despite the increase in provisioning the Company maintained a healthy Non Performing Accommodations ratio of 6.45% from the previous year figure of 9.07%. We believe it is a strong indication of the companies performance in terms of asset quality.

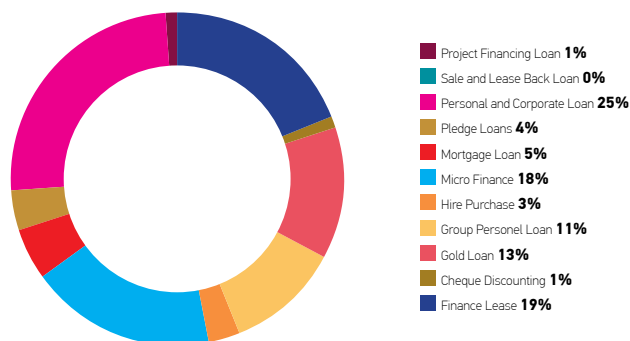
How the Operations of the Company Performed

The operations of the company continues to improve and increase in terms resources. The Company currently has a total of 448 staff which is an increase of 90 from the previous year. Despite the increase in staff, the revenue per employee has increased proportionately confirming the requirement and proper recruitment strategies. The following table displays growth in terms of staff over past 4 years. The table also confirm that despite the increase in staff cost, the company has maximised the resources of the company to increase the profit per employee of Asia Asset Finance.

	2016/2017	2015/2016	2014/2015	2013/2014
Indicators				
Net Profit per employee (Rs.)	614,643.82	491,120.15	427,361.62	295,391.16
No of staff	448	358	235	157

The main requirement for the enhanced resources have been micro finance and gold loan products where both products required talented staff to bring our loan products to a higher standard.

Asia Asset Finance has a diversified product range as depicted in the pie chart given below, with the following products. The management strongly believes in having a diversified product portfolio to mitigate the risks which are inherent the certain products.



Due to the expansion of our resources mentioned above, AAF have successfully increased its customer base to 47,000+ as at 31st March 2017. The following table confirms a continued pattern, on how our valuable customer base is growing, due the products and services we cater to our clients.

Chief Executive Officer's Message

	2016/2017	2015/2016	2014/2015
Customer base	47,036	26,296	12,881

The Company also increased the number of branches by 4 during the year, with expectation of mitigating the geographical risk of the company. The main focus of these locations was the Gold loans and furthermore the company expects to relocate the existing branches to make it more attractive for gold loan in the future.

How We Manage Our Risks

Risks are inherent to the finance business. The main objective of Asia Asset Finance has been to identify risks early and to take steps to mitigate the impact of such risks.

Credit risks being the most relevant risk for a financial institution, AAF has taken prudent steps to control the risk and mitigate the impact to the Company. The Credit activities are controlled and monitored by the Credit Committee on a regular basis, with the credit Committee members having a combined experience of over 75 years. The credit activities of the Company is also monitored by our board appointed Integrated Risk Management Committee. The credit activities are also guided through the policies and procedures, which are regularly updated to address changing business environment. The improvement in our NPA is testament to our commitment to improving the credit quality of our loans and advances.

The Liquidity, availability of cash to operate the business is extremely vital aspect of a finance business. The treasury department of AAF has ensured that daily controls are

in place to maintain a healthy liquidity levels and maintain good ratios to improve the quality of our operations. The Asset Liability Committee which is formed assists in helping to improve the standards of our liquidity management. As a result of these news steps taken the company has successfully been able to generate higher revenue through its investment activities whilst maintaining good liquidity levels.

The geographical risk has also been on the centre of our attention, the company strongly believe the geographical risk needs to be addressed on a regular basis, hence the company has focused on shifting focus from the northern province to Central province in order to further expand its gold portfolio and to mitigate unanticipated risks in conducting business.

The Company has continued to strengthen its internal audit department, to ensure the Company identifies potential risks which need attention in terms of our operations and mitigate the operational risks of the company. Whilst there have been no new technological development during the year under review, the Company took steps to improve and upgrade our existing systems to ensure that our operations remain stable and able face external threats which could affect our business operations. AAF has also ensured that the Company continued to improve new policies and procedures to improve the efficiency level of the organisation and maintain strong controls to mitigate the operational risks of the Company.

The compliance activities of the Company was also strengthened during the year under review, as AAF focused on further strengthening the corporate governance of the company further. The Company introduced new mechanisms to become more transparent in terms of our operations and to introduce an ethical and effective business model, which will be sustainable for the future.

A more detailed review of the operations and risks, can be found Page 33 and 97.

How did we Achieve Our Goals and Objectives

The goals and objectives of our Company was achieved as a team and was not restricted to any individual performance. The ability to work in harmony as one family, helped achieve these goals and objectives.

Our valued staff members were committed to achieve the goals and objectives set by the Board of Directors. The Board of Directors, led by our Chairman continued to assist the management during the challenging times, their advice and guidance helped the company overcome those challenges and to battle forward. Our regulators, the Central Bank of Sri Lanka and our Audit Partners BDO Sri Lanka ensured that the Company did not lose focus on maintaining the high standards, which is required to maintain in terms of good corporate governance.

Special appreciation, to the Managing Director of Muthoot Finance, for his time spent of helping to further strengthen our operations, his knowledge and vision has only ensured that the Company grow from strength to strength

As an organisation, we are thankful for all our stakeholders who help bring Asia Asset Finance plc to success.

How do We Look at the Future

The future seems extremely challenging, with both social and economic uncertainty looming in the country. The Central Bank indicates a slow growth rate for the year which in turn will affect the financial markets.

However AAF main priority during the year will be to focus on the growth of the Company and to safeguard the interest of all our stakeholders. Whilst we may not be able to maintain the same growth ratios considering the macro economic conditions, we are certain that we will be able to improve the operations of our Company and to maintain a healthy portfolio which in turn will provide the company with a strong balance sheet

The continuous improvement of our IT infrastructure and the strengthening of our corporate governance structure will also be in the centre of our strategies during the year.

We hope that AAF will have the continued support of our all our stakeholders to reach new milestone for the future.

We thank all our shareholders, customers, staff, Board of Directors and our regulators for giving us support, having confidence in us and sharing their knowledge to make Asia Asset Finance a successful business venture.



Rajiv Gunawardena

Director/Chief Executive Officer

***Board of
Directors***



Manohan Nanayakkara

Chairman

Mr. Manohan Nanayakkara was the Group Chairman and Managing Director of Asia Capital PLC. He was also the Managing Director of Asian Alliance Insurance PLC from 2009 to 2011. He was on the Board of all Associate Companies of Asia Capital PLC until his retirement from the Group in September 2013. He was a former Chief Operating Officer / Director of Asian Hotels and Properties Limited, previously known as Crescat. As the former General Manager of the Bureau for Infrastructure Investment (BII). Mr. Nanayakkara led the Sri Lanka Government Team to conclude the concession agreements; for the South Asia Gateway Terminal (SAGT); and concluded the Power Purchase agreements; for several Private Sector Funded Power Projects. He was the Secretary/Convenor of a Committee of high level Government officials to deal with the power crisis of 1996. He was the Chief Executive Officer / Managing Director of CF Venture Fund. He is a Director of Pradana Limited; an Investment Management Company.

In 1980/81 Mr. Nanayakkara was a visiting lecturer at the Postgraduate Institute of Management (PIM) to teach a well received course in Business Strategy and Management Accounting for the MBA Programme. Mr. Nanayakkara holds the following academic qualifications and experience:

- Fellow Member of the Institute of Chartered Management Accountants (FCMA) -1996
- Master of Science in Accounting (MSA) from James Madison University of Virginia, USA -1994
- Masters of Applied Finance (MAF); and Masters of Business Administration (MBA) from the Queensland University of Technology, Australia - 2006

As Project Specialist, of US AID Colombo, he was responsible for the design and management of the Capital Market Project, which provided assistance for privatisation of State Owned Entities and establishment of the Securities and Exchange Commission of Sri Lanka (SEC); and development of the Colombo Stock Exchange (CSE).

Board of Directors



Rajiv Gunawardena

Director/Chief Executive Officer

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



C. Ramachandra

Non-Executive Director

Mr. C. Ramachandra is a Fellow of the Institute of Chartered Accountants of Sri Lanka (ICASL) having passed out in 1975 and counts forty two years experience in the fields of Auditing, Tea Exports, Financial Services and Packaging. He is presently the Competent Authority of Hotel Developers PLC, the owning company of the Colombo Hilton. Mr. Ramachandra is a past President of the Chartered Accountants Students' Society of Sri Lanka and is a double prize winner in Accounts at the exams conducted by the ICASL in 1972 and 1974. He was also a CIMA Accounts World Prize winner in 1976. Having qualified as a Chartered Accountant, he served as a Partner of Messrs Hulugalle, Samarasinghe & Company from 1975 - 1978. He joined Lipton Ceylon Ltd in 1978 as Assistant Financial Accountant and left in 1992 as Chief Accountant/Company Secretary. During this period he served six months in the UK Head Office of Lipton UK. He has attended Unilever PLC Management courses in the United Kingdom (02), India (01) and Malaysia (01). From 1992 to 1995 he was the General Manager of the Commercial Bank of Ceylon's Fund Management Company. From 1995 to 2004 he was the Finance Manager/Company Secretary of Varna Ltd the pioneer in the field of flexible packaging in this country. In November 2004 he took up appointment as Chief Financial Officer of the Uni Walkers Group. In early 2005 he was appointed to the Board of Uni Walker Packaging Ltd, a post he held until his retirement in April 2015. He also served as a Non-Executive Director of Sathosa Retail Ltd, the privatised retail arm of the CWE in 2003/04.

He also served as an independent Director on the Boards of Capital Reach Holdings Ltd, Capital Reach Credit Ltd and ,Capital Reach Leasing Ltd (now Softlogic Finance) from 2007 – 2010. He is also an Independent Non-Executive Director of UB Finance Ltd from October 2013.



Dayangani Priyanthi Pieris

Non-Executive Director

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



Thusitha Perera

Independent Non-Executive Director

Mr. Thusitha Perera was appointed to the Board of Asia Asset Finance PLC as a Non-Executive, Director on 17th December 2013 and is also presently the Group Chief Financial Officer of Asia Capital PLC. He started his career at Kreston M.N.S. & Co. (Correspondent Firm of Grant Thornton International) in 1991 in the field of auditing and management consultancy and thereafter joined several leading mercantile companies and has held many senior positions in finance and general management. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and Certified Management Accountants of Sri Lanka with over 22 years of experience in finance and auditing, both locally and internationally.

Board of Directors



George Alexander

Non-Executive Director

George Alexander has done his Master's in Business Administration from University of North Carolina's – Kenan & Flagler Business School and bachelors in Mechanical Engineering from University of Kerala TKM College of Engineering. He is currently work as Senior Vice President of Muthoot Finance taking care of operations in the State of Karnataka ,Goa & south of Telangana , he also has the additional responsibility monitoring of global operations of The Muthoot Group in U.S.A. He is presently on the board of other group companies namely Muthoot Insurance Brokers & Belstar Finance & Investments. Muthoot Finance is the Gold Loan (NBFC) Company and is the flagship company of The Muthoot Group. It was listed in 2011 and is traded in BSE & NSE. It is the largest Gold Loan Company in the country. Apart from Muthoot Finance, The Muthoot Group has 16 other divisions, to name a few are Hospitality, Health Care, Equity & Commodity Trading, Insurance broking etc. The group is four generations old and George Alexander represents the fourth generation. Prior to joining his family business George had worked for ING & Kotak Mahindra Bank in India.

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



K R Bijimon

Non Executive Director

Chief General Manager (Muthoot Finance Limited)

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

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



Kiran G

Non- executive Director

Joint General Manager – Audit and Inspection.

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

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

Further, he has experience in coordinating work with risk, legal, surveillance & vigilance departments. He provides his expertise to act as a resource person for other departments in their design, implementation and monitoring of activities across the organization.



Rajitha Ananda Bandara Basnayake

Independent Non-Executive Director

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

During his career he has spearheaded ICT operations of Asia Capital Group a highly diversified conglomerate into capital markets , non banking finance, insurance , digital entertainment, tea packaging, Leisure , Technology as Group Chief Information Officer for 3 years , The Lion Brewery Ceylon Ltd (4 years as Head of IT) , as Manager Information Systems of Richard Pieris Distributors Ltd. for 5 years and as a key member of the strategic leadership teams of these companies. Further he brings more than 5 years experience in Consultancy services as Director Advisory services of Ernst & Young Sri Lanka providing Business Advisory and ICT Advisory solutions for mission critical private and public sector projects . He was also a visiting lecturer for MSc in Information Technology study program conducted by Informatics Institute of Technology in collaboration with Keele University UK.

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

Senior Management



1. Rajiv Gunawardena

Director/Chief Executive Officer

2. Mahesh Kumara

Assistant General Manager - Credit

3. Deshapriya Liyanage

Assistant General Manager - Internal Audit

4. M. Thiruneelakandan

General Manager

5. Roshan De Silva Gunasekera

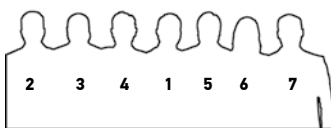
Chief Operating Officer

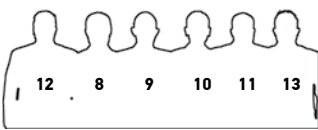
6. Geethika Elwalage

Assistant General Manager - Finance

7. Samira Weveldeniya

Assistant General Manager - Fixed Deposits





8. Jayantha Weerapullige

Assistant General Manager- Marketing

9. Inditha Jayathilaka

Assistant General Manager -
Information Technology

10. Hantley Babapulle

Assistant General Manager-
Administration

11. Sajith Atapattu

Assistant General Manager-Credit &
Operations

12. Praveen Peiris

Senior Manager - Treasury

13. Sisira Mudalige

Senior Manager - Gold Loan

Senior Management

Rajiv Gunawardena

Director/Chief Executive Officer

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

Roshan De Silva Gunasekera

Chief Operating Officer

Mr. Gunasekera joined Asia Asset Finance PLC in April 2010. Mr. Gunasekera carries more than 22 years of post-qualifying experience in the Finance Sector having commenced his career as a Credit Officer at Commercial Leasing Company Limited in 1994. Mr. Gunasekera is a graduate from the University of Sri Jayewardenepura and holds an MBA from the University of Colombo. He is also part-qualified at Chartered Institute of Management Accountants (CIMA) UK. Mr. Gunasekera is a member of the Association for Overseas Technical Scholarship (AOTS) - Japan and is a visiting lecturer in Financial Services Marketing at the University of Colombo - Sri Lanka.

M. Thiruneelakandan

General Manager

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

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

Mahesh Kumara

Assistant General Manager - Credit

Mr. Mahesh Kumara received his BBA (Accounting) Degree from the University of Colombo in 2001 while working in the industry from 1999 as an Assistant Accountant. Subsequently, throughout his career, he gained experience in key finance sectors after working in several leading finance companies as a member of the Senior Management. Mr. Kumara joined Asia Asset Finance PLC in December 2009 and presently holds the position of Assistant General Manager - Credit with an industrial experience of over 17 years.

Mr. Jayantha Weerapullige

Assistant General Manager- Marketing

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

Mr. Jayantha Weerapullige holds a B.Com (special) degree in business administration and MBA from University of Colombo. He counts over 17 years of working experience in Marketing, Credit & Accounts of which 14 years were spent in Finance sector and he also has the experience in banking sector in his previous employment with Peoples merchant bank during the period from 2003 to 2008. He holds more than 8 years of experience in the top management of Asia Asset Finance Plc.

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

Samira Weveldeniya

Assistant General Manager - Fixed Deposits

Mr. Samira Weveldeniya joined AAF in June 2006 as the Negombo Branch Manager and was appointed to the post of Regional Manager - Fixed Deposit in 2009 followed by a subsequent appointment as the Senior Manager - Fixed Deposits in 2011. Then, again he was promoted as Assistant General Manager- Marketing in 2014. He has over 15 years of experience in Deposit Marketing in the Finance Sector and currently working in the capacity of AGM-Marketing and contributes to the marketing activities and branch development of the company. Prior to joining AAF, Mr.Weveldeniya worked at the Ceylinco Development Bank where he was awarded many times for his achievements in marketing. Mr.Weveldeniya holds a MBA from Buckinghamshire New University in UK and was conferred the Postgraduate professional status of Certified Professional Marketer-Asia (CPM - Asia) by The Asia Marketing Federation (AMF). He also an Associate Member of The Certified Management Accountants- Australia (AMA-Australia). Apart from that he is also a Certified Member of Sri Lanka Institute of Marketing (SLIM). He holds the Preliminary Certificate in Marketing from the Sri Lanka Institute of Marketing and is partly qualified in Chartered Institute of Marketing (CIM-UK).

Geethika Elwalage

Assistant General Manager - Finance

Geethika Elwalage has varied exposure of over 8 years in the financial services sector having worked in several leading financial institutions. She is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. She has additional experience of three years in the audit sector having worked at BDO Partners. Further, she holds a Master Degree in Business Administration from the University of Sri Jayawardenapura. She was appointed as AGM Finance of the Company in March, 2017.

Deshapriya Liyanage

Assistant General Manager -Internal Audit

Mr. Deshapriya K. H. Liyanage joined AAF in November' 2010 as the Chief Manager Operations and the Head of Recoveries since the 1st of January 2013 to 31st March'2016. Presently he is the Head of Internal Audit. He is responsible for implementing, assuring the Internal Controls, procedures and Policies of the company and reporting to the Audit Committee. Mr. Liyanage brings a wealth of experience in Finance, Auditing, Merchant Banking, Branch operations and in Islamic Finance gained from his experience of over 32 years in the finance industry. Mr. Liyanage received his MBA from the Wayamba University of Sri Lanka, an Executive Diploma in Business Administration from the University of Colombo, Diploma in Management from Open University of Sri Lanka and is an Associate of the Institute of Cost & Executive Accountants -UK. Member of the Institute of Certified Management Accountants of Australia. Licentiate level of Institute of Chartered Accountants of Sri Lanka. Further, He holds a Diploma in Credit Management from the Institute of Bankers of Sri Lanka

Hantley Babapulle

Assistant General Manager-Administration

Mr. Hantley Babapulle has a career spanning 44 years in which he has amassed a wealth of theoretical and practical experience both locally and internationally in the Banking, Real Estate and Tea industries. It has always been his vision to be a guiding light to the younger generation by imparting his vast knowledge in the areas of fund mobilization and portfolio management, private banking, dealing in properties both residential and agricultural, while advising them in the various methods of spreading risk and accumulating assets successfully for a better and brighter future.

Sajith Atapattu

Assistant General Manager-Credit & Operations

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

Senior Management

Inditha Jayathilaka

Assistant General Manager - Information Technology

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

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

Praveen Peiris

Senior Manager - Treasury

Praveen Peiris joined Asia Asset Finance PLC in January 2014 and has over 12 years of Financial and Treasury experience. He started his career at a Global Audit Firm in 2004 and joined the Non-Banking Financial Sector in 2008. Prior to joining Asia Asset Finance PLC, he worked as Manager – Treasury of a listed finance company. He has the expertise in Treasury Management including Strategic Risk Management, Asset –Liability Management and Cash Management. He is Competent in Operational Management and has the capacity of handling financing of high value projects. He is a Finalist at the Chartered Institute of Management Accountants, U.K.

Sisira Mudalige

Senior Manager - Gold Loan

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

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

He hold a B.A. in Marketing and Finance – from the Keele University, Staffordshire UK (2009) and has successfully completed Certificate & Lower Managerial Levels in CIMA

Consultants



Shiranthi Gunawardena

Legal Consultant

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

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



Miriam Weerasooriya

Consultant

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



Net Profit

278Mn

Towards
**Warp
Speed**
Growth

"AAF PLC gained meaningful traction in pursuit of our strategic goals and recorded a series of gratifying achievements. In the face of a continuing difficult and evolving market environment characterised by tough competition, relentless pricing pressures, an excess of capital and low-interest rates – AAF harnessed the forces of change and delivered positive results"

Management Discussion & Analysis

Operational Review

Overview of the Global Economy

The global macroeconomic landscape is currently charting a rough and uncertain terrain characterised by moderate global growth during the year 2016-17. The situation was exacerbated by;

- (i) Declining prices of a number of commodities, with reduction in crude oil prices being the most visible of them,
- (ii) Turbulent financial markets (more so equity markets),
- (iii) Volatile exchange rates. These conditions reflect the extreme risk-averse behaviour of global investors, thus putting many, and in particular, commodities-exporting economies under considerable stress.

In light of this, FY16 was a year of adjustment and expectation management.



Expectations of world GDP growth from many quarters have been below 3%. During the last year, the global economy stumbled from one mini-economic crisis to another in form of either the Greek debt crisis or the Chinese devaluation and then the commodity crash. Although we have seen a patchy recovery in the equity and commodity markets, this can be attributed to the NIRP (Negative Interest Rate Policy) regime implemented by BOJ (Bank of Japan) and the ECB (European Central Bank), aided by the reduced expectation of rate hike by U.S

Federal Reserve. The faith in such a recovery seems limited at this point and that is getting manifested in a continued downturn in most commodity prices.

The developed world's long-term growth expectation has been tempered in the face of ageing demographics, debt overhang and low productivity growth. This has pushed the developed market's yield to multi-decade lows (the G3 GDP-weighted yield at around 1% is at multi-decade low). The narrative in Emerging Markets (EM) is also similar with

Management Discussion & Analysis

growth expectation of EM countries having also been downgraded to around 4.5% level down from an average of 6.5% in the previous decade. Most of the EM countries are net exporters of commodities and that has left them vulnerable in this low commodity price scenario. The EM corporate bond spreads are still low however we have seen some rise in spreads in China. Most of the central banks in EM region including China have pumped liquidity into the system through its recent policy moves and this has helped the markets. However, this has left EM vulnerable to any global economic crisis. Since EM is a vast encompassing term there are of course some exceptions including India.

The Sri Lankan Economy

Economic growth slowed overall in 2016 as the country faced its worst drought in four decades. While GDP growth did manage to accelerate in Q4 on the back of rapidly expanding industrial and services sectors, which together account for rough nine-tenths of domestic production, the economy was left reeling from a growing humanitarian crisis as the agricultural sector suffered significant losses. Soaring food prices have contributed to higher inflation this year, despite recent measures to curb import taxes on rice. Tax revenue is expected to fall sharply this year as the extent of the damage becomes clearer, threatening to undermine the fiscal deficit and the government's commitment to narrow it as part of last year's USD 1.5 billion IMF loan program.

In June 2016, the International Monetary Fund approved a 36-month Extended Fund Facility arrangement to support the Sri Lanka's economic reform agenda. The main efforts are to boost the tax ratio, reduce the budget deficit, rebuild foreign exchange reserves, and improve public financial management, including of state-owned enterprises. Gross

domestic product grew by 5.2% in the first quarter and then slumped to 2.6% in the second to hold growth in the first half of 2016 to 3.9% year on year.

AAF PLC's Strategy & Positioning

AAF has built a reputation for its solution-oriented approach and for structuring transactions based on customers' requirement. While the Company works according to defined and standardised processes, its ability to manage specific customer requests while adhering to policies and managing risks, is one of its strengths. Over the last year, the Company has consolidated its businesses across Corporate Finance, Mortgages and Capital Markets while actively entering the Retail segment via the launch of Secured Lending business and Personal Loans targeted at SMEs and individuals respectively. This helped the Company to reduce the concentration risk and align its strategy with its long-term vision of sustainable growth.

AAF has identified its objective of having hassle-free processes, prudent customer selection, customer centric approach, robust risk management and faster turnaround-time. The Company has a dedicated business credit team to evaluate all proposals on parameters such as borrower financials, credentials and security analysis. It also provides suggestions to make the parameters workable. At AAF, the credit process works as an additional checkpoint and helps in ensuring faster approvals which have built a robust and pro-active portfolio management capability with well defined early warning loss systems. Besides, the Company has created strong counter fraud protocols and collection capabilities along with stringent monitoring.

Internal control systems and their adequacy

The Company has adequate systems of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition and that the transactions are authorised, recorded and reported correctly. Internal audit, policy reviews, guidelines and procedures to ensure that the internal control systems are adequate enough to protect the Company against any loss or misuse of the Company's assets.

Customer Service

Acknowledging the need to provide a centralised service desk to our growing businesses, the Company has envisaged and designed a customer services framework for service delivery. During the FY 2016-17, we have consolidated and strengthened a robust network for delivering an exceptional and seamless service experience. Our customers can reach us anytime over the phone, write to us, visit their nearest branch or log in to our integrated website portal to experience a consistent service culture.

Product Performance

Year 2016/2017 has been Asia Asset Finance PLC's most triumphant year so far. In the preceding years, AAF has been focusing on building the pillars of its business strength with laying the branch network tactically, introducing the right products for the requirements of society, installing efficient operating systems, introducing enhanced controls including the establishment of the internal audit department etc. These measures have enabled AAF to have a very robust year in operations. Even if the year proved to be demanding due to challenging economic and political environments in the country AAF has been able to face up to and



AAF has built a reputation for its solution-oriented approach and for structuring transactions based on customers' requirement. While the Company works according to defined and standardised processes, its ability to manage specific customer requests while adhering to policies and managing risks

report the strongest financial year, recorded yet in the history of AAF. AAF managed to accomplish a number of achievements which will prove that AAF is now prepared to serve the Sri Lankan community as one of the major financial providers in the communities served by AAF. AAF has achieved the subsequent milestones in the 2016/2017 financial year as follows;

- 10 billion asset base achieved
- Highest profit of 278Mn achieved
- Best rating of BBB+ obtained
- The highest number of files processed in a year (12,314 files).

Lending Operations

AAF believes in maintaining a long term sustainable relationship with its clients. The Company recognizes that the attrition rate is a contributing factor of sub-standing service levels in comparison to market standards, so attrition rate is considered as the reflection of its relationship with the clients. Backed by customer friendly policies and strong social

performance management the Company has achieved a healthy client retention rate during the financial year.

As a measure of expense reduction, consolidation of branches was undertaken to keep the branch viability and geographical

concerns in mind. Our portfolio increased, by 26 % this year and we are confident that the measures taken during this financial year would fructify in the years to come.

AAF presently offers a variety of products that is formalised to gratify different segments in



**Fixed
Deposit
Base**

**5.6Bn
4.7Bn**

Management Discussion & Analysis

the society captivating into consideration the income, requirements, speed, risk, return and external factors. The main features of these products are predefined in a way that matches the customer; it is the risk of AAF and its return. AAF offers products from Corporate Business Loans, Small and Medium Enterprise Loans, Micro Business Loans, Micro Financing, Personal Loans, Group Personal Loans, Leasing, Mortgage Loans, Factoring and Gold Loans. With a portfolio of a wide range of loans, it is important to have a practice of know-how to execute these loans when it's needed.

Product Performance

Microfinance

The key to success of any business lies in having a healthy relationship with the primary customers. This is more so for Microfinance as the customers come from the bottom of the pyramid and hence customer training assumes paramount importance. Keeping this in mind, we have not compromised on the training provided to them before the disbursement of the loan wherein they are kept informed about the profile of the company, terms and conditions of our products, pricing and other important issues. We are also committed to ensuring complete transparency in our operations. Also in line with the Central Bank guidelines, our Company interacts with the customers by having scheduled group meetings in a common place without causing any hindrance to the general public. We are one of the very few companies that still insist on a minimum attendance at meetings and gives more weight to the attendance criteria during the grant of a higher cycle loan.

By extending financial inclusion to these marginalised communities, the Company aims to support them to increase and diversify their economic activities. Today, the microfinance business is the largest contributor to the Company's profitability. The Company's microfinance portfolio has grown to Rs. 1.6 Billion within a short span of 5 years, while its customer base counts approximately 25,000 spread across 1,500 villages. The microfinance product was first introduced in Galle before expanding further across other districts. Currently, AAF offers microfinance across its branched network including the North and East.

In order to reduce its risk to NPLs, the Company has instituted a strong selling and recovery process which is deployed through village teams in a 'One village one team' concept. Recovery is also achieved through this same mechanism and overseen by the team leader. The inclement weather conditions such as drought conditions plaguing the island of Sri Lanka continue to pose a challenge to the performance of the product and to the incidence of rising NPLs as the farming community is unable to realise gains from harvest seasons. Natural disasters such as floods have also played havoc with businesses of some clients, who suffered heavy losses.

Gold Loans

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

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

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

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

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

The portfolio has been increased by 71% to make it 1.1 billion we plan a business growth of 100% to make it 3.7 billion by the end of 2017/18.

Within a mere two and half year's operations of Gold Loans, the Company is poised to stake a claim as a market leader in this category amongst the competition. One of the

main reasons for our success is knowledge transfer from Muthoot Finance which has enhanced the dedication and diligence of our Gold Loan teams.

Going ahead, we will remain focused on fine-tuning the product and training our staff further to deter acceptance of fake and stolen articles as is one of the major threats faced by the gold loan lenders. In order to facilitate the same, our company had prepared training programs containing the operational process in detail which will provide an insight into the processes to be followed by staff right from identification of potential customers.

Fixed Deposits

This is one of our main products in our portfolio as fixed deposits cater to a segment of the investor class that looks for safety and accepts a fixed return. We recorded a growth of 18% in the year under review. This helped us to increase our base from Rs. 4.7 Billion to Rs. 5.6 Billion. Asia Asset Finance has always been a trusted investment partner for our valued clients over the years.

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

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

Business Loans & Corporate Loans

Asia Asset Finance PLC offers Corporate & Business loans that feature simple, straightforward qualifying procedures with flexible terms. Financing through borrowing is the critical support that assists in the formation of new businesses and allows existing businesses to take advantage of opportunities to grow, employ local workers, and in turn, support other businesses. The strategic use of financial instruments, such as loans and investments, are key to the success of every business. We use this concept as our selling tool and lend to Small & Medium Enterprises (SMEs) as well as local Corporates.

Lending to SME and local Corporates are done through two main products at Asia Asset Finance: Business Loans and Corporate loans is a process of moving and using money which has been invested by our investors with

the lowest risk attainable within the lending framework, to provide investors with the highest possible returns. Regardless of the industry a business operates in, Asia Asset Finance PLC is dedicated to giving the funds required rapidly, while also arranging variable payback terms that are geared toward making repayment matched with the cash flow of the customers. The products were designed and developed to cater to the Capital Expenditure and Working Capital funding requirements of SMEs and local corporates. Both the products have sustained continuous growth momentum which is sustainable with the current policies and lending framework at Asia Asset Finance. Continuous growth in the compound annual growth rate of both products is seen and the upward curve is evident in the month on month growth of sales.

Additionally, Asia Asset Finance PLC knows that receiving funds in a timely manner can be just as important as the loan itself, which is why we are dedicated to providing borrowers with simple, straightforward loan applications and processing them swiftly. Every branch has designated marketers who focus solely on Corporate and Business loans. Based on the relationships and service quality provided by the branches, the clients continue the relationships due to the convenience of working with the Company.

Looking ahead, we aim to streamline systems and operations for customers to have loans approved within a stipulated time period which would expedite the process of obtaining a loan from the Company. We will develop our Corporate Loan segment further, as it offers lower risk and interest rates, although income earned is lower. This is in contrast to Business Loans which brings in higher revenue but is marked by higher risks.

Management Discussion & Analysis

AAF strives to balance these two products on risks and returns in order to have an optimal performance. As a result, we are gratified to note that our NPLs are the lowest in the market.

Leasing

Leasing was an imperative part of the product mix for the FY 2016/17. There were many challenges faced by the changes in the regulatory environment, with loan to value ratio being reduced and increased duty on newly imported vehicles were few obstacles we had to face during the financial year. The Company had a very strong motive to grow the leasing portfolio. Keeping this in mind the Company offered a very attractive interest rate compared to other NBFIs. We focused more on cross-selling to our existing customers and acquiring new clients through constant promotions, regular dealer meetings were also held to make our presence felt amongst the dealer community. The leasing and hire purchase portfolio stood at 1.4 Bn at the end of the FY 2016/17.

Factoring

In a Factoring transaction, AAF enters into a tri-partite agreement with the client, the client's debtors at the outset of the Factoring Agreement. Through this arrangement the clients' debts are assigned/sold to the factor; thus the debtors would directly settle their debts to the Factor/ Company. In addition to the Factoring Agreement, Debtor acknowledgements (and or undertakings to pay directly to the Factor) are obtained. AAF also could obtain postdated cheques from the clients' debtors to secure the transaction.

Currently AAF has a small portfolio of Factoring customers, and a separate web based IT system is available to service the customers better. AAF plans to expand the Factoring product in a cautious manner in the new financial year. Initially we plan to service the Working Capital requirements of our existing customers and then move on to the other customers in carefully selected niche markets; as we understand that not only the customer creditworthiness but also the product quality and the debtor quality is of paramount importance in the Factoring transactions.

Cheque Discounting

In a Cheque discounting transaction the customer sells goods on credit and immediately obtains a posted cheque for transaction value. The cheque is generally post-dated for 60 to 90 days. Thus the customer will have a working capital shortfall for that period. AAF offers a cheque discounting facility up to 80% of the cheque value for such customers who will then have the working capital for the smooth functioning of the business. Factoring and Cheque Discounting are relatively new products in the product portfolio of AAF.

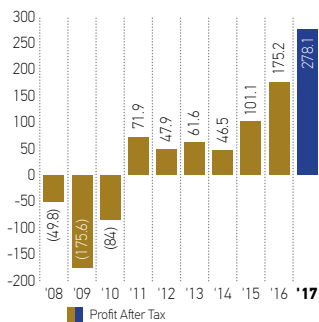
The drawback in the Cheque Discounting compared to Factoring is that there is no recourse to the debtor/drawer of the cheque to the transaction. Hence we offer Cheque discounting to selected customers who offer additional security or carefully evaluated customers with an exceptional credit track record.

Financial Review

AAF made significant progress during the year, with revenue growth and the PBIT margin being stable, reflecting a continued focus on efficiency and investment in our strategic growth initiatives. The execution of our long-term financial framework during the year has included completion of a number of disposals, as we focus on our core activities.



Profit After Tax (Rs.Mn)



AAF has reported an excellent achievement in the financial year 2016/2017. The company achieved Rs 278 Mn after tax profit while reaching Rs 10 billion worth of Total assets. This achievement was categorically changed due to momentous changes of regulations which imposed by the government to the financial sector. The regulations imposed on loan to value ratio and amendment of tax and other duty structure of the industry. The

unrelenting strength of our operating cash flow performance reflects the nature of our business and financial model and our focus on working capital management.

Return on Capital Employed ('ROCE')

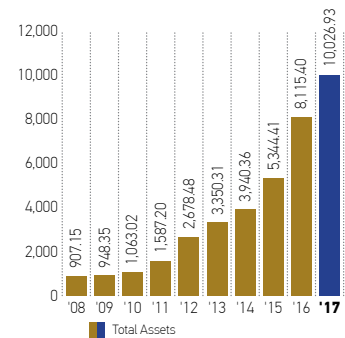
ROCE measures the return generated on the capital employed in the business, whether through internal investment or externally through acquisitions, and reflects our ability to add shareholder value over the long term. This year ROCE increased to 18 %, up from 14% on the prior year to generate good returns and deliver long-term value for shareholders.

We measure profit before tax as they show how well we turn revenue growth into profitability and help us allocate resources. This year, EBIT was Rs 315.9 Mn up by 34% to operate our business efficiently and cost effectively.



Total Assets & ROA

Total Assets (Rs.Mn)



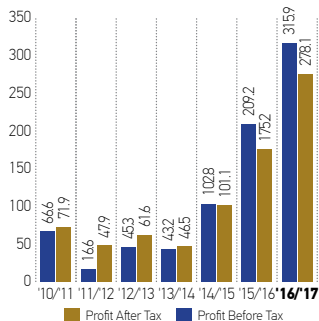
The Total asset base grew to Rs 10,026 Mn in 2017 compared to Rs 8,115 Mn in 2016, an increase of 19%. The return on assets (ROA) was at 2.75 compared to 2.16 last year, which shows that AAF is efficiently managing its assets to generate earnings.

Financial Performance Actual VS Budgeted

	Actual 2014/2015	Actual 2015/2016	Actual 2016/2017	Budgeted 2016/2017
Profit before tax (Rs.Mn)	102.8	209.2	315.9	317.00
Profit after tax (Rs.Mn)	101.1	175.2	278.1	275.00
Return on assets (%)	1.89	2.16	2.75	2.58
Return on equity (%)	7.86	11.99	15.85	15.71
Core Capital ratio (%)	29.23	22.27	18.99	19.10
Net asset per share (Rs)	2.3	1.7	2.1	2.09

Management Discussion & Analysis

Profitability (Rs.Mn)



During 2016 /17, the Company continued to create value for shareholders and customers by returning (20) percent of its earnings to common shareholders through dividends and common share repurchases. This was accomplished by generating steady growth in commercial and consumer lending and total deposits, by building a momentum in its core business, particularly within Wealth Management and Securities Services and Payment Services, and by maintaining a very strong capital base. The fundamental elements of the Company’s core businesses are solid, positioning the Company well for growth as it enters 2017.

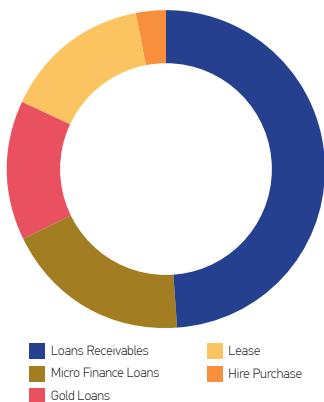
Loans and Lease Receivables Portfolio

During the financial year, the gross loans and lease receivables portfolio topped Rs 9 billion and reached Rs 9,075 million, up by 23% compared to March 2016. The major contributor towards the loan portfolio was micro finance and gold loans. Gold loan portfolio has increased 71% compared to 2016 and Micro Finance has increased 117% compared to 2016.

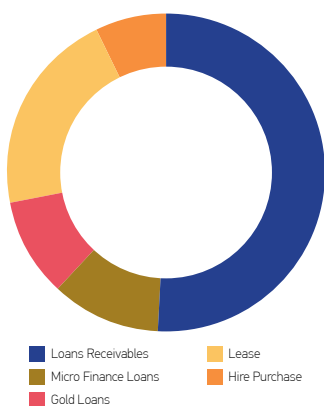
The Company generally retains portfolio loans through maturity; however, the Company’s

intent may change over time, based on various factors such as ongoing asset/liability management activities, assessment of product profitability, credit risk, liquidity needs, and capital implications. If the Company’s intent or ability to hold an existing portfolio loan changes, it is transferred to loans held for sale.

Loans and advances As at 31st March 2017



Loans and advances As at 31st March 2016



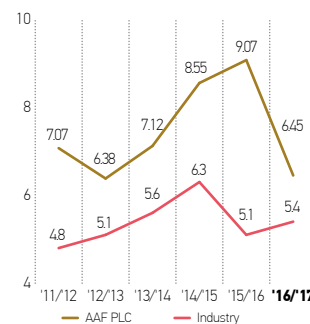
The Company generated record revenue in 2016 and has strong momentum as it begins 2017. The Company experienced total loan growth, deposit growth, net interest income

growth, and noninterest income growth in 2016. In addition, its capital position remained strong. With a focus on customer satisfaction and providing them with innovative products and services, the Company believes it will continue to create an outstanding value for its shareholders, customers and communities in 2017. The Company is committed for managing capital to maintain strong protection for depositors and creditors for a maximum shareholder benefit. The Company continually assesses its business risks and capital position. The Company also manages its capital to exceed regulatory capital requirements for financial organisations.

Credit Quality

While increasing its loan portfolio AAF has to keep the quality of its portfolios throughout the year by improving recoveries. The management of the Company has focused on strategies to improve recoveries to maintain the quality of its portfolios.

NPA Movement



Net Interest Income

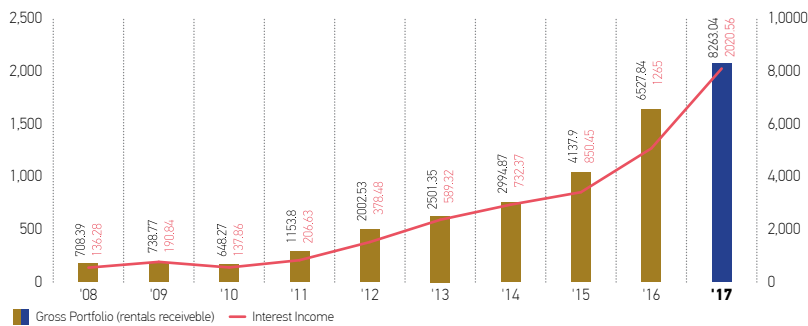
Interest income and expense is determined based on the assets and liabilities managed by the business line. As funding and asset liability management is a central function, funds transfer pricing methodologies are utilised to allocate a cost of funds used or credit for funds provided to all business line

assets and liabilities, respectively, using a matched funding concept. Net Interest Income margin has recorded 13.76% growth in the year 2016/2017 compared to 11.9 % growth in the year 2015/2016.

Interest Expenses

Interest expense of the Company recorded an increase of 50% compared to 2015/16, consequently, an increase in interest-bearing liabilities during the latter part of the financial year sourced to finance the increased levels of disbursements.

Portfolio Vs Interest Income



Business line results are derived from the Company's business unit profitability reporting systems by specifically attributing managed balance sheet assets, deposits and other liabilities and their related income or expense. The allowance for credit losses and related provision expense are allocated to the lines of business based on the related loan balances managed. Goodwill and other intangible assets are assigned to the lines of business based on the mix of business of the acquired entity. Within the Company, capital levels are evaluated and managed centrally; however, capital is allocated to the operating segments to support evaluation of business performance. Business lines are allocated capital on a risk adjusted basis considering economic and regulatory capital requirements. Generally, the determination of the amount of capital allocated to each business line includes credit and operational capital allocations.

Non-interest income and expenses directly managed by each business line, including fees, service charges, salaries and benefits, and other direct revenues and costs are accounted for within each segment's financial results in a manner similar to the consolidated financial statements. Occupancy costs are allocated based on utilisation of facilities by the lines of business. Generally, operating losses are charged to the line of business when the loss event is realised in a manner similar to a loan charge-off. Noninterest expenses incurred by centrally managed operations or business lines that directly support another business line's operations are charged to the applicable business line based on its utilisation of those services, primarily measured by the volume of customer activities, the number of employees or other relevant factors.

Earnings per Share

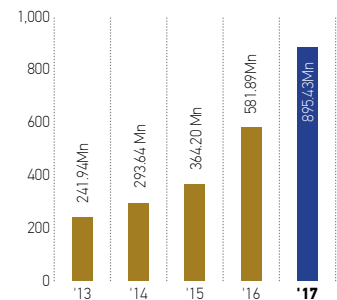
The continuous profitability of the Company during the year under review resulted in a profit of 0.33 being declared to shareholders in comparison to 0.21 in the preceding year.

Return on Equity

The ROE for 2016/17 is healthy at 15.85 % compared to 11.99% for the 2015/16. AAF is very well poised to generate profits from its shareholder's investments in the company.

Operating Expenses

Movement of Operating Expenses (Rs.Mn)



Operating expenses have increased by 53% compared to the year of assessment 2015 /2016. Operating expenses have gone up to Rs 895.43Mn in comparison to the previous year where it was recorded to be Rs 581.8Mn. Personnel expenses were the major contributor towards the increased expenses which is recorded at 53%. This increase was by 34% compared to 2015/2016.

Management Discussion & Analysis

Credit Review

Credit risk involve with the lending institution is the risk of default on debt that may arise from the borrower failing to make required payments. It leads to lose the interest as well as the capital. However, credit risk is always with finance companies which can be mitigated by implementing necessary controls and proper Recovery mechanism.

Last year, Financial lease and hire purchase sector has faced many challenges due to the implementation of new restrictions/ controls by the government through the Central Bank of Sri Lanka regarding the lending exposures (Loan to value Ratio). In turn import taxes/ duties also changed few times. It directly created adverse impact to the vehicle market and lending institutions even though these steps are prudent from the government point of view. Specially secured lending sector of the industry has gone down due to these factors and finance companies who were mainly involved in finance leases and hire purchases were moved to other sectors to achieve their financial goals and meet the budget. It makes unsecured lending sector also in a competitive stage as most of the finance companies entered in to this sector and doing corporate loans, SME loans, Business loans as well as Micro loans.

In 2016/2017 as a finance company AAF has granted facilities in different product types. Those include secured (with a tangible security) as well as unsecured (without a tangible security) accommodations. Majority with unsecured category mainly as Business, SME & Corporate facilities, Micro finance facilities, Personal Loans & Factoring facilities.

To mitigate the inherent risk with these type of unsecured loans, we have implemented necessary new controlling mechanisms and modifying the credit policies from time to time, introducing post evaluation procedures. Further controls on industry exposures also in action. (e.g. fishery, poultry, tea, agriculture)

Gold loans, Mortgage loans, Leasing & HP facilities, Vehicle Import loans & Pledge loans have been doing throughout the year and specially we have made a significant impact on Gold Loans specially in the Northern, Eastern and Central Provinces.

Company loan base has gained a net increase of 41% compared to the last financial year. This increase has been accomplished mainly through business Loans, Micro loans and Gold loans. Micro loans have been increased by 117%, Gold loans by 71% and Business Loan portfolio has grown by 41%. In turn, the NPA ratio also has been dropped by 3.47% compared to last year, which is also indicating the efficiency and effectiveness of the loan recovery process implemented during the year under review. As a summary company has increased the net loan base while improving the quality of the loan portfolio which is achieved under a very challenging business environment.

The risk tolerance of the Company is low and all lending are mitigated through sound credit policies and were done against appropriate security except where other factors deem that it is not necessary to obtain specific security.

Credit Committee of the Company is responsible for overseeing of the credit risk and regular credit committee meetings are held and meet to discuss exceptional facilities and high value facilities or policy changes.

Mainly Credit and Recovery departments along with AGM Marketing and Product Managers are responsible for monitoring and managing the Company's credit risk except to credit committee member.

There is a clear authorization structure for the approval of facilities on product wise and amount wise as well. A separate approval process is in place for rescheduling with a separate credit policy. High value facilities require approval of the Board of Directors as appropriate. These delegated authority levels are reviewed periodically.

Reviews are carried out to monitor the compliance of business sectors with agreed exposure limits for selected industries and product types. Further, regular reviews and closely monitoring of high value facilities are also being carried out by the Credit Committee.

Human Resource Review

AAF has always acknowledged the ability of its staff as the key towards the Organization's success. As anticipated, AAF continued to show enormous growth for the 2016/2017 financial year, giving the management greater motivation to provide ample opportunity for enhancing the potential and investing in the growth and development of its people. In accordance with the geographical expansion of the organisation, streamlining processes across the strategic locations of the Island while maintaining transparency were the key focus areas for the year 2016/2017.

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

AAF has workforce strength of 448 employees working in the Corporate Office, Regional Offices, and Branch Offices Island wide. We continue our efforts in workforce addition while ensuring the quality of the same and dedicatedly working to support its vision through talent acquisition for the

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

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

Our HR Policy

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

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

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

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

Training & Development

In this current competitive market, staff training has been essential. Asia Asset Finance spent 1.6 million Rupees for Training and Development 2016/2017 financial year, and 256 employees were trained. Additionally, different training was given to staff. We conduct training product wise on a monthly basis and quarterly basis depending on the training requirements. AAF values its employees as the most important stakeholders of the organisation and hence is committed to train and develop all employees to enhance individual as well

Management Discussion & Analysis

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

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

Recruitments

AAF has recruited new staff of 97 for this year, and all these people have spread out through our branch network and the departments.

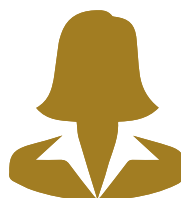
Staff Composition

Gender



Male 303

Female 145



Age

Above 60	9
Age 51 to 60	7
Age 41 to 50	15
Age 31 to 40	84
Age 21 to 30	293
Age Below 20	40

Cadre

Senior Management	14
Managers	15
Assistant Managers	18
Branch Managers	9
Assistant Branch Managers	2
Senior Executives	36
Executives	80
Junior Executives	60
Junior Officers	148
Trainees	66

Staff Recreation

Every year company has been organising three major events for staff gathering focusing on the Sinhala and Tamil New year Festival, Annual Trip and Christmas Party. This year Kurunegala Branch staff had organised the Sinhala and Tamil New year event; which was held at "Hotel Subhasri" Malsiripura. In the month of October our Welfare Club has organised the Annual staff trip to hotel "Riu" Ahungalla, around 302 staff members joined the staff trip this year. Also, Christmas party was held at Royal Grand Paradise, Gampaha. Further, Asia Asset Finance became the Runners Up at the E Division tournament organised by Mercantile Cricket Association.

Staff Performance

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

Information Technology Review

In 2016/17 AAF took strategic steps to ensure it has the scale, resources and strength to support their digital transformation. The digital revolution is transforming today's business-to-consumer processes, bringing new possibilities such as online collection platforms and contextual products. Digital technologies are powerful enablers to fuel top line growth and create a competitive advantage for businesses, provided they are able to look beyond their day-to-day operations and reinvent business models along digital principles to meet changing customer expectations. AAF works daily with its clients to help them create and anticipate disruptive technologies, addressing key challenges of Customer Experience, Business Reinvention, Operational Excellence, Trust & Compliance to ensure they can meet current and future digital expectations.

The Information & Technology (IT) function at AAF continues to play a pivotal role in streamlining business processes, reaching new heights in customer service, improving productivity and facilitating decision making of the organisation. Many of the challenges we observed are reflective on how we strengthened our IT organisation, service delivery, communication, and attention to customer service, IT governance structure is integral to creating a sustainable IT planning processes to address strategic needs. As part of this transformation, we continue to make changes to how we are organised, how we sell our products, and how we build and

deliver our technology. Nowadays customers expect a simple and engaging experience when they interact with organisations.

Asia Asset has formulated several strategic initiatives in the business strategy in order to overcome the challenges stemming from the competitive market environment, enhance customer service and customer touch points, differentiate AAF products, services and strengthen risk management functions. IT strengthened its strategic planning process this year; additionally formulating the IT strategic plan coupled with the roadmap to provide the platform required to launch these business initiatives as IT is recognised as a key enabler of our business strategies.

During the period under review, the company successfully tested enhanced solutions for Micro Finance operations, working capital management, and Business Intelligence tool to facilitate decision-making. These solutions are expected 'go live' during the first quarter of the financial year starting 1st April 2017. Further, the team is in the process of building the platform required for Forex software solution in order to cater to the growing customer needs in niche markets.

We offer a portfolio of solutions designed to preserve customer choice, accelerate business initiatives, reduce risk and represent a comprehensive solution when deployed. IT continues to focus strengthening its IT infrastructure aiming zero downtime and maximum availability across all IT functional services to facilitate AAF to service customers confidently and effectively. In order to strengthen our IT risk management and systems, We obtained the services of professional IT and management advisory firm to assess our IT infrastructure and business applications and necessary steps

were immediately taken to mitigate the risks identified. Further IT department has implemented initiatives improving automation of business processes and transforming automated activities to more efficient and secure digitally enabled platforms.

Management Discussion & Analysis

Corporate Social Responsibility

“Social responsibility is at the heart of the business practice of the Company and runs through our lending operations, approach to customers, HR practices and our contribution to develop our nearest neighbour, the community”.

AAF believes in improving the lives of our clients, and we believe that improvement can come only when the right kind of social initiatives are put in place. We, therefore, have brought in place a host of supportive social initiatives for our clients, which include Healthcare initiatives, Environment Protection & Conservation, Empowerment of Community and Ethics & Values. It must be said that CSR is an integral part of our day-to-day operations and core competencies. It is an active role of our overall mission. We aim to further the socio-economic welfare of the under-served communities in the area of our operations through the CSR activities we intend to engage in activities, which enhance the development indicators of the societies we work with, without any prejudice, by carrying out non-profit oriented CSR initiatives. As a company, our goal is to maintain Financial, Social and Environment performance through sustainable development.

AAF values are to be responsible, ambitious and hands-on. The engagement with society is reflected in these values which support the work to deliver good results, satisfy customers' expectations and collaborate well with stakeholders. Participation in the community is a natural part of all the business process in the value chain. We strictly follow the Sri Lankan labour law standards and employee grievances are seriously looked into.

AAF takes responsibility for creating wider benefits both within and around our business and endeavour to make our impact a positive one, which improves the livelihood of needy people and protects our environment”.

Without a financial identity, individuals and small businesses cannot demonstrate to lenders that they will be able to repay the credit, which means they cannot get loans or are only offered services at high-interest rates. We equip people with the knowledge and skills they need to understand their financial profile and maintain a strong credit rating.

Empowerment of Community

Communities have diverse needs depending on the state of the infrastructure, the average household income and available opportunities for economic activity. As we believe in going to the grass roots and driving change, we have selected a model of empowering communities we engage with mainly through providing necessary infrastructure or necessities to enable them to improve their existence and enhance their performance.

Ethics and Values

We believe the best way to build and to maintain trust is to conduct every element of the business according to the highest standards of integrity. Our ability to do so rests on the behaviour of our people, top to the bottom of the organisation. We select our people based not just on their skills, accomplishment and potential, but also on their principles and values. A commitment to integrity and ethical behaviour is a critical factor in our decisions regarding professional advancement and compensation.

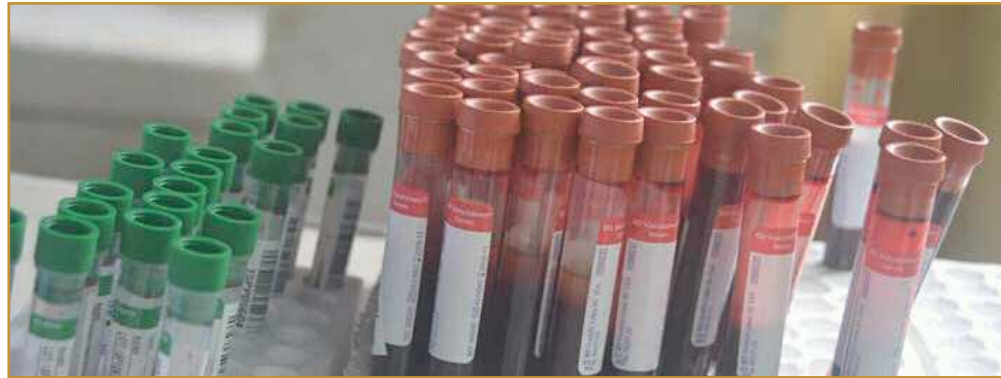
Environment Protection & Conservation

We believe that we have to play a significant role in ensuring the sustainability of our environment. We have to minimise environmental issues based on social priorities proactively. Similarly, we are to extend the message to a large captive employee base, and as a knowledge partner, the social norms are to be influenced by the communities we operate in. All the branches and departments are required to maintain proper documentation on CSR projects and display their CSR efforts on a notice board. Even if the relevant department head changes the CSR initiatives should be continued. As a result, this mechanism will allow the external auditors in verifying the projects and enhance employee awareness of CSR projects and substantiation of the standard framework of the Company.



Head Office Blood Donation

During the year, a blood donation campaign was organised at our head office premises with the help of the National Blood Bank. Our staff also actively participated by donating blood and contributed to making the worthy cause a huge success. The company donated 75 pints of blood to the hospital.



Kurunegala Blood Donation

Yet another blood donation campaign at the AAF was organised Kurunegala Branch, on 22nd November 2016, a Joint collaborative project with Rotary Kurunegala and Teaching Hospital Kurunegala, on this day 68 pints of blood were donated.

Donations to the Flood Affected Victims

AAF made contributions with essential food items, clothes and monetary donations to the flood victims; supporting society when most needed.

Additionally, AAF made significant contributions to Swarnavahini, who in turn donated it to the people who were displaced as a result of Natural Disasters. To further support the community, AAF took the effort to build houses for displaced individuals in severe poverty.



Corporate Governance

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

The Companies Act No. 7 of 2007

The Listing Rules of the Colombo Stock Exchange (CSE)

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

Securities and Exchange Commission of Sri Lanka Rules – 2001

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

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Board of Directors				
The Board should direct, lead and control the Company	A.1	7.10.3 (a)&(c)	Compliant	The Board of Directors currently comprises of nine Members including the Chairman. The day-to-day monitoring of operations of the Company has been delegated to the CEO and the Executive Committee governed by policies, procedures, and authority by the Board of Directors. They bring a wide range of business, financial, legal, engineering, and entrepreneurial knowledge, skills and experiences.
Board Meetings				
Frequency of Board meetings	A.1.1		Compliant	Board meetings were held twelve (12) times during a year to review financial performance and consider other matters such as strategic and operational plans, to review and evaluate the performance of the Company. The individual attendance by each member of the Board is presented on page 96 of this Annual Report.
Board Responsibilities				
Formulation and implementation and monitoring of business strategies	A.1.2		Compliant	The Board is collectively responsible for formulation, implementation and monitoring of business strategies. In order to do so, the Board appoints sub-committees to assist the Board in fulfilling its stewardship function by reviewing systems of internal control, internal and external audit, risk management, credit management and financial reporting to shareholders.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Competence of the CEO and Senior Management in implementing Business Strategies	A.1.2		Compliant	<p>The CEO is responsible for the management of the Company in accordance with the mandate defined by the Board and he is accountable for the achievement of the financial and non-financial objectives as stipulated in the Company Plan.</p> <p>The Senior Management / Management Committee consist of competent members who have skills, knowledge and experience and qualifications to carry out their respective functions effectively.</p> <p>The profiles of the Senior Management and the Management Committee are presented on pages 26 to 30 of this Annual Report.</p>
Effective succession planning for the CEO and Senior Management	A.1.2		Compliant	Continuous training programmes are put in place to ensure that the staff is up to the required standard in filling a vacant position.
Effective Systems to secure Integrity of Information, Internal Controls and Risk Management	A.1.2		Compliant	To secure integrity of information, internal controls, risk management policies and effective systems have been implemented by the Company. The effectiveness of such systems is continuously monitored by the management, internal and external auditors.
Independent Non-Executive Directors		7.10.2(b)	Compliant	Each Non-Executive Director submits a signed and dated declaration annually of his independence or non- independence against a specified criteria as set out in Appendix 7A of Colombo Stock Exchange listing rule Section 7.10.2(b).
Provision of relevant, quality and timely information			Compliant	Board papers, agenda and previous Board minutes to be tabled one week prior to Board meeting.
Compliance with Laws, Regulations, and Ethical Standards	A.1.2		Compliant	The Company has been taking steps to follow ethical standards in carrying out operations. The Company has taken relevant measures to comply with the laws and regulations applicable to ethical business practices wherever possible.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Consideration of all stakeholders interest in corporate decisions	A.1.2		Compliant	The Chairman ensures the effective communication with the shareholders and that their interests are taken into consideration in making decisions. The Board always makes an effort to minimize negative aspects towards any stakeholder in the corporate decision making process.
Adoption of appropriate accounting policies and fostering compliance with financial regulations	A.1.2		Compliant	The Company's Accounting Policies are reviewed annually and updated accordingly to reflect the true and fair financial position of the Company. Financial statements of the Company are prepared and presented in compliance with the Sri Lanka Accounting Standards (SLAS) and also comply with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011 and the directions issued there under. The Independent Auditor's Report is given on page 122 of this Report.
Independent professional advice	A.1.3		Compliant	The Board members are permitted to obtain independent professional advice from third parties as deemed necessary, which includes the Company's external lawyers and auditors at the expense of the Company.
Company Secretary	A.1.4		Compliant	The Company Secretary possesses the required qualifications and expertise, and advises the Board on matters concerning the Companies Act and other relevant rules, regulations and regulatory guidelines. All governance activities are coordinated on behalf of the Board by the Company Secretary, who is accountable to the Board.
Independent Judgment	A.1.5		Compliant	Each Director has independent judgments on issues of strategy, performance, resources and standards of business conduct. Non-Executive Directors have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.
Dedication of adequate time and effort to matters of the Board and the Company	A.1.6			The Board Members dedicate adequate time for the affairs of the Company by attending Board Meetings, Board sub- committee meetings and by making decisions via circular resolutions. The number of meetings attended to by each Director is presented on page 96 of this Annual Report.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Training for Directors	A.1.7		Compliant	The Chairman is responsible to ensure that the Directors possess sound knowledge to carry out their duties in an effective manner.
Division of responsibilities between the Chairman and CEO	A. 2		Compliant	The roles of Chairman and Chief Executive Officer are separated, and are not performed by the one and the same person.
Chairman's Role	A.3 & A.3.1		Compliant	The Chairman is responsible for the leadership of the Board, managing Board meetings and the business undertaken threat. The Chairman together with the Company Secretary is responsible to ensure all relevant issues are on the Board Agenda and Directors receive all appropriate information and documentation in a timely manner, thus facilitating the Directors to contribute at the deliberations.
Financial Acumen				
Availability of sufficient financial acumen and knowledge	A.4		Compliant	<p>AAF Director Board is equipped with qualified Directors in the field of Finance and Accountancy and possesses the necessary financial wisdom. AAF is fortunate to have highly-qualified Directors to advise the Board on financial matters.</p> <p>The Assistant General Manager - Finance possesses vast experience in financial management together with necessary qualifications in finance being a Fellow Member of The Institute of Chartered Accountants of Sri Lanka, graduated and holds a Master's Specialized in Finance.</p> <p>The Directors and AGM - Finance hold the required qualifications and experience in the financial service sector as set out in their profiles given on pages 21 to 31 of this Annual Report and provide the Company with the necessary financial guidance in conducting its business.</p>
Board Balance				
Composition of the Board	A.5 & A.5.1	7.10.1	Compliant	The Board of Directors of the Company comprises of Eight Non-Executive Directors and one Executive Director.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Independent Directors	A.5.2	7.10.2 & 7.10.3.(c)	To be rectified immediately	There are two Independent Non-Executive Directors and they are free of any business or other relationship with the Company. The company is in the process of obtaining CBSL approval for to consider Non independent Director to Senior Independent Director to the Board of Directors of AAF.
Criteria for evaluating Independence of Non-Executive Directors	A.5.3	7.10.2	Compliant	Independent Non-Executive Directors remained distant from management and free from any other business relationships that could impair independency in decision making. The Independent Non – Executive Directors complied with independency criteria stipulated by the CBSL, SEC and ICASL guidelines during financial year 2014/2015.
Signed independence declaration by the Non-Executive Directors	A.5.4		Compliant	Each Non-Executive Director is responsible to submit assigned and dated declaration on an annual basis of his/her independency/non-independency. At present, two Directors of the Company are Independent and the other seven Directors are Non-Independent.
Determination of independence of Non-Executive Directors	A.5.5		Compliant	Based on the written submissions made by the following Non-Executive Directors and taking into account the criteria specified in Section 4.4 of the Corporate Governance Direction issued by CBSL, the Board deems them as "Independent".
Requirement to appoint a Senior Independent Director	A.5.6		To be rectified immediately	The company is in the process of obtaining CBSL approval for to consider Non independent Director to Senior Independent Director to the Board of Directors of AAF.
Supply of Information	A.6		Compliant	As a practice agenda together with high-quality information circulated seven days prior to the Board meeting to discharge the Board obligations effectively.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Information to the Board by management	A.6.1		Compliant	<p>The Board receives regular reports and presentations on strategies and developments in relation to its business lines and geographical areas and overall plans and performance. Regular reports also provide the Board and Board Subcommittees information on risk appetite profile, emerging risks, risk management aspects, credit exposures, asset and liability management including liquidity, compliance and other vital matters. The agenda and supporting papers are distributed in advance to the Board and Sub-Committees meetings to allow time for appropriately review and to facilitate full discussion at the meetings. All Directors have full and timely access to all relevant information.</p> <p>Executive Director brief the Board on the functional areas of Credit, Finance and Recoveries that they oversee. The Board on other functional matters deals with the Managing Director or the heads of those respective departments when necessary. The Directors have free and open contact with management of all levels.</p>
Adequate time for effective meetings	A.6.2		Compliant	<p>The Company Secretary ensured that the required notice of meeting, agenda and information documents including Board papers are circulated to all Directors at least seven days prior to holding of Board meetings. This ensured that the Board members have adequate time to study and analyze the related papers and prepare thoroughly for Board meetings.</p>
Appointments to the Board				
Assessment of Board Composition			Compliant	<p>The Board as a whole assesses its own composition to ascertain whether the combined knowledge and experience of the Board matches when the Company is faced with strategic demands facing the Company. The findings of such assessments are taken into account when making new appointments to the Board.</p> <p>This financial year, one new appointments were made to the Board by considering their industry experience and knowledge.</p>

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Disclosure of profiles of the newly-appointed Director	A.7.3	7.10.3. (d)	Compliant	The Company has 02 appointments to the Board during the year under review. A brief profile of each Director is presented on pages 21 - 25 and the Company is forthwith disclosing to shareholders.
Resignation of a Director			Compliant	There is one resignation of Directors during the financial year. It is stated on page 104 of this Annual Report.
Period of Service			Compliant	No Director has exceeded the period of nine years of holding the office of Director.
Appraisal of Board performance				
Board appraisal	A.9 & A.9.1		Compliant	The Board periodically appraises their own performance and self-assessment to be undertaken by each Director in order to ensure that Board responsibilities are satisfactorily discharged. A self-assessment was carried out by each Director at the end of the financial year based on a specified evaluation checklist.
Fitness and Propriety of Directors			Compliant	None of the Directors of the Company are above the age of 70 years and they do not hold office as a Director or any other equivalent position in more than 20 Companies/Societies/ Corporate Bodies.
Disclosure of Information in relation to each Director				
Information in relation to each Director	A.10	7.10.3 (c)	Compliant	The following information in relation to Directors is disclosed in the Annual Report. <ol style="list-style-type: none"> 1. Profiles of Directors - Page 21 - 25 2. Corporate Governance Report – Page 48 - 96 3. Details of Related Party Transactions - Pages 174 to 175. Details of Directors including names, transactions with a finance Company. 4. Board Meeting Attendance - Page 96 <p>In terms of the Articles of Association of the Company, Directors abstain from voting on any Board resolution on a matter in which he or any of his relatives has substantial interest and are not counted in the quorum for relevant agenda item at the Board meeting.</p>

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Appraisal of CEO	A.11		Compliant	The Board annually assesses the performance of the CEO.
Targets for Managing Director	A.11.1		Compliant	The Managing Director, being the apex chief executive of the Company, is entrusted by the Board to conduct day-to-day operations effectively to attain broad strategic targets/goals after giving necessary consideration to market reality and changes in relevant variables. The Board upon approving the Strategic Plan of the Company in 2012 specified its corporate objectives and annual forecasted targets and expects to attain these aspirations through the MD and corporate management team. Performance of the Managing Director is reviewed on an ongoing basis by the Board, evaluating the extent to which organizational objectives have been achieved overall, from an overall perspective.
Directors' Remuneration				
The level and make up of Remuneration	B.2		Compliant	The Remuneration Committee in deciding the remuneration of the Directors.
Executive Share Options	B.2.5		Compliant	At present the Company does not have any executive share options.
Disclosure of remuneration	B.3		Compliant	The remuneration paid to the Directors is disclosed on page 149 of this Annual Report.
Relations with Shareholders				
Constructive use of AGM and conduct of General Meetings	C.1		Compliant	The AGM is held in a participative way with the presence of the shareholders. The Board is responsible for encouraging all the shareholders to be present at AGM's of the Company.
Consideration of proxy votes	C.1.1		Compliant	The Company counts all proxy votes and indicates the level of proxies lodged on each resolutions and the balance for and against resolution.
Separate resolution for separate issues	C.1.2		Compliant	The Company proposes a separate resolution on each substantially separate issue and the adoption of the Annual Report and accounts is proposed as a separate resolution.
Circulation of Notice of AGM and other documents	C.1.4		Compliant	The Annual Report, Financial Statements, copies of proposed resolutions to be passed at the AGM and the notice are sent to Shareholders with a notice period of at least 15 working days in compliance with the Companies Act.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Summary of procedure governing voting at General Meetings	C.1.5		Compliant	Instructions on appointing a Proxy with regard to representing the shareholder at the General Meeting to ensure the voting right are sent to each shareholder.
Major Transactions				
Disclosure of major transactions	C.2		Compliant	Board of Directors disclose to all shareholders all proposed corporate transactions which if entered in to would materially alter the Companies net assets base.
Accountability and Audit				
Financial Reporting	D.1		Compliant	The Board ensures annual audited Financial Statements and periodically financial statements are prepared and published in accordance with the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011 and the directions issued there-under and the Financial Statements are presented in conformity with the Sri Lanka Accounting Standards. The Company has also complied with the requirements of the regulatory authorities such as the Central Bank of Sri Lanka, the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.
Interim accounts, price sensitive public reports, reports to regulators and information required by statute	D.1.1		Compliant	Interim and Annual Financial Statements and other price sensitive information are disclosed to the CSE duly on a timely basis. All other regulatory reports are also submitted by the due dates. AAF's interim accounts have been published in a timely manner in three languages and conform to State Language Policy and the regulatory interim publication format and the applicable accounting standards and requirements specified in all other regulations mentioned in the previous paragraph.
Directors' Report	D.1.2		Compliant	Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are presented on page 110 of this Annual Report.
Responsibilities of the Board and Auditors for the preparation of Financial Statements	D.1.3		Compliant	The statements of Directors' Responsibility for Financial Reporting and Independent Auditors' Report are presented on page 122 of this Annual Report.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Management Discussion and Analysis	D.1.4		Compliant	"Management discussion and analysis" discussing the above issues; Industry structure and development, risk and concerns, financial performance and prospects of the future are presented on pages 33 - 119 of this Annual Report.
Declaration of Going Concern by Directors Internal Control	D.1.5		Compliant	The Board of Directors provides disclosure confirming the going concern of the Company on page 103 of the Annual Report.
Maintain a sound system of Internal Controls	D.2		Compliant	A Risk Management Report is presented on page 97 of this Annual Report. Review of the Effectiveness of the group's system of internal controls to safe-guard shareholders' investment and the Companies Assets.
Review of the effectiveness of the group's system internal control	D.2.1		Compliant	The Audit Committee periodically assesses the effectiveness of the internal control systems. The Auditor Committee Report on internal controls is given on page 112 - 113 on the Annual report.
Internal Audit function	D.2.2		Compliant	AAF has entrusted its separate Internal Audit Division, with members who are well-qualified and experienced officers, to conduct independent audits in areas involving high risk, especially at branch level in keeping to the annual audit plan. Monthly/quarterly full audit/spot audits are conducted by both sets of internal auditors based on approved annual audit programmes.
Board Committees				
Board Committees	D.3	7.10.5 & 7.10.6	Compliant	The Company consists of the following Board Committees as required by the relevant statutory provisions; <ul style="list-style-type: none"> • Audit Committee • Integrated Risk Management Committee • Remuneration Committee • Related Party Transaction Review Committee • Credit Committee Each of the above Committees directly report to the Board and is responsible to present a report on performance, duties and functions at the AGM.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Sub Committees				
Audit Committee	D.3	7.10.6 (a), (b) & (c)	Compliant	<p>An Audit Committee is appointed by the Board of Directors. This Committee consists of five members of the Board, out of the three members; two of them is a non-Independent Non-Executive Director. The Chairman of the Committee is an Independent Non-Executive Director who possesses qualifications and experience in accountancy. The composition and functions carried out by the Audit Committee is presented on page 89 of the Annual Report.</p> <p>The Committees met 07 times during the year.</p>
Remuneration Committee		7.10.5.	Compliant	<p>A Remuneration Committee was appointed by the Board of Directors during the year. The Chairman of the Committee is a Non-Executive/Independent Director. The composition and functions carried out by the Remuneration Committee is presented on page 111 of this Annual Report.</p>
Integrated Risk Management Committee			Compliant	<p>The Committee consists of three members. The committee periodically reviews the adequacy and the effectiveness of the risk management decisions taken by the Management.</p>
Independence and objectivity of the Auditors			Compliant	<p>The Audit Committee, in keeping to its terms of reference, monitors the objectivity, effectiveness and independence of the External Auditor of the Company. Audit Committee recommended Messrs BDO Partners as the External Auditor of the Company in 2014, in accordance with CBSL regulations on selecting regulatory approved External Auditors for the sector.</p> <p>Audit Committee's selection and review of external auditor was based on capability, resource availability of the firm and their level of independence from AAF and its Board of Directors.</p> <p>The duties of the Audit Committees are given in the Audit committee's report which is set out on page 112 of this Annual Report.</p>
Adoption of a Code of Business Conduct	D.4		Compliant	<p>The Company adopts a code of business conduct and ethics for Directors and members of the senior management team.</p>

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Confidential Information	D.4.1		Compliant	If the Company has a Code of Business conduct & ethics for directors and members of the senior management team, make affirmative declaration in the annual report that all directors and members of the senior management team have complied with such code. If unable to make that declaration state why you are unable to do so.
Affirmation from the Board regarding not violating the provisions of the code	D.4.2		Compliant	There were no violations of the Company's Code of Ethics during the year.
Practice of good Corporate Governance	D.5		Compliant	The Company is adhered to the Corporate Governance directions issued by the Central Bank of Sri Lanka. Further, the Company has taken steps to be compliant with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for listed companies issued by the CSE.
Inclusion of a Corporate Governance Report in the Annual Report	D.5.1		Compliant	The Corporate Governance Statement states to what extent the Company is compliant with the Corporate Governance guidelines.
Shareholders				
Institutional Investors				
Ensure institutional shareholders' voting intentions are translated into practice	E.1		Compliant	All shareholders are encouraged to participate and vote at the AGM. The names and the number of shares held by the 20 largest shareholders and percentage of such shares are presented on page 106 of this Annual Report along with other shareholder information.
Regular and structured dialogue with shareholders	E.1.1		Compliant	The Company conducts a regular and structured dialogue with shareholders based on a mutual understanding of objectives. The primary mode of Communication between the Company and the Shareholders is through the Annual General Meeting. The Chairman ensures the views of shareholders are communicated to the Board as a whole.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Other Investors				
Investing/ Divesting Decisions	F.1		Compliant	The Annual Report is circulated to all shareholders in a timely manner and includes adequate information to enable the shareholders to make decisions relevant to their investment in the Company.
Encourage individual shareholders to participate in general meetings and exercise voting rights	F.2		Compliant	All shareholders are encouraged to participate and vote at the AGM.

AAF's compliance status to Finance Companies (Corporate Governance) Direction, N0.03 of 2008 & No. 6 of 2013 amendment issued by the Central Bank of Sri Lanka

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>2.1 Responsibilities of the Board of Directors</p> <p>a. The board approval of the Finance Company's strategic objectives and corporate values.</p> <p>Communication of the strategic objectives and corporate values throughout the company.</p>	√			<p>In November 2014, Board of AAF approved strategic objectives and corporate values that were derived from AAF's vision and mission statements.</p> <p>In keeping with the plan, AAF's Key corporate objectives revolved around becoming a premier Finance Company in Sri Lanka. In working towards this primary objective, the Board laid a sound platform by having a risk management framework and internal control mechanism in place.</p> <p>Communication</p> <p>The Board communicated elements of the strategic plan to the corporate management which represents all key divisions through a presentation. The strategic plan document has been made available in all divisions for Heads/ Managers to pass down organizational expectations to their subordinates. Key goals of the strategic plan are reminded and reinforced to key officers through regular briefing sessions of the Corporate Management Team.</p>

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>b. Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, at least for immediate next three years;</p>	√			<p>Business Strategy</p> <p>AAF overall business strategies were perused by the Board in August 2015 with measurable goals for next three years incorporated in Company's medium term strategic plan. Formulating separate strategies for branch expansion, Lending, Fund Mobilization, Advertising and Marketing were the main focus of strategic development process to achieve overall objectives of AAF.</p> <p>Implementing the Approved Risk Policy</p> <p>Strong risk governance reflects the importance placed by the Board on shaping AAF's risk strategy, to effectively manage risks. The risk policy adopted identified key risks associated with AAF's business operation, laying down a formal structure to manage risks. The risk policy was developed within AAF's successful strategic framework keeping intact ultimate corporate objectives within sight.</p> <p>Salient features of the policy document include,</p> <ul style="list-style-type: none"> • Separation of the duties in relation to risk management for various levels of the hierarchy. • Aligning corporate plan strategic business objectives with risks objectives. • Accountability of staff for the identification, assessing and managing of risks within, their scope of assigned responsibilities/ job functions. • The Boards role in the management of risks and corporate management duties towards risk management.

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>c. identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;</p>	√			<p>Risk Management</p> <p>In keeping with the approved risk policy, each division is entrusted with assessing risk related to their work functions and to apply systems and controls to manage risks.</p> <p>Already a formal risk management document has been developed which would demarcate as to who would handle what in terms of managing risk, to counter key risks. The risk function is responsible for reporting to the board in every quarter relation to the company's IRM framework via the risk committee, including risk appetite and strategy, policies, methodologies and risk reporting.</p> <p>It is an independent, objective oversight and challenge activity designed to add value and improve the operations of the company.</p>
<p>d. approving a policy of communication with all stakeholders, including depositors, creditors, share- holders and borrowers;</p>	√			<p>Communication policy document</p> <p>A Board approved communication policy is in place which specifies AAF's policy of communication with key stakeholders of the company.</p> <p>The policy specifies the communication approach and methods of communication to be adopted when dealing with AAF's stakeholders.</p> <p>The AGM is used as the main communication method to interact with AAF shareholders, to obtain their views and pass down important aspects related to the company. Other communication methods are specified to deal with AAF's broad based stakeholder list that includes its customers, suppliers, borrowers and society.</p>

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>e. reviewing the adequacy and integrity of the finance company's internal control systems and management information systems;</p>	<p>√</p> <p>√</p>			<p>Internal Control system</p> <p>AAF Board has established a system of internal control to manage risks associated with finance business and to monitor its effectiveness on a continuous basis. There is a clear demarcation of duties and functions across the organization based on a formal organizational structure which is supported by allocation of responsibilities to managers and their subordinates in handling routine operations with clear communication of envisaged internal controls that should be followed at all times. A comprehensive "Manual" that is revolving is in place for all key business functions of the company.</p> <p>Review of Internal Control</p> <p>Quarterly internal audit review reports are provided to the Audit Committees specifying the matters related to internal control based on an approved annual internal audit program. The Manager Internal Audit randomly selected branches to review the internal control for quarter. Further the company has designed an Audit plan for the next financial year. They reviewed Internal control for every branch per annum. The Audit Committees updates the Board on material concerns and lapses in internal controls and recommend solutions on an ongoing basis.</p> <p>Management information systems (AAFS) Review</p> <p>To safeguard the accuracy, reliability and confidentiality of management information stored and generated by the IT system, AAF Board approved Information technology Policy document on 28th July 2015 and amendments have approved on 23rd of April 2017</p> <p>Internal Audit has been entrusted to review and report lapses pertaining to IT operations including effectiveness of AAF information generation process. In keeping with CBSL requirements, a thorough independent System Audit is carried out and as a result, an assessment on the integrity of info system of the AAF Will be covered from that.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>f. identifying and designating key management personnel, who are in a position to:</p> <p>i) significantly influence policy;</p> <p>ii) direct activities; and</p> <p>iii) exercise control over business activities, operations and risk management;</p>	√			<p>High profile Board</p> <p>The Board of AAF comprises highly qualified individuals who possess vast experience, qualifications and knowledge to effectively direct company's affairs in a prudent manner.</p> <p>The Company has designated members to the board of directors including CEO as the Company's key management personnel.</p> <p>Identification, Recruitment and Retention of Officers in Key Positions</p> <p>Recruitment or promotion to next grade, for top corporate positions is decided after careful scrutiny of individuals' capabilities against the job role at hand. Selecting only high caliber individuals for these key roles with experience in the relevant field is considered a vital requirement for top positions.</p> <p>AAF's organizational chart which clearly specifies the top positions and reporting structure gives an indication of career path and future succession planned for top officers' grades. There are clear job roles and tasks specified for all top positions.</p>
<p>g. defining the areas of authority and key responsibilities for the Board and for the key management personnel;</p>	√			<p>Boards responsibility document</p> <p>The Boards responsibilities have been defined through a formal "Boards Responsibility" document which specifies job responsibilities of the Chairman, Executive Director [CEO] as well as the role of Non- Executive Directors.</p> <p>Role of key management</p> <p>All officers of the corporate management understand their job scope, authority and responsibilities based on the positions they hold. Key responsibilities of each member of the corporate management are prescribed in their job descriptions.</p>

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

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>i. periodically assessing the effectiveness of its governance practices, including:</p> <p>i) the selection, nomination and election of directors and appointment of key management personnel;</p> <p>ii) the management of conflicts of interests; and</p> <p>iii) the determination of weaknesses and implementation of changes where necessary;</p>	√			<p>AAF has put in place a strong corporate governance framework as explained in this supplement.</p> <p>AAF's Board carries out an independent review of the effectiveness of the governance framework periodically through compliance officer and Company Secretary, an assessment is carried out as per CBSL format on corporate governance requirements, and a final submission is made through the CEO.</p> <p>The company since 2013 has restructured the Board itself and its sub-committees to set the best governance standards to comply with prevailing regulations.</p> <p>Mr. R.A.T.PPerera who has been already a non-executive non independent director of AAF has been recognized as an non-executive Independent director from 12th August 2016 & Mr. R.A.B.Basnayake has been appointed as an independent Director on 12th August 2016. Further Mr. K.G.K.Pillai has been appointed as an non-executive non independent director to the board from 12th August 2016.</p> <p>Some of the mentionable changes are;</p> <p>Appointment of an Independent Non-Executive Director, who is a qualified accountant to head the Audit Committees and maintaining 50% composition of Non-Executive Directors to maintain Board balance throughout this period.</p> <p>Company's Article Sec 94 describes selections, nominations and election of directors while Sec 111 governs management of conflicts of interest.</p> <p>A self-assessment form is circulated by the compliance officer on timely basis for periodic assessment.</p>

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

Corporate Governance

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

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>2.4 A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has substantial interest, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.</p>	√			<p>In accordance with Articles Sec 111, directors abstain from voting in respect of any contract or arrangement in which he or any of his relatives or a concern, in which he has substantial interest, is interested or for the purpose of any resolution regarding the same shall not be counted in the quorum present at the meeting.</p> <p>(However no such a matter has arisen during the year)</p>
<p>2.5 The Board shall have a formal schedule of matters specifically reserved to it for decisions to ensure that the direction and control of the finance company are firmly under its authority.</p>	√			<p>The Board has adopted a formal schedule of matters specifically reserved for the Board as indicated in Section B of the Terms of Reference of Board of Directors to fulfill its responsibilities and stewardship of the Company.</p>
<p>2.6 The Board shall, if it considers that the finance company is, or is likely to be unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.</p>			√	<p>Not required as company fulfilled its obligations to its depositors and creditors.</p> <p>The board is aware of the need to inform Director of the Department of Supervision of Non-Bank Financial Institutions and no such situations have arisen during the year.</p> <p>The company is solvent and is a going concern as declared in the "Annual Report of the Board of Directors" on page 100 & 105 of the 2015/2016 annual report.</p>
<p>2.7 The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.</p>	√			<p>A comprehensive checklist of disclosures given in the corporate governance report provides AAF's compliance status to the corporate governance Direction.</p> <p>Comprehensive corporate governance report is included on page 62 - 95 on the 2015/2016 annual report.</p>
<p>2.8 The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.</p>	√			<p>Company has adopted a scheme of self-assessment for board of directors and the board has provided self-assessment forms to the compliance officer for the year 2016/2017.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>3 Meetings of the Board</p> <p>3.1 The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.</p>	√			<p>Twelve Board Meetings were held for the financial period 2016/2017.</p> <p>As a general rule, Board papers and other matters needing Board consent are taken up directly at Board meetings, only very urgent matters are sent on circulation for Board's approval.</p>
<p>3.2 The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.</p>	√			<p>Schedule of items and matters to be discussed at the Board Meeting are included in the agenda, prepared by the secretary under the consent and guidance of the CEO and board.</p>
<p>3.3 A notice of at least 7 days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.</p>	√			<p>Sufficient notice has been given to the Board, to ensure all directors have been given an opportunity to attend the meeting and 7 days' notice will be further complied with in future.</p> <p>Reasonable notice is given through the Company Secretary for any other meetings held by the Board other than regular Board meetings.</p>
<p>3.4 A director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternative director shall, however, be acceptable as attendance.</p>	√			<p>All Directors have participated over the minimum participation requirement of at least attending two-thirds of the meetings held in financial year 2016/2017.</p> <p>All Directors have attended two-thirds of the meeting during period.</p>

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>3.5 The Board shall appoint a company secretary whose primary responsibilities shall be to handle the Secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.</p>	√			<p>P.R. Secretary has been appointed on 19th August 2004 as the Company Secretary in line with the stipulated requirements. The Company Secretary is responsible for preparing the agenda with the assistance of Compliance for Board meetings, maintaining minutes of the meetings and ensuring that the proceedings at the Board Meetings are recorded in sufficient details.</p>
<p>3.6 Check whether the Chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting.</p>	√			<p>Schedule of items and matters to be discussed in the Board Meeting are included in the agenda prepared by the secretary under the consent and guidance of the CEO and board.</p>
<p>3.7 All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.</p>	√			<p>All Directors have access to the advice and services of the Company Secretaries. The Secretaries ensure that Board procedures are followed and the provisions of the Companies Act No. 07 of 2007 and other applicable rules and regulations are complied with.</p>
<p>3.8 The company secretary shall maintain the Minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time, on a reasonable notice by any director.</p>	√			<p>P.R. Secretary has been appointed on 19th August 2004 as the Company Secretary in line with the stipulated requirements. The Company Secretary is responsible for preparing the agenda for Board meetings, maintaining minutes of the Board meetings and ensuring that the proceedings at the Board Meetings are recorded in sufficient details. The Minutes of the previous Board Meetings are adopted in the ensuing Board Meeting. Directors can inspect the Board Minutes as and when required.</p>
<p>3.9 Minutes of Board meetings shall be recorded in sufficient details.</p>	√			<p>All Board meeting Minutes are duly recorded in sufficient details and retained by the Company Secretary under the supervision of the Chairman.</p>
<p>4 Composition of the Board</p> <p>4.1 Subject to the transitional provisions contained herein, the number of directors on the Board shall not be less than 5 and not more than 13.</p>	√			<p>AAF Board comprised nine Directors in keeping with the provisions of this section, and did not fall below 5 or go over 13 Directors due to Directors resignation or appointment during the year.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption																														
<p>4.2 Subject to transitional provisions contained herein and subject to paragraph 5(1) of this Direction, the total period of service of a director other than a director who holds the position of a chief executive officer or an executive director shall not exceed nine years. The total period in office of a non-executive director shall be inclusive of the total period of service served by such director upto the date of this Direction.</p>	√			<p>In keeping with section, no Non-Executive Director holds his/her position exceeding nine years as given below;</p> <table border="1" data-bbox="887 554 1445 1319"> <thead> <tr> <th data-bbox="887 554 1086 642">Name of Director</th> <th data-bbox="1086 554 1273 642">Directorship status</th> <th data-bbox="1273 554 1445 642">Number of years in position as at 31st March 2017</th> </tr> </thead> <tbody> <tr> <td data-bbox="887 642 1086 721">Mr. H L L M Nanayakkara</td> <td data-bbox="1086 642 1273 721">Chairman (Non-Independent Non-Executive Director)</td> <td data-bbox="1273 642 1445 721">08 years</td> </tr> <tr> <td data-bbox="887 721 1086 780">Mr. Rajiv Gunawardena</td> <td data-bbox="1086 721 1273 780">Non-Independent Executive Director</td> <td data-bbox="1273 721 1445 780">07 years and 03 months</td> </tr> <tr> <td data-bbox="887 780 1086 864">Mr. C. Ramachandra</td> <td data-bbox="1086 780 1273 864">Non Independent Non- Executive Director</td> <td data-bbox="1273 780 1445 864">05 years and 09 Months</td> </tr> <tr> <td data-bbox="887 864 1086 923">Mr. Thusitha Perera</td> <td data-bbox="1086 864 1273 923">Independent Non-Executive Director</td> <td data-bbox="1273 864 1445 923">03 year and 03 months</td> </tr> <tr> <td data-bbox="887 923 1086 1007">Mrs. Dayangani Priyanthi Pieris</td> <td data-bbox="1086 923 1273 1007">Non Independent Non-Executive Director</td> <td data-bbox="1273 923 1445 1007">05 years and 02 months</td> </tr> <tr> <td data-bbox="887 1007 1086 1091">Mr. George M. Alexander</td> <td data-bbox="1086 1007 1273 1091">Non Independent Non-Executive Director</td> <td data-bbox="1273 1007 1445 1091">02 year and 01 month</td> </tr> <tr> <td data-bbox="887 1091 1086 1170">Mr. K.R.Bijjimon</td> <td data-bbox="1086 1091 1273 1170">Non Independent Non-Executive Director</td> <td data-bbox="1273 1091 1445 1170">02 year and 01 month</td> </tr> <tr> <td data-bbox="887 1170 1086 1254">Mr. Kiran G. Pillai</td> <td data-bbox="1086 1170 1273 1254">Non Independent Non-Executive Director</td> <td data-bbox="1273 1170 1445 1254">07 months</td> </tr> <tr> <td data-bbox="887 1254 1086 1319">Mr. Rajitha Basnayake</td> <td data-bbox="1086 1254 1273 1319">Independent Non-Executive Director</td> <td data-bbox="1273 1254 1445 1319">07 months</td> </tr> </tbody> </table>	Name of Director	Directorship status	Number of years in position as at 31st March 2017	Mr. H L L M Nanayakkara	Chairman (Non-Independent Non-Executive Director)	08 years	Mr. Rajiv Gunawardena	Non-Independent Executive Director	07 years and 03 months	Mr. C. Ramachandra	Non Independent Non- Executive Director	05 years and 09 Months	Mr. Thusitha Perera	Independent Non-Executive Director	03 year and 03 months	Mrs. Dayangani Priyanthi Pieris	Non Independent Non-Executive Director	05 years and 02 months	Mr. George M. Alexander	Non Independent Non-Executive Director	02 year and 01 month	Mr. K.R.Bijjimon	Non Independent Non-Executive Director	02 year and 01 month	Mr. Kiran G. Pillai	Non Independent Non-Executive Director	07 months	Mr. Rajitha Basnayake	Independent Non-Executive Director	07 months
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<p>4.3 Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the executive directors shall be the chief executive officer of the company.</p>	√			<p>There is equal 90% representation by Non-Executive Directors (Eight Directors) and Executive Director (One Director) and is within the provisions of this Section.</p>																														

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>4.4 With effect from 01.01.2009 for three years, the number of independent non-executive directors of the Board shall be at least one fourth of the total number of directors.</p>		√		<p>Mr.Thusitha Perera and Mr.Rajitha Basnayake hold the directorship as independent non-executive director. Refer 4.2 for further information.</p> <p>Two Directors are independent & non-executive out of total of nine directors.</p> <p>The company is in the process of obtaining CBSL approval to consider Non independent Director to Independent Director (Senior) to the Board of Directors of AAF.</p>
<p>4.5 In the event of an alternative director being appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.</p>			√	<p>Not applicable since no alternative Director appointments were necessitated during this period.</p>
<p>4.6 Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.</p>	√			<p>Non-Executive Directors have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.</p>
<p>4.7 With effect from 01.01.2009 for three years, a meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meetings is present, unless at least one half of the number of directors that constitutes the quorum at such meetings is non-executive directors.</p>	√			<p>Required quorum has been complied with at all Board meetings.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>4.8 The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.</p>	√			<p>The annual report released expressly identifies Independent Non-Executive Directors on the corporate governance report page 73.</p> <p>Following disclosures cover requirements of this section;</p> <ul style="list-style-type: none"> • Composition of Board • Category of Directors
<p>4.9 There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.</p>	√			<p>New appointments and re-election of Directors to the Board are based on their industry knowledge and experience.</p>
<p>4.10 All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.</p>	√			<p>All Directors appointed to fill a casual vacancy were subjected to the election by shareholders at the Annual General Meeting in 2017.</p>
<p>4.11 If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.</p>	√			<p>All Director resignations are informed to the Department of Supervision of Non- Bank Financial Institutions and also to the Colombo Stock Exchange by the Company Secretary to comply with this section and related provisions as per Colombo Stock Exchange rules.</p> <p>From 12th August 2016 Mr. P.M.B.Fernando who was an independent non-executive director has resigned from the board.</p>

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>5 Criteria to assess the fitness and propriety of Directors</p> <p>5.1 Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a finance company.</p>	√			No Director of the AAF Board is over the age of 70 years as at 31st March 2017.
<p>5.2 A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/ societies/bodies corporate, including associate companies and subsidiaries of the finance company.</p>	√			<p>No any Director of AAF Board holds office in over 20 companies contravening the provisions of this section.</p> <p>According to the Company Secretary Confirmation provided that no any director held office in over 20 companies contravening the provisions of this section as at 31.03.2017</p>
<p>6 Delegation of functions</p> <p>6.1 The Board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its function.</p>	√			All delegations are made in a manner that would not hinder/ reduce the Board's ability to discharge its functions.
<p>6.2 The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.</p>	√			<p>Please refer comments given on 6. (1) Above.</p> <p>The delegated powers vested with Directors, corporate management and other employees are reviewed periodically to ensure that they remain relevant to the needs of AAF.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>7 The Chairman and the Chief Executive Officer</p> <p>7.1 The roles of the chairman and chief executive officer shall be separated and shall not be performed by the one and the same person after 3 years commencing from January 1, 2009.</p>	√			The positions of the CEO and Chairman are separated clearly to segregate the balance of power and responsibilities.
<p>7.2 The chairman shall be a non-executive Director. In case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.</p>		√		<p>The Chairman of AAF Board, Mr. H.L.L.M. Nanayakkara, is a Non-Independent Non-Executive Director, appointed to the Board in March 2009.</p> <p>The company is in the process of obtaining CBSL approval for to consider Non independent Director to Senior Independent Director to the Board of Directors of AAF.</p>

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption																		
<p>7.3 The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the names of the chairman and the chief executive officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the Board.</p>	√			<p>The names of the Chairman and the Chief Executive Officer and the nature of any relationship has properly disclosed in page 78 in the annual report for the year ended 2015/16.</p> <p>The disclosure related for the year 2016/17 as follows,</p> <table border="1" data-bbox="890 652 1445 1328"> <tbody> <tr> <td>Mr. H.L.L.M. Nanayakkara</td> <td>Related to CEO and Mrs.Peris</td> </tr> <tr> <td>Mr. Rajiv Gunawardena</td> <td>Related to the Chairman and Mrs Peiris</td> </tr> <tr> <td>Mr. C. Ramachandra</td> <td>No any Relationship</td> </tr> <tr> <td>Mr. Thusitha Perera</td> <td>No any Relationship</td> </tr> <tr> <td>Mrs. Dayangani Priyanthi Pieris</td> <td>Related to the chairman and the CEO</td> </tr> <tr> <td>Mr. Kuttikattu Rajappan Bijimon</td> <td>No any Relationship with CEO and chairman but Mr. George & Mr.K.G.K.Pillai who are his colleagues from Muthoot Finance.</td> </tr> <tr> <td>Mr. George M. Alexander</td> <td>No any Relationship with CEO and Chairman but Mr. Bijimon & Mr.K.G.K.Pillai who are his Colleagues from Muthoot Finance.</td> </tr> <tr> <td>Mr.Kiran Gopal Krishna Pillai</td> <td>No any Relationship with CEO and Chairman but Mr. Bijimon & Mr.George who are his Colleagues from Muthoot Finance.</td> </tr> <tr> <td>Mr.Rajitha Ananda Bandara Basnayake</td> <td>No any Relationship</td> </tr> </tbody> </table>	Mr. H.L.L.M. Nanayakkara	Related to CEO and Mrs.Peris	Mr. Rajiv Gunawardena	Related to the Chairman and Mrs Peiris	Mr. C. Ramachandra	No any Relationship	Mr. Thusitha Perera	No any Relationship	Mrs. Dayangani Priyanthi Pieris	Related to the chairman and the CEO	Mr. Kuttikattu Rajappan Bijimon	No any Relationship with CEO and chairman but Mr. George & Mr.K.G.K.Pillai who are his colleagues from Muthoot Finance.	Mr. George M. Alexander	No any Relationship with CEO and Chairman but Mr. Bijimon & Mr.K.G.K.Pillai who are his Colleagues from Muthoot Finance.	Mr.Kiran Gopal Krishna Pillai	No any Relationship with CEO and Chairman but Mr. Bijimon & Mr.George who are his Colleagues from Muthoot Finance.	Mr.Rajitha Ananda Bandara Basnayake	No any Relationship
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<p>7.4 The chairman shall:</p> <p>a) Provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities.</p> <p>c) Ensure that all key issues are discussed by the Board in a timely manner</p>	√			<p>The Chairman is the leader of the Board who ensures the active contribution of each director to the dealings of the company and the self-evaluation process will be implemented.</p>																		

Corporate Governance

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

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>7.9 Subject to the transitional provisions contained herein, the chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.</p>	√			<p>The Chairman being non Independent Non-Executive does involve himself with direct supervision of key management personnel or handles executive duties.</p> <p>The duties of the Chairman have been defined and approved by the Board. This does not involve executive duties whatsoever.</p>
<p>7.10 The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.</p>	√			<p>At Annual General Meetings, shareholders are given the opportunity to express views so that they can take up their concerns and make recommendations.</p> <p>All matters deemed material raised at the AGM are taken up subsequently and followed up by the Board.</p> <p>A Board approved communication policy is in place which specifies AAF's policy of communication with key stakeholders of the company.</p>
<p>7.11 The chief executive officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.</p>	√			<p>The Chief Executive Officer functions as the apex executive-in-charge of the day to day- management of the company's operations and business.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption										
<p>8 Board appointed Committees</p> <p>8.1 Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain Minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committees. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.</p>	√			<p>The Board has established an Audit Committee, Integrated Risk Management Committee. Board Committees will ensure timely submission of minutes to the Board.</p> <p>A report on the scope, duties and progress made by each Committee has been made available in the 2015/2016 annual report as follows,</p> <table border="1" data-bbox="887 721 1445 1030"> <thead> <tr> <th data-bbox="887 721 1166 766">Name of the Committees</th> <th data-bbox="1166 721 1445 766">Reference page</th> </tr> </thead> <tbody> <tr> <td data-bbox="887 766 1166 838">Integrated Risk Management Committee Report</td> <td data-bbox="1166 766 1445 838">96</td> </tr> <tr> <td data-bbox="887 838 1166 911">Remuneration Committees' Report</td> <td data-bbox="1166 838 1445 911">108</td> </tr> <tr> <td data-bbox="887 911 1166 956">Audit Committees' Report</td> <td data-bbox="1166 911 1445 956">109</td> </tr> <tr> <td data-bbox="887 956 1166 1030">Related Party Transaction Review Committee Report</td> <td data-bbox="1166 956 1445 1030">110</td> </tr> </tbody> </table>	Name of the Committees	Reference page	Integrated Risk Management Committee Report	96	Remuneration Committees' Report	108	Audit Committees' Report	109	Related Party Transaction Review Committee Report	110
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Audit Committees' Report	109													
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<p>8.2 Audit Committees</p> <p>The following shall apply in relation to the Audit Committees:</p> <p>8.2.a The chairman of the committees shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.</p>	√			<p>Mr. R.A.T.P.Perera, Chairman of the Audit committees, is a qualified Chartered Accountant and an Independent Non-Executive Director of the company. He started his career at Kreston M.N.S. & Co.(Correspondent Firm of Grand Thornton International) in 1991 in the field of auditing and management consultancy and thereafter joined several leading mercantile companies and has held many senior positions in finance and general management. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and Certified Management Accountants of Sri Lanka with over 21 years of experience in finance and auditing, both locally and internationally. He is presently the Group Chief Financial Officer of Asia Capital PLC.</p>										
<p>8.2.b The Board members appointed to the committees shall be non-executive directors.</p>	√			<p>All five Directors appointed to the Audit Committees are Non-Executive Directors.</p>										

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>8.2.c The committees shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes. ii) The implementation of the Central Bank guidelines issued to auditors from time to time iii) The application of the relevant accounting standards. iv) The service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	√			Summary of the functions has been disclosed in the Audit Committee report on page 109 of the 2015/2016 Annual Report.
<p>8.2.d The committees shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p>	√			The Committee has obtained representations from the external auditors on their independence through a letter of Engagement, and that the audit is carried out in accordance with Sri Lanka Auditing Standards.

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>8.2.e The committees shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines.</p>	√			<p>The external auditors (Messrs. BDO Partners) engage in the following engagements with the company other than the annual financial audit.</p> <ul style="list-style-type: none"> • The internal control and corporate governance review • Review Engagement of Financial statements • Special Information system audit <p>Above non-audit services do not harm the independence of external auditors according to the terms of reference of the audit committees as well as applicable standards.</p>
<p>8.2.f The committees shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit.</p>	√			<p>The nature and scope of the audit have been discussed and finalized, with the external auditors in accordance with Sri Lanka Auditing Standard.</p>
<p>8.2.g The committees shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein.</p>	√			<p>The Committees reviewed the financial statements and the Annual report to ascertain the quality and integrity of the information contained therein.</p> <p>Based on the review of the Committees, necessary changes were made by the Finance Department to the financial statements and other information contained in the Annual report.</p>
<p>8.2.h The committees shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p>	√			<p>The Committees met the External Auditors, Messrs.BDO partners this financial period without the presence of the corporate management to discuss matters arising from the management letter issued for the past audit period and to discuss other concerns.</p>
<p>8.2.i The committees shall review the external auditor's management letter and the management's response thereto.</p>	√			<p>The external auditor's management letter and the management response have been reviewed by the Board of Audit Committee.</p>

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>8.2.j The committees shall take the following steps on an internal audit:</p> <p>I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</p>	√			Internal Audit scope, functions and resources of the department were ascertained for AAF's own Internal Audit Division. It was concluded that, AAF's own Internal Audit would be strengthened in the next few years to handle growing branch operation review.
<p>II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p>	√			<p>The Audit Committees were submitted separate Audit Programs by Internal Audit division of the company for the financial year 2016/2017 which was affirmed by the Committees.</p> <p>Board of Audit Committee reviewed the Internal audit reports and made recommendation on therein.</p>
<p>III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p>	√			Performance of Internal auditors was reviewed this period by the Committees. Concluded that all required audit deadlines were met and qualities of reports were satisfactory.
<p>IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p>	√			There was an appointment of a new Assistant General Manager – Internal Audit under the review of the Audit Committee members. Further there has been an internal promotion of Assistant Manager Internal Audit as the Manager Internal Audit.
<p>V. Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resignation.</p>	√			The changes of the senior staff members of the internal audit function have been made under the review of the Audit Committee members.

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
VI. Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	√			<p>The Internal Audit Division functions independent from other divisions and reports directly to the Audit Committees. The Audit Division comprises officers who are either part or fully qualified Chartered Accountants.</p> <p>Assistant General Manager Internal Audit – Mr. D.K.H.Liyanaage (Part qualified Chartered Accountant)</p>
8.2.k The committees shall consider the major findings of internal investigations and management's responses thereto;	√			<p>There were no special investigations carried out by Internal audit or any other party in 2016/2017 period.</p> <p>However, Board of Audit Committee has considered the findings of internal investigations and management's response thereto at the meeting.</p>
8.2.l The chief finance officer, chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the chief executive officer may also attend meetings upon the invitation of the committees. However, at least once in six months, the committees shall meet with the external auditors without the executive directors being present.	√			<p>The Assistant General Manager Finance or Chief Operational Officer and Chief Executive Officer attended meetings on invitation in addition to AAF's own Internal Audit officers.</p> <p>At the same time, the External Auditors were invited in August 2016 & March 2017 to meet the committees and discuss matters arising from their statutory audit. The frequency of meeting the external auditors would be increased in the next period.</p>

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>8.2.m The committees shall have:</p> <p>i) explicit authority to investigate into any matter within its terms of reference</p> <p>ii) The resources it needs to do so</p> <p>iii) Full access to Information</p> <p>iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>	√			<p>Audit Committees' Terms</p> <p>The Board approved terms of reference of the Audit Committees, allow the Committees to investigate into any matter that it deems necessary within its wide powers. The committees operate under following terms;</p> <ul style="list-style-type: none"> • Examine any matter relating to the financial and other connected affairs of the Company. • Monitor all Internal and External Audit inspection programs. • Review Internal and External Audit Reports and follow up on recommendations. • Review the efficiency of Internal Control Systems and Procedures, in place. • Review the quality of Accounting Policies and their adherence to statutory and regulatory compliance. • Ensure that a well-managed, sound financial reporting system is in place to provide timely and reliable information to the Board of Directors, Regulatory Authorities, Management and all other stakeholders. • Ensure Company's policies are firmly committed to the highest standards of good corporate governance practices and operations conforming to the highest ethical standards.
<p>8.2.n The committees shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.</p>	√			<p>The Committees has met seven times during the 2016/2017 financial year.</p> <p>The Secretary to the Audit Committees kept duly perfected Minutes in a manner that captures the essence of the meeting discussions and conclusions.</p> <p>Section on "Audit Committees "given on the page 109 of the 2015/2016 annual report provides specific details on meetings held, matters discussed and how the Committee record its decisions.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>8.2.o The Board shall, in the Annual Report, disclose in an informative way,</p> <ul style="list-style-type: none"> i) details of the activities of The audit committees ii) The number of audit committees meetings held in the year iii) Details of attendance of each individual member at such meetings. 	√			<p>Details of activities carried out by the Audit Committees and Meetings held this period with the participation status have been disclosed on page 109 of the 2015/2016 annual report.</p>
<p>8.2.p The secretary to the committees (who may be the company secretary or the head of the internal audit function) shall record and keep detailed Minutes of the committee meetings.</p>	√			<p>The Company Secretary, P R Secretary acts as the secretary to the audit committees keeping record of meeting proceedings.</p> <p>Please refer 8.2 (n) above for further information on keeping Minutes.</p>

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

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Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>8.3.a The committees shall consist of at least one non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committees shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committees.</p>	√			<p>The Committees met Four times during the 2016/2017 financial year to expedite its obligations based on the scope specified;</p> <ul style="list-style-type: none"> • Consider any proposed changes to the IRM framework, including any proposed changes to risk appetite, and make recommendations to the board. • Agree key risk strategies and key risk policies to be adopted by the group and recommend for approval by the board. • Consider on behalf of the board reports that assess the nature and extent of the risk facing the group, including consideration of risk issues arising in connection with the companies of annual business plan, prior to final discussion of that plan by the board. • Review and recommend to the board for approval the statement to be included in the annual report concerning risk management. • Consider on behalf of the board the methods and assumption used to prepare the company's individual capital assessment (ICA) and the AAF internal capital adequacy assessment process (ICAAP) and the outputs and make recommendations to the board. • Consider the company's capital in respect of risk and capital adequacy and make recommendations to the board. • Review, monitor and consider on behalf of the board material issues arising in relation to the internal model, the own risk and solvency assessment (ORSA) and the capital management strategy; make recommendations to the board as required. • Consider significant new business initiatives / proposals from a risk viewpoint and make recommendations to the board. • Provide input to the remuneration committee to ensure that risk is properly considered in the sitting of remuneration. • Monitor the IRM framework and ensure its effectiveness, soundness and integrity.

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

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>8.3.f The committees shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committees, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.</p>			√	The Committee is in the process of drawing up a formal disciplinary action procedure for the IRMC.
<p>8.3.g The committees shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.</p>	√			The Minutes of the committee are circulated by the Secretary to the committee members with the approval of the chairman of the committee and, if requested, would be submitted to the Board.
<p>8.3.h The committees shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committees periodically.</p>	√			<p>A dedicated compliance officer at senior level oversees compliance function of the company. She provides feedback to the IRMC and the Board of status on AAF's adherence to key regulation specifying CBSL and FIU and FTRA requirements. Accordingly, a compliance checklist was prepared and tabled through Executive Director for the information and necessary attention of the Committees.</p> <p>The compliance with prudential requirements, regulations and laws is disclosed in the "Annual Report of the Board of Directors" on page no.100 of the 2015/2016 annual report.</p>

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>9 Related party transactions</p> <p>9.1 The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.</p>	√			<p>Directions relating to the Finance Companies (Lending) No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 have been complied with.</p> <p>No lending's have been made to Directors of the company/ to its holding company/ as per above Direction.</p>
<p>9.2 The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with who shall be considered as "related parties" for the purposes of this Direction.</p>	√			<p>Transactions with related parties are carried out only with due diligence. Any transaction entered into by the Company with any such related party has been carried out on an arms-length basis at prices that were applicable to similar other unrelated customers of the company depending on the risk profile of the entity and AAF's pricing structure.</p> <p>No favorable treatment has been given to related parties for transactions effected by the company directly with such parties. Related party transaction information is captured and is reported in accordance with the provisions of this section and Sri Lanka Accounting Standards (LKAS – 24) on "Related Party Transactions".</p> <p>Director's interest with contract of the company is disclosed on page 166 of the 2015/2016 annual report.</p> <p>Further, all directors have made directors' interest declaration for the financial year 2016/2017.</p> <p>Further, AAF has disclosed related party transactions under the notes to the financial statements on pages 164 of the 2015/2016 annual report</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>9.3 The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) Creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party. 	√			<p>Necessary disclosures in relation to all related party transactions entered into by AAF have been disclosed on pages 164 of the 2015/2016 annual report under notes to the financial statements. Disclosures pertaining to Directors' interest in contracts are given from page 166 of the 2015/2016 annual report.</p> <p>All related party transactions mentioned therein have been carried out on an arms-length basis as per provisions of this section.</p>
<p>9.4 The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents of the finance company.</p>	√			<p>The company has not entered into any transaction in a manner that would grant the related party "more favorable treatment" than, if dealt with an unrelated customer.</p> <p>Please see section 9 (3) above which specifies "related party transactions" and "Directors' interest in contracts" and related disclosures and AAF's policy in this regard.</p>

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>10 Disclosures</p> <p>10.1 The Board shall ensure that:</p> <p>a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that</p> <p>b) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	√			<p>The company complied with applicable accounting standards including the IFRS requirements introduced since 2012/2013 by CA Sri Lanka. The financial statements also conform to other regulatory requirements including the Finance Business Act, the Companies Act and rules specified by Colombo Stock Exchange.</p> <p>Quarterly publications of interim results for the period ended 30th September 2016 have been published in following newspapers,</p> <ul style="list-style-type: none"> • Sinhala - Dinamina on 23th December 2016 • English - Daily FT on 23th December 2016 • Tamil - Virakesari on 23rd December 2016
<p>10.2 The Board shall ensure that at least the following disclosures are made in the Annual Report:</p> <p>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.</p>	√			<p>The Directors' Responsibility Statement given on page 106 of the 2015/2016 annual report provides an affirmation that the annual audited financial statements have been prepared in line with applicable accounting standards and applicable regulatory requirements.</p>
<p>b) A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</p>	√			<p>The Boards report on the effectiveness of the company's internal control mechanism over financial reporting given under the "Report by the Board on Internal Control" given on pages 107 in the 2015/2016 Annual report, provides required disclosure to comply with this section.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
c) The external auditor's certification on the effectiveness of the internal control mechanism referred to in subparagraph (2) (b) above, in respect of any statements prepared or published from the date of this Direction.	√			The External Auditors certification on the effectiveness of the internal control mechanism over financial reporting was obtained for the financial period 2015/2016.
d) Details of Directors, including names, transactions with the finance company.	√			Directors' information including their names and other details are provided on page 101 to 103 of the 2015/2016 annual report while their transaction details are disclosed under the "Directors' Interest In Contracts" on page 103 of the 2015/2016 annual report and in the "related party disclosure" note in the financial statements on page 166 of the 2015/2016 annual report.
e) Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010	√			Details of Directors' remuneration in aggregate are disclosed on page 141 of the 2015/2016 annual report in notes to the financial statements.
f) Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	√			Total accommodation to related parties of AAF has been disclosed on Page 164 to 166 in the notes to the financial statements of 2015/2016 annual report. There have not been related party transactions exceeding 10% of the equity during the 2015/2016 financial year.
g) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	√			Aggregate values of remuneration paid and transaction carried out by Key Management personnel are disclosed under "Directors' interest in contracts" on page 166 and in the "related party disclosure" in the notes to the financial statements on page 164 to 166 of the 2015/2016 annual report. As per the company's classification, Directors solely come under the definition of Key Management Personnel for the provisions of this section.

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.</p>	√			<p>A compliance checklist on AAF's adherence status to CBSL regulations is given on page 111 of the 2015/2016 annual report.</p> <p>"The Annual Report of the Board of Directors" signed by the Directors given on page 100 to 105 of the 2015/2016 annual report gives a collective confirmation on AAF's compliance with applicable laws and regulations.</p> <p>In addition, the statement of "The Directors' Responsibility for financial reporting" given on page 106 of the 2015/2016 annual report confirms AAF's compliance to regulations on financial reporting.</p>
<p>i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public with the measures.</p>			√	<p>There were no significant lapses in Company's risk management or non-compliances to be included in the corporate governance report.</p>
<p>j) The external auditor's certification of the compliance with the Corporate Governance Directions in the annual corporate governance reports published from the date of this Direction.</p>	√			<p>The Company has obtained a certificate from external auditors over the compliance of corporate governance directions issued by the Director, Department of Non-Bank Supervision of the Central Bank of Sri Lanka. Further the Company is in the process of strengthening certain procedures based on the recommendations made by them.</p>

Corporate Governance

Board meetings of Asia Asset Finance PLC – 01st April 2016 to 31st March 2017

Names of the Directors	08/04/2016	20/05/2016	20/06/2016	21/07/2016	25/08/2016	26/09/2016	27/10/2016	17/11/2016	16/12/2016	20/01/2017	24/02/2017	28/03/2017
1) Mr. H. L. L. M. Nanayakkara	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2) Mr. R. J. A. Gunawardena	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
3) Mr. C. Ramachandra	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
4) Mrs. D. P. Pieris	✓	✓	✓	✓	x	✓	x	✓	x	✓	✓	x
5) Mr. R. A. T. P. Perera	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
6) Mr. G. Alexander	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
7) Mr. K. R. Bijimon	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
8) Mr. M. Fernando	✓	✓	✓	x								
9) Mr. R. A. B. Basnayake					✓	✓	✓	✓	✓	✓	✓	✓
10) Mr. K. G. K. Pillai					✓	✓	✓	x	✓	✓	✓	✓

Risk Management Review

Organization of Risk Management

Risk management at Asia Asset Finance PLC is conducted through a mosaic of interlocking controls by the Board members and officers. There are three Committees that have the principal responsibility of risk management of the Company.

- i) The risk management Committee is a Sub Committee of the Board, staffed with a full time risk manager and several other key members of the management. It assesses the medium term risks of the Company and reports to the Main Board.
- ii) Organizational policies and procedures are supervised by the designated management and reviewed by the Internal Auditor. The Internal Audit Committee is a Sub Committee of the Board, assisted by the Internal Auditor and his staff, who submit their observations to the Committee.
- iii) The Assets and Liabilities Committee (ALCO) consisting of several key managers and selected Directors meet monthly to assess short term liquidity and other risks.

Operational Risk : Operational risk is the responsibility of the entire staff of Asia Asset Finance. Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of internal processes, people and systems or from external events.

An effective operational policy manuals in place to monitor the operational controls effective and is monitored on a weekly basis

Portfolio Diversification

The Company uses several criteria to measure the degree of the portfolio diversification in assessing risks.

The Gini Coefficient is a measure of the portfolio in dispersion and concentration

and terms of the size of the loans. This ratio is calculated as follows:

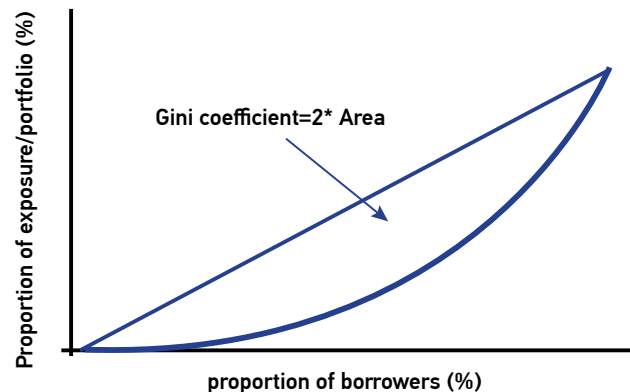
- a) Concentration Risks - The top ten single clients determine the concentration risks based on the size of the loan.

- b) In addition to the above the Risk Management Committee periodically a detailed review of each the exposure of the top ten to single clients details in of rank order. The top ten in size represent 4% of the total accommodations, which in turn forms 24% of the shareholders equity. While the top ten accounts for the 4% of the total accommodations, the other measures of risks attempts to assess the remaining 96%.

Gini Coefficient

The Gini Coefficient is a concentration index and measures deviation from exposure amounts from an even distribution.

In May 2016 the ratio was 0.418 and ratio trended downwards during the course of the year 2017, and indicates a highly homogeneous and widely diversified portfolio.



Risk Management Review

Month	Ratio
July-14	0.559
August-14	0.571
September-14	0.548
October-14	0.545
November-14	0.545
December-14	0.545
January-15	0.549
February-15	0.543
March-15	0.539
April-15	0.536
May-15	0.528
June-15	0.526
July-15	0.524
August-15	0.519
September-15	0.507
October-15	0.496
November-15	0.489
December-15	0.480
January-16	0.475
February-16	0.478
March-16	0.470
April-16	0.465
May-16	0.460
June-16	0.455
July-16	0.452
Aug-16	0.445
Sep-16	0.439
Oct-16	0.433
Nov-16	0.435
Dec-16	0.432
Jan-17	0.425
Feb-17	0.422
Mar-17	0.420
Apr-17	0.418



The above statistic is at an acceptable level.
The downward trend is desirable.

Tracking geographical distribution of portfolio is important to avoid risks associated in location concentrations of accommodation. The goal is to avoid having excessive concentrate of risks in a single geographical area, e.g. if AAF were to concentrate on lending in coastal areas, which may be say; affected by a tsunami or in the North which may be affected by potential civil unrest or in the North Central Province affected by unusual drought, or in the Southern Province affected by potential floods. The attached pie chart presents the location of loans. It may be noted that 8% of the loans originate in Negombo and a further 6% in Wennappuwa.

Jaffna accounts for 7% of the loans of which a significant number of loans is secured with gold.

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

Geographical Distribution of Loan Portfolio



- Wennappuwa 6%
- Point Pedro 3%
- Negambo 8%
- Matara 3%
- Moratuwa 9%
- Kurunegala 9%
- Killinochchi 6%
- Kalutara 6%
- Jaffna 7%
- Hattton 2%
- Gampaha 0%
- Gampaha 6%
- Galle 6%
- Digana 2%
- Colombo 12%
- City Office 7%
- Chavakachchen 3%
- Batticaloa 5%

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

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

Liquidity Risk : Liquidity risk is monitored regularly by the Asset and Liability Committee (ALCO) of the Company

which meets once a month to discuss future cash flows and to do a maturity analysis of Assets and Liabilities which are reviewed accordingly, in order to maintain the required liquidity. The committee has introduced sound policies to minimize the risk.

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

Being the tenor of Gold Loans are short term, the company is in a position to absorb the short term fund mobilization which would enable to reduce the monetary mismatch of assets and liabilities of the Company.

Maturity Mismatch

Maturity mismatch is one of the most significant risks with financial institutions, particularly as they lend long and borrow short. Maturity mismatch is a single statistic used to measure the balance of assets and liabilities of the Balance Sheet. This risk is measured on a monthly basis and reviewed quarterly by the Risk management committee.

Month	Duration		
	Assets	Liabilities	Ratio
2014-Oct	1.9	1.4	1.4
2014-Nov	1.9	1.4	1.3
2014-Dec	1.8	1.4	1.3
2015-Jan	1.9	1.3	1.4
2015-Feb	1.9	1.3	1.5
2015-Mar	2.0	1.3	1.6
2015-Apr	2.0	1.3	1.5
2015-May	2.0	1.3	1.6
2015-June	2.0	1.3	1.5
2015-July	2.0	1.3	1.6
2015-Aug	2.0	1.2	1.7
2015-Sep	2.0	1.2	1.7
2015-Oct	2.1	1.3	1.5
2016-Feb	2.1	1.4	1.5
2016-May	1.8	1.4	1.3
2016-Aug	1.9	1.3	1.4
2017-Jan	1.7	1.0	1.7
2017-Apr	1.6	1.2	1.4

The goal is to reach a statistic, of 1.1 at an acceptable cost. By Apr 2017 the ratio of assets and liabilities was 1.4. Practically this ratio may be even lower, due to a high percentage of maturity deposits being retained. Historically the retention rate is approximately 60%. The directors are

comfortable that the Company is unlikely to be insolvent in the medium term. Considering the retention rate, the ratio was computed to be approximately computed ratio of Assets and Liabilities.

$$V = \sum_{i=1}^n PV_i$$

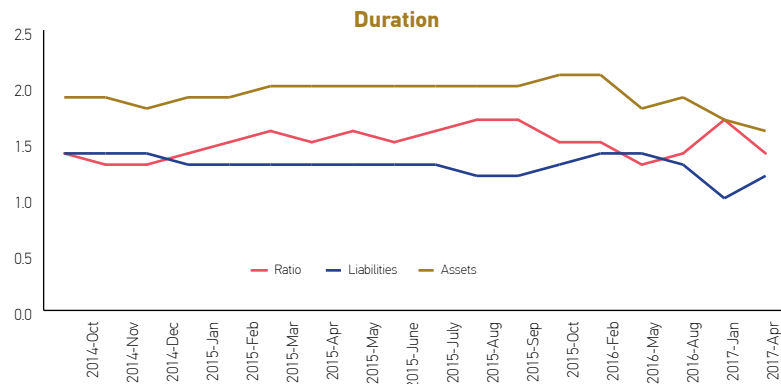
Macaulay duration is defined as $\frac{\sum_{i=1}^n t_i PV_i}{V}$

$$(1) \text{ MacD} = \frac{\sum_{i=1}^n t_i PV_i}{V} = \sum_{i=1}^n t_i \frac{PV_i}{V}$$

where:

- i indexes the cash flows,
- PV_i is the present value of the i th cash payment from an asset,
- t_i is the time in years until the i th payment will be received,
- V is the present value of all future cash payments from the asset.

In addition to the above, the Committee also considers environmental shocks due to economic and other changes in the environment, e.g. issues relating to other changes in the environment, weather conditions, such as drought or flooding. Consequent to the Central Bank decision to change the Bank Reserve rate in July 2017, the Management reviewed the budgetary impact of including collection and disbursement activities for review of the Board.



Risk Management Review

Credit Risk : The goal of credit risk management is to maximize the Company's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Further, to manage this risk effectively, the Company's Credit Committee reviews the credit policy, monitors its credit approval limits, and evaluates the facilities with large exposures and credit worthiness of the borrower. The Committee also reviews portfolio performance on a regular basis and ensures loan classification on collection performance.

Manage Gold Loans Exposure

The Company has in place a comprehensive set of a list of mitigation processes to manage gold loans risk. Principals secured together with accrued interest secured on gold, Consist of approximately 10% of the portfolio. The control system consists of:

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

Our Parent Company of AAF, Muthoot Finance is the largest gold loan provider in the world, with more than 130 tons of gold in their vaults and over 4000 branches in India. They have extensive experience in the industry.

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

Muthoot audit staff also makes 'on site' visits in Sri Lanka to train and develop our staff and

conduct physical verification of gold items, including checks based on statistical Risk Management techniques.

Provisioning Policy

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

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

As at 31st March 2017, the Gold Loan portfolio did not require any provisions. The provisioning policy is based on the market value of secured gold at current market prices, less potential of fall in gold on commodity price volatility computed on the basis of 50 years data at a 95%, certainty level for a period of one month; a technique based on the concept of value at risk.

AAF conducts prompt auctions of mortgaged gold of defaulters, and to date several auctions have been conducted without any losses to AAF. One of the principal tools of managing Gold Loan risks is the loan to value ratio. AAF does not provide loans at the full value of the Gold Mortgage. Currently AAF lends only 75% of the value of gold. This portion is reviewed from time to time based on expert opinion on commodity price. This in effect creates a buffer for the paid interest in

case of default and a buffer for a drop in value of the underlined security due to a drop in commodity price.

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

Commodity Risk of the Underlined Security

This can be dealt with by a hedging and we are in the process of making representations to the Central Bank for approval.

1. Commodity risk of the underlying.
2. Moral hazard in the transaction due to asymmetry of information. AAF officials may be unable to detect that the gold being mortgaged is of the right quality and/or the borrower does not have the proper legal title to the asset. Some of these risks are covered through insurance. Innovative measures to hedge gold prices.

The above two risks can be dealt with and we hope to make representations to the Central Bank to approve innovative methods to manage risk of gold and for permission to utilize this security in the future to manage the risks leading of gold lending. However, both of these risks can be managed

at a manageable cost with innovative methods and securities.

Gold is a hedging product that is available in the international commodity exchange. It is an important feature of the financial landscape of the country, with many individuals holding gold as a form of savings, having the ability to convert these savings into liquid cash is important. Unfortunately to utilize such hedging requires Central Bank permission, due to financial control amongst others.

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

Capital Adequacy

Capital Adequacy is one of the critical aspects of risks inherent in a Finance Institution. Capital Adequacy provides the investors with a confidence of the capacity of the Financial Institute to raise more debt funding; and the ability to absorb a shock in case of default. The Capital Adequacy Ratio of AAF is 19%, which is very high compared to the Central Bank mandated level of 10%. It appears that AAF's has a robust capacity to absorb significant external shocks and to raise significant amounts of debt capital; and enhance its profitability and improve its growth trajectory and continue to exploit its lending opportunities and improve its rate to the shareholders in the future.

By 31st May 2017, the total returns on capital ratio has increased to 22.16% from 19% at 31st March 2017.

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

The Directors of Asia Asset Finance PLC have the pleasure in submitting their Report together with the Audited Financial Statements of the Company for the year ended 31st March 2017.

Principal Activities

During the year the principal activities of the Company was

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

by the Controller of Exchange as may be altered from time to time"

Review of Operations

The chairman's review on pages 8 to 13 which forms an integral part of this report provides an overall assessment of the financial performance of the Company and describes its affairs and the important events of the year.

A detailed analysis of the operations and financial results are provided in the management discussion and Analysis on page 33 to 47 of this annual report.

Financial Statements

The completed financial statements of the Company has been duly certified by the person responsible for the preparation of the financial statements of the Company have been signed by two Directors on behalf of the Board of Directors and the Auditors and confirm the Company is in compliance with the requirements of the Companies Act No. 07 of 2007. Details are given on pages 123 to 180.

Auditors Report

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

Accounting Policies

The accounting policies adopted in the preparation of Financial Statements are given in pages 128 to 147.

Financial Results

Description	2017/16 Rs.	2016/15 Rs.
Total Income	2,130,607,576	1,383,809,503
Net Interest Income	1,101,259,302	672,312,949
Profit before Taxation	315,876,417	209,232,522
Income Tax Reversal/(expense)	(37,827,608)	(34,014,398)
Profit after Taxation	278,048,809	175,218,124
Loans and Advances	6,838,366,400	4,825,421,160
Lease rentals receivable and Hire purchase	1,424,679,822	1,702,419,253
Total Assets	10,026,935,439	8,115,400,702
Deposits from Customers	5,681,178,140	4,796,299,899
Total Equity	1,736,891,866	1,461,531,436

Dividends

The company declared a dividend of Rs.0.07 per ordinary share amounting to Rs.58,744,548.31 for financial year ended 2016/2017.

Property, Plant and Equipment

An analysis of the Property, Plant and Equipment of the Company is disclosed in note 21 of the Financial Statements on page 157.

Stated Capital

The stated Capital of the Company as at 31st March 2017 was Rs.1,388,935,273/-

Donations

The Company has made donations of Rs.210,750/- during the financial year under review.

Capital Commitments

Capital commitment is zero as at 31st March 2017.

Provisions

Impairment Provision is Rs 227,348,081 and Provision for Depreciation is Rs 31,158,944/- and Amortization is Rs 2,850,804/- as at 31st March 2017.

Provision for the Taxation

The provision for Taxation is Rs 37,827,608/-.

Statutory Payments

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

Contingent Liabilities

Details of contingent liabilities and capital commitments as at 31st March 2017 are set out in Notes 33 and on page 167 of the Financial Statements.

Post Balance Sheet Events

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

Risk Management and Internal Control

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

Going Concern

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

Directors who held office during the Year

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

Mr. H.L.L.M. Nanayakkara
 Mr. R.J.A. Gunawardena
 Mr. C. Ramachandra
 Ms. D. P. Pieris
 Mr. R.A.T.P. Perera
 Mr. G.M. Alexander
 Mr. K.R. Bijimon
 Mr. P.M.B. Fernando
 Mr. K.G.K.Pillai
 Mr. R.A.B.Basnayake

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

Appointments during the year

Mr.K.G.K.Pillai

Mr.R.A.B.Basnayake

Resignations during the year

Mr. P.M.B. Fernando

Appointments after the conclusion of the year

Nil

Resignations after the conclusion of the year

Nil

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

Mr. H.L.L.M. Nanayakkara – Chairman

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

Mr. R.A.T.P. Perera

Mr. C. Ramachandra

Ms. D. P. Pieris

Mr. G. M. Alexander

Mr. K.R. Bijjimon

Mr. K.G.K. Pillai

Mr. R.A.B. Basnayake

Directors retiring (at the Annual General Meeting)

- 1) Mr. R.A.T.P. Perera retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself for re-election in terms of Article 88 of the Articles of Association.

- 2) Mr. G. Alexander retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers herself for re-election in terms of Article 88 of the Articles of Association.

- 3) Mr. K.R. Bijjimon retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers herself for re-election in terms of Article 88 of the Articles of Association

Corporate Governance

The Board of Directors confirm that the Company is compliant with the Finance Companies Direction (Corporate Governance) No.03 of 2008 subject to the rectification of appointment of Senior Independent Director and maintaining the minimum number of Independent directors and section 7.10 of the Listing Rules of the Colombo Stock Exchange.

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

Audit Committee as at 31st March 2017

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

Mr. C. Ramachandra (Non-Executive Director)

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

Mr. K.R. Bijjimon (Non-Executive Director)

Mr.R.A.B.Basnayake (Independent Non-Executive Director)

Integrated Risk Management Committee as at 31st March 2017

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

Mr. C. Ramachandra (Non-Executive Director)

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

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

Mr.R.D.S.Gunasekara – Chief Operating Officer

Related Party Transaction Review Committee as at 31st March 2017

Mr. C. Ramachandra (Non-Executive Director)

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

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

Mr. K.R. Bijjimon (Non-Executive Director)

Remuneration Committee as at 31st March 2017

Mr. C. Ramachandra (Non-Executive Director)

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

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

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

Mr. R. A. B. Basnayake (Independent Non-Executive Director)

Directors' Interest Register

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

Directors Remuneration and Other Benefits of Directors

Directors' remuneration and other benefits of directors are stated in the Note 40 on pages 175 of the Financial Statements.

Directors' Interest In Shares

Name	No. of Shares as at 31st March 2017		No. of Shares as at 31st March 2016	
		%		%
Pan Asia Banking Corporation PLC/ Mr. H. L. L. M Nanayakkara	22,655,845	2.700%	30,481,763	3.632%
Mr. R.J.A. Gunawardena	NIL	NIL	NIL	NIL
Ms. D.P. Pieris	800,000	0.071%	800,000	0.071%
Mr. R.A.T.P. Perera	NIL	NIL	NIL	NIL
Mr. C. Ramachandra	800,000	0.095%	800,000	0.095%
Mr. G.M. Alexander	NIL	NIL	NIL	NIL
Mr. K.R. Bijimon	NIL	NIL	NIL	NIL
Mr. K.G.K. Pillai	NIL	NIL	NIL	NIL
Mr. R.A.B. Basnayake	NIL	NIL	NIL	NIL

Directors' Interest In Contracts

None of the Directors had a direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed in note 40 on page 175 of the Financial Statements.

Shareholders Information

The distribution and analysis of shareholdings were as follows;

	As at 31st of March 2017			As at 31st of March 2016		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1- 1,000	908	340,886	0.04	855	337,741	0.04
1,001 -10,000	774	3,583,273	0.43	832	3,889,928	0.46
10,001-100,000	617	25,046,418	2.98	675	27,591,142	3.29
100,001-1,000,000	234	77,295,207	9.21	242	79,590,138	9.48
1,000,001 & over	37	732,942,049	87.34	37	727,798,884	86.73
Total	2,570	839,207,833	100.00	2,641	839,207,833	100.00

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

	As at 31st March 2017			As at 31st March 2016		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	2,548	323,417,792	38.54	2,625	328,911,217	39.19
Non-Resident	22	515,790,041	61.46	16	510,296,616	60.81
Total	2,570	839,207,833	100	2,641	839,207,833	100

	As at 31st March 2017			As at 31st March 2016		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	2475	186,403,052	22.21	2,545	181,337,802	21.61
Institutional	95	652,804,781	77.79	96	657,870,031	78.39
Total	2,570	839,207,833	100	2,641	839,207,833	100

20 Largest holders of equity

Asia Asset Finance PLC			
20 Major Shareholders of the Company as at 31st March 2017			
	Name	No of Shares	(%)
1	Muthoot Finance Limited	503,524,700	60.000
2	J B Cocoshell (PVT) Ltd	42,429,508	5.056
3	Seylan Bank PLC/Dr. Thirugnanasambandar Senthilverl	35,513,011	4.232
4	Pan Asia Banking Corporation PLC/Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara	22,655,745	2.700
5	Mrs. G I Vasunthara	17,175,002	2.047
6	Mr. S D R Arudpragasam	16,302,070	1.943
7	People's Leasing & Finance PLC/Mr. W K R Jayakody	12,513,100	1.491
8	Mr P A D R U Pushpakumara	12,391,000	1.477
9	Mr K M S M Razeek , Mr. K S M Rajubdeen & Mr. S M R Mohamed	7,400,000	0.882
10	Elgin Investments Limited	6,141,761	0.732
11	Mr. P P Subasinghe	4,511,608	0.538
12	Code-Gen International (PVT) Ltd	4,241,188	0.505
13	Mr. C W Gunasekara	4,155,000	0.495
14	Ceylon Biscuits Limited	3,750,000	0.447
15	Mr. W Gunarathne	3,145,601	0.375
16	Mr. K S D Senaweera	2,940,000	0.350
17	Mr. C R Perera	2,589,987	0.309
18	M Investments Lanka (PVT) Ltd	2,578,578	0.307
19	Mr. D Koththoff	2,500,000	0.298
20	Waldock Mackenzie Limited/ Mr. P S R Casie Chitty	2,258,804	0.269
		708,716,663	84.451
	Others	130,491,170	15.549
	Total	839,207,833	100.000

Share Prices for the Year

	As at 31/03/2017	As at 31/03/2016
Highest during the year	Rs.1.70 (03-11-2016)	Rs. 2.00 (15-05-2015)
Lowest during the year	Rs.1.20 (28-03-2017)	Rs.1.20 (10-03-2016)
As at end of the year	Rs.1.30	Rs.1.30

Public Shareholding

Public Holding Percentage as at 31st March 2017 being 37.13% comprising of 2,565 shareholders.

Annual General Meeting

The notice of the Annual General Meeting is on page 186.

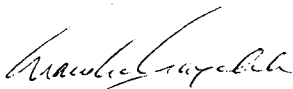
Auditors

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

The Auditors Messrs.BDO Partners, Chartered Accountants were paid Rs.1,320,000/- as Audit fees by the Company.

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

By Order of the Board



Mr. H.L.L.M. Nanayakkara
Chairman/ Director



Mr. C. Ramachandra
Director



P.R. Secretarial Service (Private) Limited
Secretaries

27th July 2017

Responsibility of the Directors of the Company

The responsibility of the Directors in relation to the financial statements of the company is set out in the following statement. The responsibility of the Auditors, in relation to the financial statements, prepared in accordance with the provision of the Companies Act No.07 of 2007, is set out in the independent Auditors' Report appearing on page 122. The Directors are required by the Companies Act No.07 of 2007 to prepare financial statements for each financial year, which give a true and fair view of the statements of affairs of the Company as at the end of the financial year and the profit and loss and cash flows of the Company for the financial year.

The Directors confirm that the financial statements of the Company for the year ended 31st of March 2017 have been prepared and presented in accordance with Sri Lanka Accounting Standards and Companies Act No.07 of 2007. In preparing the financial statements appropriate accounting policies have been selected and applied consistently, whilst reasonable and prudent judgements and estimates have been made.

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

of the Board also extend to reviewing internal structure and management of the organisation.

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

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

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

The Board shall, if it considers that the relevant establishment is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to lenders and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the relevant establishment prior to taking any decision or action. The Board shall include in the relevant establishment's Annual Report, an annual corporate governance report setting out the compliance with this Direction. The Board is responsible for ensuring that the Company maintains proper books of accounts of all transactions and prepares financial statements for each financial year which gives a true and fair view of the Company's state of affairs for that time period which is

a statutory obligation under Section 150 of the Companies Act No.07 of 2007. The Board shall adopt a scheme of self- assessment to be undertaken by each director annually and maintain records of such assessments.

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

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

On behalf of the Board of Directors;



Mr. R.J.A. Gunawardena

Director /CEO



Mr. R.A.T.P. Perera

Director

27th July 2017

Directors Statement on Internal Control over Financial Reporting

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

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

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

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

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

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

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

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

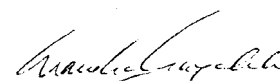
Confirmation Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance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

External Auditors review of the statement

The External Auditor have reviewed the above "Report of the Board on Internal Control" for the year ended 31st March 2017 included

in the annual report of the Company. They reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Company over financial reporting.

By order of the Board



Mr. H.L.L.M. Nanayakkara
Chairman



Mr. R.J.A. Gunawardena
Director/Chief Executive Officer



Mr. R.A.T.P. Perera
Director/Chairman Audit Committee

Remuneration Committee Report

Composition

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

- Mr. C. Ramachandra (Chairman)
- Mr. R. A. T. P. Perera
- Mr. H. L. L. M. Nanayakkara
- Mr. G. M. Alexander
- Mr. R. A. B. Basnayake (Appointed 20th March 2017)

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

Remuneration Policy

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

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

Scope

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

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

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

Fees

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

Committee Meetings

A formal meeting of the Committee takes place whenever necessary. During the financial year 2016/17, the Committee met on 4 occasions to review and recommend the annual increments and the bonus for staff.



C. Ramachandra

Chairman - Remuneration Committee

27th July 2017

Audit Committee Report

The Composition of the Committee

In accordance with the currently accepted Best Practice and Corporate Governance Guidelines, the Board-appointed Audit Committee comprises of the following Non-Executive Directors of the Company:

- Mr. Thusitha Perera (Chairman from 16 December 2016)
- Mr. C. Ramachandra (Chairman until 16 December 2016)
- Mr. H.L.L.M. Nanayakkara
- Mr. K.R. Bijimon
- Mr. R.A.B. Basnayake (Appointed 20th March 2017)

The Committee is responsible and reports to the Board of Directors. The Chairman of the committee Mr. Thusitha Perera. Mr Thusitha Perera and Mr Rajitha Basnayake are Non Executive Independent Directors.

Terms of Reference

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

Examine any matter relating to the financial and other connected affairs of the Company.

Monitor all Internal and External Audit inspection programmes.

Review Internal and External Audit Reports and follow up on recommendations.

Review the efficiency of internal control systems and procedures, in place.

Review the quality of Accounting Policies and their adherence to statutory and regulatory compliance.

Ensure that a well-managed sound financial reporting system is in place to provide timely, reliable information to the Board of Directors, Regulatory Authorities, Management and all other stakeholders.

Ensure Company policies are firmly committed to the highest standards of good corporate governance practices and that operations conform to the highest ethical standards, in the best interests of all stakeholders.

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

Meetings

The Committee held seven meetings during the year under review.

The Director/CEO is invited to attend all meetings. Senior Management staff also attends meetings as and when required. The proceedings of the Audit Committee meetings are regularly reported to the Board of Directors. The engagement partner of

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

The Committee carried out the following activities.

Financial Reporting

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

Independence and objectivity of the external auditors

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

Prior to commencement of the annual audit, the committee discussed with the external

auditors their audit plan, audit approach and procedures and matters relating to the scope of audit. The fees of the external auditors were also approved by the audit committee. The audit results were discussed at the conclusion of the audit, where the committee reviewed and approved the annual financial statements.

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

Regulatory Compliance

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

Internal Audit

The Internal Audit Division is now headed by an AGM. The Division was expanded during the year from 3 persons to 6 taking into consideration the increased volume of business and new products. They visit all branches on a regular basis and their reports are periodically reviewed and follow up action is monitored by the Committee. Departmental functions are also audited by them. It is intended to expand the division further to concentrate on the audit of the gold loan business.

Internal Controls

The effectiveness of the internal control procedures in place for selected procedures was carefully evaluated.



Mr. R.A.T.P. Perera
Chairman
Audit Committee

27th July 2017

Related Party Transactions Review Committee Report

The Committee Comprises of the following Directors

- Mr. C. Ramachandra (Chairman)
- Mr. H. L. L. M. Nanayakkara
- Ms. D. P. Pieris
- Mr. K. R. Bijjimon

The Role of the Committee

The Committee is entrusted with the responsibility

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

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

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

*To monitor financial accommodations granted to key management personnel, major shareholders and Related parties.

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

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

Meetings

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

Activities of the Committee During the Financial Year

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



C. Ramachandra

Chairman
Related Party Transactions Review
Committee

27th July 2017

Compliance Report

Compliance forms an important part of governance and risk management. Therefore, the basis of AAF compliance management mechanism is a comprehensive analysis of the compliance risks to which the Company is exposed. The Company and its business activities are examined in terms of potential compliance risks that can arise, including from its structures, processes and market conditions.

Compliance Function The Compliance Officer of PLC is an integral part of its internal control structure whose tasks, inter alia, include, developing compliance policies and procedures (including best practices);

- Ensuring the practice of the guidelines of Central bank of Sri Lanka and other regulatory bodies and enhance the Corporate Governance of the company.
- Developing compliance policies and procedures (including best practices);
- Monitoring and reporting on compliance-related activities across the Company;
- Assisting in the conduct of internal investigations, where required;
- Observing that employees are given adequate training on compliance related activities

Further the followings are the status of the level of overall compliance of Asia Asset Finance PLC with regards to the directions and guidelines issued by the key regulatory bodies.

The Central Bank of Sri Lanka (CBSL)

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

Securities and Exchange Commission

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

Colombo Stock Exchange (CSE)

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

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

Intergrated Risk Management Committee Report

The Composition of the Committee

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

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

Mr. H.L.L.M. Nanayakkara (Chairman)

Mr. C. Ramachandra

Mr. Thusitha Perera

Mr. Rajiv Gunawardena (Director/CEO)

Mr. Roshan De Silva (Chief Operating Officer)

Composition of the Committee

The Committee comprised of the following members,

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

Terms of Reference

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

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

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

- Review the Company's Compliance with laws and regulations
- Propose appropriate measures for corrective action as part of the risk mitigation process.

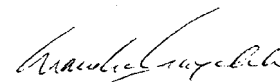
Meetings

The Committee held four meetings during the year under review.

The Director/CEO and COO is invited to attend all meetings. Senior Management staff also attends meetings as and when required. The proceedings of the IRM Committee meetings are regularly reported to the Board of Directors.

Regulatory Compliance

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



H.L.L.M. Nanayakkara

Chairman
IRM Committee

27th July 2017

Insight into the Business Operations of AAF



Mr. Roshan De Silva Gunasekera

Q What are the new strategies introduced by the Company to face the challenges posed by competition and economic environment?

A *As the unconventional finance company of the country we always believe in unconventional strategies and innovative methods to find solutions for customers. We believe that this is the only way forward in the current turbulent market. If our product offer is same as our competitors then there is no underlying reason to select Asia Asset Finance PLC. [AAF].*

We believe in customizing the product offer with 360 degree solutions always making a total solution for customer needs.

Also we have planned to re-launch Factoring and Personal Loans, two products currently in demand to our product mix. This will result in total customer solutions to all our customer needs. However these products will have a lot of differentiating features which will add value to customers' and differentiate our product offer from 'run on the mill' products of our competitors.

Regular customer satisfaction surveys carried out have proven over and over again that the above is the single most Critical Success Factor [CSF] of AAF that make the customers to keep on coming to AAF and engage in repeat business.



Mr. Sameera Wewaldeniya

Q When stiff competition is faced by the Company from the banking sector and NBFi sector, how do you continue to mobilize deposits.? What is the product differentiation you have offered to your FD customers?

A *We see the competition as an opportunity and we believe it will force companies to be more innovative and to provide better service to its customers. Asia Asset Finance PLC (AAF) is providing tailor made investment options for our loyal customers. Our main marketing tool is the feedback we receive from our valued customers. This is the main reason behind our success which results in a steady growth in our deposit base.*

AAF has stayed focus on building on the trust placed upon us by our valued customers as well as the general public while portraying transparency in all our marketing and operational activities.



Mr. Sajith Athapattu

Q What are the operational improvements that you have implemented in the last financial year in order to add value to the customer product offerings?

A *2016/2017 was a very challenging year as AAF was aiming to have a record breaking year. We were focused to achieve significant landmark. With such a focus it was important that we did not compromise on the value to the customer. There were many improvements that were focused on adding value in the products AAF offer. First it was tweaking the products to have a faster process and approval time which meant now our valued customers can get their facilities quickly. This included new process of branch level approvals, online approvals as well as faster credit committee approvals. Secondly AAF has joint hands with our partnering companies to offer more value to the customers through some valuable add ons in their products for example free life cover through insurance for certain products. Thirdly AAF has introduced new hardware and software in document management systems to keep client details securely and with quick access. So that the response time with clients can be greatly improved to give faster service to the customer.*

Insight into the Business Operations of AAF



Mr. Mahesh Kumara

Q In order to reduce delinquencies and to improve portfolio quality. What action/ strategies are implemented in credit point of view?

A To mitigate the inherent risk with unsecured loans, we have implemented necessary new controlling mechanisms and modifying the credit policies from time to time.

eg; Obtain family member as additional guarantor or as joint applicant.

Guarantors with good finical background.

- *Already introducing post evaluation procedures to:*
- *Be aware the financial difficulties may faced by the client*
- *strengthen the recovery actions if & when necessary*
- *Controls on industry exposures also in action.*

e.g. fishery, poultry, tea, agriculture, etc

- *There is a clear authorization structure for the approval of facilities product wise and amount wise.*
- *A separate approval process is in place for rescheduling with a separate credit policy.*
- *High value facilities forwarded to obtain the approval of the Board of Directors.*
- *Regular reviews are carried out to monitor the compliance of business sectors with agreed exposure limits for selected industries and product types.*
- *Reviews of high value facilities and closely monitoring also being carried out by Credit Committee through a separate watch list.*



Mr. Jayantha Weerappullige

Q What is the biggest challenge faced by you from competitions for market development?

A *There is fierce competition in the current market as most of the competitors being flexible in financing client irrespective of their actual requirement. This has affected most of the clients be in arrears and fiscal crisis which directly effects for entire industry. We being a total financial solution provider always adopt strategies prudently and being proactive in developing the market and further more entire marketing force have been trained and developed properly to identify the needs of the clients, clients insight, customer relationship management which has enabled us to be more professional with the clients and gain a competitive advantage.*

2016/2017 වාර්ෂික මූල්‍යමය වාර්තා සාරාංශය

විවිධත්වයෙන් යුතු මූල්‍යමය සේවාවන් රැසක් සමගින් ඒෂියා ඇසෙට් ගයිනෂන්ස් පීවල්සී ශ්‍රී ලංකාවේ මූල්‍යමය ක්ෂේත්‍රය තුළ සුවිශේෂී සමාගමක් වශයෙන් ගනුදෙනුකරුවන් ස්වකීය මෙහෙවර ඉටුකරනු ලබන්නේ කීර්තිමත් ඉතිහාසයක් නිර්මාණය කරගනිමිනි. 2017 මාර්තු මස 31 දිනෙන් අවසන් වූ මූල්‍යමය වර්ෂය සඳහා සමාගමෙහි කාර්යසාධනය පිළිබඳ සංක්ෂිප්ත විස්තරයක් මෙහිදී ඉදිරිපත් කෙරේ.

ශ්‍රී ලංකා මහ බැංකුවේ ලියාපදිංචි බලපත්‍රලාභී මූල්‍ය සමාගමක් වන ඒෂියා ඇසෙට් ගයිනෂන්ස් පීවල්සී කොළඹ කොටස් වෙළඳපලෙහි ලැයිස්තුගත සමාගමකි. මේ වන විට සමාගමෙහි ප්‍රාග්ධනීකරණය රුපියල් බිලියනයකට ආසන්න වේ.

මූල්‍යමය වර්ෂ 2016/2017 තුළ සමාගම රු. මිලියන 278ක ලාභයක් වාර්තා කරන ලද අතර එය පෙර වසරට සාපේක්ෂව 59% ක වර්ධනයකි. සමාගමෙහි මෙම ලාභ වර්ධනය කෙරෙහි ක්ෂුද්‍ර මූල්‍ය ණය ආදායම, සාමූහික පුද්ගල රන් ණය ආදායම සහ පුද්ගල ණය ආදායම යන කරුණු ඉවහල් විය.

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

මූල්‍යමය වර්ෂ 2016/2017 සඳහා සමාගමෙහි ආදායම රු. බිලියන 2 ක් වශයෙන් වාර්තා වූ අතර එය පෙර වසරට සාපේක්ෂව 59.7% ක වර්ධනයකි.

සැලකිල්ලට භාජනය වන කාලපරිච්ඡේදය තුළ සමාගමෙහි ශුද්ධ පොලී ආදායම පෙර වසරෙහි පැවති රු. මිලියන 672 සිට රු. බිලියන 1.1 දක්වා වර්ධනය විය.

පෙර වසරේ වාර්තා වූ රු. මිලියන 256.5 ට සාපේක්ෂව 2016/2017 මූල්‍ය වර්ෂය සඳහා බදු වලට පෙර මෙහෙයුම් ලාභය රු. මිලියන 373.7 වශයෙන් වර්ධනයක් වාර්තා කලේය.

සැලකිල්ලට භාජනය වන කාලපරිච්ඡේදය තුළ සමාගම රු. මිලියන 278 ක බදු වලට පසු ලාභයක් වාර්තා කලේය.

සමාගමෙහි තැන්පතු පදනම ඉහළයාම සහ නව අරමුදල් සම්පාදන මාධ්‍යයන් ඇතුළත් කිරීම හේතුවෙන් සැලකිල්ලට භාජනය වන කාලපරිච්ඡේදය තුළ සමාගමෙහි පොලී වියදම 55.11% කින් ඉහළ ගියේය.

අභ්‍යන්තර හා බාහිර අරමුදල් සම්පාදනය හේතුවෙන් වසර තුළ සමාගමෙහි මුලු වත්කම් රු. බිලියන 10 දක්වා වර්ධනය විය.

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

විවක්ෂණශීලී මූල්‍යමය කළමනාකරණයෙහි ප්‍රතිපලයක් වශයෙන් සමාගම මගින් මූල්‍යමය වර්ෂ 2016/2017 වසර තුළ ගනුදෙනුකරුවන් වෙත ශ්‍රී ලංකා මහ බැංකුවේ මාර්ගෝපදේශ ආකෘතික රාමුව තුළ ඉහළ පොලී අනුපාත පිරිනමන ලදී.

අභියෝගාත්මක මූල්‍යමය වටපිටාවක් තුළ මූල්‍යමය වර්ෂ 2016/2017 සඳහා ඒෂියා ඇසෙට් ගයිනෂන්ස් පීවල්සී ආදායම් වර්ධනය සහ ලාභ වර්ධනය අතින් විශිෂ්ට වර්ධනයක් වාර්තා කිරීමට සමත් විය.

Compound Annual Growth

(Last 10 years)



over **35%**

Towards
**Warp
Speed**
Growth

The compound annual growth rate of profits yoy the last ten years is over 35%. The corollary is that the compound annual growth rate in interest income over the same period is approximately 43%.

Financial Information

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Independent Auditor's Report



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Chartered Accountants
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka

TO THE SHAREHOLDERS OF ASIA ASSET FINANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Asia Asset Finance PLC, which comprise the statement of financial position as at 31st March, 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 128 to 180.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Asia Asset Finance PLC as at 31st March, 2017 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
 - 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,
 - The financial statements of the company, comply with the requirements of section 151 of the Companies Act No.07 of 2007.

BDO Partners

Chartered Accountants

Colombo

05th May 2017

TS/um

Statement of Profit or Loss and other Comprehensive Income

For the Year Ended 31st March, 2017

		2016/2017	2015/2016
	Note	Rs.	Rs.
Interest income	5	2,020,556,957	1,265,001,829
Less: Interest expenses	6	(919,297,655)	(592,688,880)
Net Interest income		1,101,259,302	672,312,949
Net Trading gain/(loss) on held for trading securities		2,326,220	(7,947,048)
Other operating income	7	107,724,399	126,754,722
Less: Operating expenses			
Personnel expenses		(335,295,267)	(249,869,486)
Provision for staff retirement benefits		(4,906,571)	(3,123,711)
General and administration expenses		(270,042,164)	(197,588,640)
Impairment charge for lease rentals receivable, hire purchase, loans and advances	8	(227,348,081)	(83,947,606)
Operating profit before value added tax on financial services		373,717,838	256,591,180
Value added tax on financial services		(57,841,421)	(47,358,658)
Operating profit before income tax	9	315,876,417	209,232,522
Income tax expenses	10	(37,827,608)	(34,014,398)
Profit for the year		278,048,809	175,218,124
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)			
Actuarial gain/(loss) on retirement benefit liability		(2,100,296)	837,345
Deferred tax effect on components of other comprehensive income		(588,083)	(234,457)
Other comprehensive income for the year net of tax		(2,688,379)	602,888
Total comprehensive income for the year		275,360,430	175,821,012
Earnings per share - basic	32	0.33	0.21

Figures in brackets indicate deductions.

The accounting policies and notes on pages 128 to 180 form an integral part of these financial statements.

Colombo
05th May 2017

Statement of Financial Position

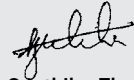
As at 31st March, 2017

	Note	31.03.2017 Rs.	31.03.2016 Rs.
ASSETS			
Cash and cash equivalents	12	601,891,827	690,797,870
Investment in reverse repurchase agreements against treasury bills and bonds	13	433,333,648	328,866,266
Other financial assets	14	-	8,817,330
Financial assets - held for trading	15	50,204,691	48,244,689
Loans and advances	16	6,838,366,400	4,825,421,160
Lease rentals receivable and hire purchase	17	1,424,679,822	1,702,419,253
Real estate inventories		-	34,468,475
Other assets	18	15,626,098	14,958,827
Advances, deposits and prepayments	19	64,760,286	60,178,750
Financial assets - available for sale	20	506,659	506,659
Property, plant and equipment	21	161,931,102	145,026,853
Investment property	22	306,253,164	143,706,564
Deferred tax assets		118,202,709	100,402,344
Intangible assets	23	11,179,033	11,585,662
Total assets		10,026,935,439	8,115,400,702
LIABILITIES			
Due to banks	24	36,031,902	166,925,303
Other liabilities	25	46,791,280	40,410,784
Current tax liabilities	26	30,749,073	28,044,517
Other borrowed funds	27	2,476,518,223	1,609,833,175
Due to customers	28	5,681,178,140	4,796,299,899
Retirement benefit obligation	29	18,774,955	12,355,588
Total liabilities		8,290,043,573	6,653,869,266
EQUITY			
Stated capital	30	1,388,935,273	1,388,935,273
Retained earnings		288,608,924	27,016,515
Statutory reserve fund and other reserves	31	59,347,669	45,579,648
Total equity		1,736,891,866	1,461,531,436
Total equity and liabilities		10,026,935,439	8,115,400,702
Contingent liabilities and commitments	33		
Net assets value per share		2.07	1.74

Figures in brackets indicate deductions.

The accounting policies and notes on pages 128 to 180 form an integral part of these financial statements.

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

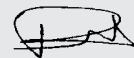


Geethika Elwalage

Assistant General Manager - Finance

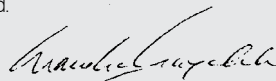
The Board of Directors is responsible for the preparation and presentation of the financial statements.

Approved and Signed for and on behalf of the Board.



R.J.A Gunawardena

Director/Chief Executive Officer



Mr. H.L.L.M. Nanayakkara

Chairman

Colombo

05th May, 2017

TS/um

Statement of Changes in Equity

For the Year Ended 31st March, 2017

	Stated capital Rs.	General reserve Rs.	Statutory reserve fund Rs.	Investment fund reserve Rs.	Retained earnings Rs.	Total Rs.
Balance as at 31st March, 2015	1,388,935,273	3,000,000	33,788,597	-	(140,013,446)	1,285,710,424
Total comprehensive income for the year						
Profit for the year	-	-	-	-	175,218,124	175,218,124
Other comprehensive income (net of tax)	-	-	-	-	602,888	602,888
Total comprehensive income for the year	-	-	-	-	175,821,012	175,821,012
Transaction with equity holders recognized directly in equity						
Transfers to reserves	-	-	8,791,051	-	(8,791,051)	-
Total transactions with equity holders	-	-	8,791,051	-	(8,791,051)	-
Balance as at 31st March, 2016	1,388,935,273	3,000,000	42,579,648	-	27,016,515	1,461,531,436
Total comprehensive income for the year						
Profit for the year	-	-	-	-	278,048,809	278,048,809
Other comprehensive income (net of tax)	-	-	-	-	(2,688,379)	(2,688,379)
Total comprehensive income for the year	-	-	-	-	275,360,430	275,360,430
Transaction with equity holders recognized directly in equity						
Transfers to reserves	-	-	13,768,021	-	(13,768,021)	-
Total transactions with equity holders	-	-	13,768,021	-	(13,768,021)	-
Balance as at 31st March, 2017	1,388,935,273	3,000,000	56,347,669	-	288,608,924	1,736,891,866

Figures in brackets indicate deductions.

The accounting policies and notes on pages 128 to 180 form an integral part of these financial statements.

Colombo
05th May, 2017

Statement of Cash Flow

For the Year Ended 31st March, 2017

		2016/2017	2015/2016
	Note	Rs.	Rs.
Cash flows from operating activities			
Profit before income tax		315,876,417	209,232,522
Adjustments for			
Depreciation and amortization	21 & 23	33,953,124	24,225,092
Impairment of lease hire purchase, loans and advances	8	227,348,081	83,947,606
Early termination of loans, leases and hire purchase		(9,030,429)	-
Write off of assets held for sale		-	71,958
Profit on sale of held for trading securities		(542,266)	(54,379)
Gain/loss on fair valuation of held for trading securities		(1,723,007)	8,001,428
Gains from sale of property, plant and equipment, investment property and real estate inventories		194,150	(18,365,918)
Gain from disposal of vehicle stock		-	(744,665)
Provision for retirement benefit liability	29	4,906,571	3,123,711
Interest expense on other borrowings		263,993,473	98,247,817
Cash generated from operations before working capital changes		834,976,114	407,685,172
(Increase)/decrease in lease rentals receivable and hire purchase		147,505,181	(614,351,617)
(Increase)/decrease in loans and advances		(2,269,746,499)	(1,938,050,520)
(Increase)/decrease in other receivables		(667,273)	9,008,035
(Increase)/decrease in deposits and prepayments		(4,581,536)	(12,917,102)
(Increase)/decrease in financial assets - loans and receivables		-	437,505
Increase in deposits from customers		884,878,241	1,124,119,669
Increase/(decrease) in other liabilities		(6,380,496)	(8,857,055)
Net cash from operating activities before income tax payments		(414,016,268)	(1,032,925,913)
Taxes paid		(45,254,677)	(4,820,000)
Gratuity paid		(587,500)	(315,000)
Net cash used in operating activities		(459,858,445)	(1,038,060,913)
Cash flows from / (used in) investing activities			
Acquisition of property, plant and equipment	20	(55,426,269)	(115,217,843)
Acquisition of intangible assets		(2,200,000)	(2,340,648)
Acquisition of investment property	21	(195,000)	(2,000,000)
Proceeds from sale of investment property		9,500,000	18,494,290
Proceeds from sale of real estate inventories		32,450,000	16,680,000
Proceeds from sale of vehicle inventories		-	47,964,091
Purchases of held for trading securities		(150,000,000)	(128,796)
Proceeds from sales of held for trading securities		159,122,879	13,350,540
Proceeds from sales of property, plant and equipment		10,370,000	38,805,173
Net cash from investing activities		3,621,610	15,606,807

		2016/2017	2015/2016
	Note	Rs.	Rs.
Cash flows from / (used in) financing activities			
Repayment of other borrowed funds	27	(1,239,515,235)	(342,122,895)
Proceeds from other borrowed funds	27	1,842,206,810	1,511,155,419
Net cash generated from financing activities		602,691,575	1,169,032,524
Net increase in cash and cash equivalents			
		146,454,740	146,578,418
Cash and cash equivalents at the beginning of the year	A	852,738,833	706,160,415
Cash and cash equivalents at the end of the year	B	999,193,573	852,738,833
At the beginning of the year			
			Note A
Cash and cash equivalents		690,797,870	446,524,236
Investment in reverse repurchase agreements against treasury bills and bonds		328,866,266	259,698,505
Bank overdraft		(166,925,303)	(62,326)
		852,738,833	706,160,415
At the end of the year			
			Note B
Cash and cash equivalents		601,891,827	690,797,870
Investment in reverse repurchase agreements against treasury bills and bonds		433,333,648	328,866,266
Bank overdraft		(36,031,902)	(166,925,303)
		999,193,573	852,738,833

Figures in brackets indicate deductions.

The accounting policies and notes on pages 128 to 180 form an integral part of these financial statements.

Colombo
05th May, 2017

Significant Accounting Policies

For the Year Ended 31st March, 2017

1. CORPORATE INFORMATION

This section provides general information about Asia Assets Finance PLC.

1.1 General

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

1.2 Principal activities and nature of operations

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

There were no significant changes in the nature of the principal activities of the company during the financial year under review.

1.3 Parent entity and ultimate parent entity

The company's immediate and ultimate parent entity as at 31st March, 2017 is Muthoot Finance Limited which is incorporated in India.

1.4 Number of employees

The staff strength of the company as at 31st March, 2017 is 448 (358 as at 31st March, 2016).

2. BASIS OF PREPERATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

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

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

2.1 Basis of measurement

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

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

2.2 Statement of compliance

The financial statements of the company as at 31st March, 2017 and for the year ended have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

These financial statements include the following components:

- A statement of profit or loss and other comprehensive income providing the information on the financial performance of the company for the year under review.
- A statement of financial position providing the information on the financial position of the company as at the year end.
- A statement of changes in equity depicting all changes in shareholders' equity during the year under review of the company.
- A statement of cash flow providing the information to the users, on the ability of the company to generate cash and cash equivalents and the needs of entity to utilise those cash flow and
- Notes to the financial statements comprising accounting policies and other explanatory information.

2.3 Responsibility for financial statements

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

2.4 Approval of financial statements by the board of directors

The financial statements of Asia Asset Finance PLC for the year ended 31st March, 2017 (including comparatives) were approved and authorized for issue on 05th May, 2017 in accordance with a resolution of the board of directors on 05th May, 2017.

2.5 Presentation of financial statements

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

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

2.6 Comparative information

The accounting policies have been consistently applied by the company with those of the previous financial year in accordance with the Sri Lanka Accounting Standard - LKAS 01 on 'Presentation of Financial Statements'. Comparative information has not been reclassified wherever necessary to comply with the current presentation.

2.7 Functional and presentation currency

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

2.8 Materiality and aggregation

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

2.9 Rounding

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

Significant Accounting Policies

2.10 Significant accounting judgements, estimates and assumptions

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

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

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

2.10.1 Going concern

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

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

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

Lease, hire purchase, loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are

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

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

2.10.3 Impairment of available for sale financial assets

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

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

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

2.10.4 Taxation

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

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

2.10.5 Deferred tax assets

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

2.10.6 Retirement benefit obligation

The cost of the retirement benefit obligation of employees is determined using an actuarial valuation. The actuarial valuation is based on assumptions concerning the rate of interest, rate of salary increase, staff turnover, and retirement age and going concern of the company. Due to the long term nature of such obligation, these estimates are subject to significant uncertainty. Further details are given in note 29 to the financial statements.

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

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

3. GENERAL ACCOUNTING POLICIES**3.1 Foreign currency transactions and balances**

All foreign currency transactions are translated into the functional currency which is Sri Lankan Rupees (Rs.) at the spot exchange rate at the date of the transactions were affected. In this regard, the company's practice is to use the middle rate of exchange ruling at the date of the transaction.

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

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

Significant Accounting Policies

3.2 Financial instruments - initial recognition and subsequent measurement

3.2.1. Date of recognition

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

3.2.2. Classification and initial measurement of financial instruments

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

3.2.3. Classification and subsequent measurement of financial assets

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

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

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

The subsequent measurement of financial assets depends on their classification.

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

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

Financial investments – designated at fair value through profit or loss

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

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

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

3.2.4. Classification and subsequent measurement of financial liabilities

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

- i) Financial liabilities at fair value through profit or loss (FVTPL);
 - Financial liabilities – Held for trading or
 - Financial liabilities – Designated as fair value through profit or loss.
- ii) Financial liabilities at amortized cost.

The subsequent measurement of financial liabilities depends on their classification.

3.2.4.1. Financial liabilities at fair value through profit or loss

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

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

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

3.2.4.2. Financial liabilities at amortised cost

Financial instruments issued by the company that are not designated at fair value through profit or loss, are classified as liabilities under 'due to banks', 'due to customers', and 'Other financial liabilities' as appropriate, where the substance of the contractual arrangement results in the company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares at amortised cost using the EIR method.

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

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

3.2.5. Reclassification of financial instruments

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

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

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. For a financial asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over

Significant Accounting Policies

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 statement of profit or loss.

The company 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 company 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 company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is 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.

3.2.6. Derecognition of financial assets and financial liabilities

3.2.6.1. Financial assets

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

- The rights to receive cash flows from the asset which have expired;
- The company has transferred its rights to receive cash

flows from the assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either;

- The company has transferred substantially all the risks and rewards of the asset; or
- The company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

3.2.6.2. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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 recognized in profit or loss.

3.2.7. Offsetting financial instruments

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

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

3.3. Fair value measurement

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

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

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

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

Level 1 :	Inputs include quoted prices for identical instruments and are the most observable.
Level 2 :	Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves.
Level 3 :	Inputs include data not observable in the market and reflect management judgement about the assumptions market participants would use in pricing the instruments.

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

3.4. Impairment of non-financial assets

The carrying amounts of the company's non-financial assets, other than deferred tax assets are reviewed at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing of an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash – generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators.

Significant Accounting Policies

3.5. Provisions

Provisions are recognized in the statement of financial position when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with the Sri Lanka Accounting Standard – LKAS 37 on 'Provision, Contingent Liabilities and Contingent Assets'. The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

3.6. Fiduciary assets

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

3.7. Standards issued but not yet effective

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

SLFRS 9 - Financial instruments: classification and measurement

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

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

SLFRS 09 will become effective on 01st January, 2018. The impact on the implementation of the above standard has not been quantified yet.

SLFRS 15 - Revenue from contracts with customers

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

SLFRS 15 will become effective on 01st January, 2018. The impact on the implementation of the above standard has not been quantified yet.

SLFRS 16 – Leases

SLFRS 16 eliminates the classification of leases as either operating or finance for lessees

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

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

4. SPECIFIC ACCOUNTING POLICIES

4.1. Income

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

4.1.1. Net interest income

4.1.1.1. Interest income and interest expense

For all financial instruments measured at amortized cost, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net

carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

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

4.1.1.2. Interest on overdue rentals

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

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

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

4.1.3. Other operating income

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

4.1.3.1. Dividend income

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

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

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

4.1.3.3. Other income

Other income is recognized on an accrual basis.

4.2. Personnel expenses

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

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

4.3. General and administration expenses

General and administration expenses are recognized in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the statement of profit or loss in arriving at the profit for the year.

Significant Accounting Policies

Nation Building Tax (NBT) on financial services

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

4.4. Income tax expense

Current tax

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

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

4.5. Earnings Per Share (EPS) - basic

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

4.6. Cash and cash equivalents

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

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

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

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

4.8. Other financial assets

This includes investments in debentures. Other financial assets are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the receivable

amount (including interest income) is recognised in the statement of profit or loss over the period of the assets using effective interest method.

4.9. Financial investments - held for trading

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

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

4.10. Loans and receivables

Lease rentals receivables, Hire Purchase, Loans and Advances

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

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

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

4.10.1. Leasing

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

and the arrangement conveys a right to use the asset.

4.10.2. Company as a lessor

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

4.10.3. Write-off of loans and advances

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

4.10.4. Renegotiated loans

Where possible, the company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that

all criteria are met and that future payments are likely to occur. The loans continue to be subject to any criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

4.10.5. Reversals of impairment

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

4.10.6. Impairment allowance for loans and receivables

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

Significant Accounting Policies

4.10.7. Loans and receivables

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of loan or portfolio of loans has occurred. Impairment allowances are calculated on individual and collective basis. Impairment losses are recorded as charges to the statement of profit or loss. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognized.

4.10.8. Individually assessed loans and receivables

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

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

- For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:
 - company's aggregate exposure to the customer;
 - The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
 - The amount and timing of expected receipts and recoveries;
 - The extent of other creditors' commitments ranking ahead of, or pari-passu with, the company and the likelihood of other creditors continuing to support the company;
 - The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
 - The realisable value of security (or other credit mitigates) and likelihood of successful repossession;
 - The likely deduction of any costs involved in recovery of amounts outstanding;
 - The ability of the borrower to obtain, and make payments in,

the currency of the loan if not denominated in local currency; and

- The likely dividend available on liquidation or bankruptcy;

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

4.10.9. Collectively assessed loans and receivables

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

4.10.10. Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics

for the purpose of calculating an estimated collective loss. This reflects impairment losses that the company has incurred as a result of events occurring before the reporting date, which the company is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the company, those loans are removed from the company and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account;

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

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

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

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

4.10.11. Impairment charges for loans and receivable

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

Loans and advances including rental receivable that have been assessed individually and found not to be impaired and all individually insignificant loans and advances

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

4.11. Real estate inventories

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

4.12. Other assets

The company classify all their other assets as other assets and other non-financial assets. Other assets mainly comprises of advance payments, VAT receivable, and sundry receivables. Advance payments are carried at historical cost.

Significant Accounting Policies

4.13. Income tax

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

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

Economic Service Charge (ESC)

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

4.14. Financial investments-available for sale

Available for sale financial investments include equity and debt securities. Equity investments classified as available for sale are

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

The Company has not designated any loans or receivables as available for sale.

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

Unrealised gains and losses are recognised directly in equity (Other comprehensive income) in the 'Available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss in 'Other operating income'. Where the company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the effective interest rate (EIR).

Dividends earned whilst holding available for sale financial investments are recognised in the statement of profit or loss as 'Other operating income' when the right of the income has been established.

The losses arising from impairment of such investments are recognised in the statement of profit or loss in 'Impairment charges for loans and other losses' and removed from the 'Available for sale reserve'.

4.14.1. Impairment of available for sale financial investments

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

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

4.15. Property, plant and equipment

Basis of recognition

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

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

4.15.1. Basis of measurement

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as

separate items (major components) of property, plant and equipment.

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

4.15.2. Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The cost of day today servicing of property, plant and equipment are charged to the statement of profit or loss as incurred.

4.15.3. Repairs and maintenance

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

4.15.4. De-recognition

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

4.15.5. Depreciation

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

The estimated useful lives are as follows;

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

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commence to depreciate when it is available for use, i.e. when it is in the location

Significant Accounting Policies

and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

4.16. Intangible assets

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

4.16.1. Basis of recognition

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

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

4.16.2. Subsequent expenditure

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

4.16.3. Useful economic lives, amortisation and impairment

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

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

Computer software - 8 years

4.16.4. De-recognition

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

4.17. Investment property

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

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

4.17.1. De-recognition

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

4.17.2. Subsequent transfers to/from investment property

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

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner

occupation or commencement of development with a view to sale.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Company as an owner occupied property becomes an investment property, the company, accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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

4.18. Deferred tax assets

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, the

carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

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

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

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

4.19. Due to bank

Due to banks include bank overdrafts and long term and short term loans obtain from banks. Subsequent to initial recognition, these are measured at their amortised cost

using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the statement of profit or loss. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the EIR amortisation process.

4.20. Other liabilities

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

Value Added Tax (VAT) on Financial Services

Value Added Tax (VAT) on Financial Services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. The base for Value Added Tax computation of Value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rates.

Significant Accounting Policies

4.21. Other borrowed funds

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

4.22. Due to customers

Due to customers include fixed deposits and saving deposits. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the statement of profit or loss. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the EIR amortisation process.

4.23. Retirement benefit obligation

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

4.23.1 Recognition of actuarial gains and losses

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

4.23.2 Funding arrangements

The gratuity liability is not externally funded.

4.23.3 Defined contribution plans -Employees' Provident Fund

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

Defined contribution plans - Employees' Trust Fund

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

4.24. Contingent liabilities and commitments

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

statement of financial position but are disclosed unless its occurrence is remote.

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

4.25. Statement of cash flows

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

4.26. Segment reporting

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

Segment results that are reported to the senior management and board

of directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

4.27. Dividends payable

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

Notes to the Financial Statements

	2016/2017	2015/2016
	Rs.	Rs.
5. INTEREST INCOME		
Interest on leases	293,976,605	243,917,442
Interest on hire purchase	39,716,631	88,494,113
Interest on loans	1,401,006,332	771,002,678
Overdue interest	26,714,068	38,883,339
Interest on treasury bills in reverse repurchase agreements	37,448,251	21,297,513
Interest on bank deposits	45,089,015	32,350,952
Interest on debentures	6,237,909	675,018
Interest on gold loans	170,368,146	67,826,015
Interest on refinancing loan	-	554,759
	2,020,556,957	1,265,001,829

5.1 Notional tax credit on government securities on secondary market transactions

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

Accordingly, the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in the financial statements by the resulting notional tax credit amounts to Rs.3,744,825/- (2015/16 - Rs.2,129,751/-).

	2016/2017	2015/2016
	Rs.	Rs.
6. INTEREST EXPENSES		
Interest on fixed deposits	655,199,103	494,441,063
Interest on other borrowings	264,098,552	98,247,817
	919,297,655	592,688,880
7. OTHER OPERATING INCOME		
Documentation charges and service charges	75,762,455	27,532,689
Gains from disposal of property, plant and equipment, investment property and real estate inventories	1,824,325	18,365,918
Profit on settled contracts	9,030,428	61,556,068
Dividend income	631,147	1,707,000
Operating lease income	3,375,987	3,420,414
Rent income	10,000	226,000
Insurance commission income	5,731,427	4,008,111
Sundry income	10,263,493	7,587,204
Cheque discounting administration income	1,080,963	2,330,687
Money gram income	14,174	20,631
	107,724,399	126,754,722

	2016/2017	2015/2016
	Rs.	Rs.
8. IMPAIRMENT CHARGE FOR LEASE RENTALS RECEIVABLE, HIRE PURCHASE LOANS AND ADVANCES		
Lease rentals receivable and hire purchase	63,229,118	28,613,263
Loans and advances	164,118,963	55,334,343
	227,348,081	83,947,606
9. OPERATING PROFIT BEFORE INCOME TAX		
Stated after charging all expenses including the followings :		
Included in personnel cost,		
Directors' remuneration	21,098,420	25,219,176
Salaries and bonus	140,313,954	101,666,640
Defined contribution plan costs - EPF and ETF	17,858,053	13,448,021
Other staff related expenses	156,024,840	109,535,649
Included in general and administration expenses,		
Depreciation and amortization	34,009,748	24,225,092
Auditors' remuneration - external audit current year	1,320,000	1,210,000
- Non audit	581,145	350,000
Advertising and business promotion	12,278,232	11,117,697
Professional and legal fees	4,508,724	11,558,299
10. INCOME TAX EXPENSES		
The major components of income tax expense for the years ended 31st March are as follows:		
Statement of profit or loss		
Current income tax (note 10.1)		
Current income tax charge	56,155,780	37,078,730
Under/(over) provision of current taxes in respect of prior years	60,276	(742,029)
Deferred tax		
Deferred taxation	(18,388,448)	(2,322,303)
Income tax expense reported in the profit or loss	37,827,608	34,014,398
Statement of other comprehensive income		
Deferred tax		
Deferred taxation reversal/(expense)	588,083	(234,457)
Income tax expenses reported in the other comprehensive income	588,083	(234,457)

Notes to the Financial Statements

10 INCOME TAX EXPENSES (CONTD.)

	2016/2017	2015/2016
	Rs.	Rs.
10.1 Reconciliation of accounting profit and taxable income		
Accounting profit (profit before income tax)	315,876,417	209,232,522
Add : Disallowable expenses	339,936,899	560,912,763
Less : Allowable expenses	(428,214,797)	(588,263,626)
Less : Exempt income	(11,793,644)	(73,681,938)
Add : Adjusted business loss from leasing business	92,743,369	95,529,566
Statutory income	308,548,244	203,729,287
Tax loss brought forward and utilized (35% of statutory income)	(107,991,885)	(71,305,250)
Taxable income	200,556,359	132,424,037
Income tax @ 28%	56,155,780	37,078,730
Effective income tax rate	18%	18%

10.2 Deferred tax assets and liabilities relates to the followings:

	Statement of financial position		Statement of comprehensive income	
	2016/2017	2015/2016	2016/2017	2015/2016
	Rs.	Rs.	Rs.	Rs.
Deferred tax liability				
Lease rental receivable	(25,165,707)	1,858,402	(27,024,109)	(26,787,287)
Property, plant and equipment	22,979,815	17,185,877	5,793,938	7,605,914
	(2,185,892)	19,044,279	(21,230,171)	(19,181,373)
Deferred tax assets				
Retirement benefit obligation	5,256,987	3,459,565	1,797,422	551,983
Tax loss *	46,365,449	91,005,380	(44,639,931)	(13,390,322)
Specific provisions for doubtful debts (LLP)	64,394,381	24,981,678	39,412,703	(3,786,274)
	116,016,817	119,446,623	(3,429,806)	(16,624,613)
Deferred tax reversal			(17,800,365)	(2,556,760)
Net deferred tax asset	118,202,709	100,402,344		

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

* As of 31st March, 2017, the company has a tax loss amounting to Rs.545,229,551/- (2016 - Rs.629,314,206/-) which is available indefinitely for offsetting against future Statutory Income of the company subject to a limit of 35% of Statutory Income in each year of assessment. A deferred tax asset has been recognized upto tax loss of Rs.165,590,889/- (2016 - Rs.325,919,215/-) which has arisen from non finance leasing business. However, deferred tax assets have not been recognized for the tax losses amounting to Rs.328,318,135/- arising from the finance leasing business as at 31st March, 2017.

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

11. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS**11.1 As at 31st March, 2017**

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

	Financial liabilities at amortized cost Rs.	Total Rs.
Liabilities		
Due to customers	5,681,178,140	5,681,178,140
Due to banks	36,031,902	36,031,902
Other borrowed funds	2,476,518,223	2,476,518,223
Total financial liabilities	8,193,728,265	8,193,728,265

11.2 As at 31st March, 2016

	AFS Rs.	FVTPL Rs.	L & R Rs.	Total Rs.
Assets				
Cash and cash equivalents	-	-	690,797,870	690,797,870
Investment in repurchase agreements against treasury bills and bonds	-	-	328,866,266	328,866,266
Other financial assets	-	-	8,817,330	8,817,330
Financial assets - held For trading	-	48,244,689	-	48,244,689
Loans and advances	-	-	4,825,421,160	4,825,421,160
Lease rentals receivable and hire purchase	-	-	1,702,419,253	1,702,419,253
Financial assets - available for sale	506,659	-	-	506,659
Total financial assets	506,659	48,244,689	7,556,321,879	7,605,073,227

Notes to the Financial Statements

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

11.2 As at 31st March, 2016 (Contd.)

	Financial liabilities at amortized cost Rs.	Total Rs.
Liabilities		
Due to customers	4,796,299,899	4,796,299,899
Due to banks	166,925,303	166,925,303
Other borrowed funds	1,609,833,175	1,609,833,175
Total financial liabilities	6,573,058,377	6,573,058,377

AFS Available for sale

FVTPL Fair value through profit or loss

L & R Loan and receivables

	31.03.2017 Rs.	31.03.2016 Rs.
12. CASH AND CASH EQUIVALENTS		
Cash in hand	35,339,439	5,587,187
Cash at banks	566,552,388	685,210,683
	601,891,827	690,797,870
13. INVESTMENT IN REVERSE REPURCHASE AGREEMENTS AGAINST TREASURY BILLS AND BONDS		
Reverse repurchase agreements against treasury bills and bonds	433,333,648	328,866,266
	433,333,648	328,866,266
14. OTHER FINANCIAL ASSETS		
Debentures	-	8,817,330
	-	8,817,330
15. FINANCIAL ASSETS-HELD FOR TRADING		
Quoted equity securities (note 15.1)	204,691	48,244,689
Quoted debenture investments (note 15.2)	50,000,000	-
	50,204,691	48,244,689

	31.03.2017		31.03.2016	
	Number of shares	Market value Rs.	Number of shares	Market value Rs.
15.1 Quoted equity securities				
Bank finance and insurance				
Asia Capital PLC	-	-	116,400	675,120
Commercial Bank of Ceylon PLC (Voting)	702	91,541	48,756	6,118,878
Commercial Bank of Ceylon PLC (Non Voting)	-	-	36,985	4,179,305
Overseas Realty (Ceylon) PLC	-	-	88,609	2,073,451
Chilaw Finance PLC	50	1,060	50	840
National Development Bank PLC	-	-	40,000	6,752,000
Sampath Bank PLC	-	-	61,573	13,915,498
Abans Finance PLC	50	1,205	50	1,910
Alliance Finance Company PLC	666	36,630	50	37,000
Associated Motor Finance Company PLC	50	22,995	50	19,670
Arpico Finance Company PLC	50	8,265	50	9,000
Bimpuh Finance PLC	100	5,930	100	6,230
Colombo Trust Finance PLC	50	500	50	505
Citizens Development Business Finance PLC	50	3,210	50	3,750
Central Finance Company PLC	103	8,879	50	10,500
Central Investments and Finance PLC	50	35	50	25
Commercial Leasing and Finance PLC	50	130	50	190
Commercial Credit and Finance PLC	50	1,980	50	2,125
Softlogic Finance PLC	50	1,550	50	1,915
Nation Lanka Finance PLC	50	50	50	50
Summit Finance PLC	50	1,450	50	930
LB Finance PLC	100	11,840	100	10,610
Lanka Orix Leasing Company PLC	50	110	50	140
Merchant Bank Of Sri Lanka & Finance PLC	50	540	50	510
Multi Finance PLC	50	690	50	570
Peoples Leasing Company PLC	50	780	50	800
People's Merchant Finance PLC	50	695	50	600
Singer Finance Lanka PLC	50	855	50	905
Sinhaputhra Finance PLC	50	575	50	835
Swarnamahal Financial PLC	50	36	50	55
The Finance Company PLC	50	235	50	400
Vallibel Finance PLC	50	2,925	50	2,685
	2,771	204,691	393,723	33,827,002
Diversified holdings				
John Keells Holding PLC	-	-	49,960	7,394,080
Power and energy				
Lanka IOC PLC	-	-	216,111	7,023,607
Total	2,771	204,691	659,794	48,244,689

Notes to the Financial Statements

15. FINANCIAL ASSETS-HELD FOR TRADING (CONTD.)

	31.03.2017		31.03.2016	
	Number of debentures	Market value Rs.	Number of debentures	Market value Rs.
15.2 Quoted debenture investments				
Citizen Development Business Finance PLC	499,990	50,000,000	-	-
	499,990	50,000,000	-	-

	31.03.2017	31.03.2016
	Rs.	Rs.
16. LOANS AND ADVANCES		
Mortgage loans	441,082,523	556,733,047
Pledge loans	357,993,323	329,214,112
Personal and corporate loans	2,302,368,522	1,637,545,052
Consumer loans	-	9,390,414
Group personal loans	994,822,902	827,683,416
Cheque and invoice discounting	66,072,959	60,229,464
Micro finance loans	1,646,640,262	757,648,012
Sale and lease back loans	1,000,001	1,000,001
Project financing loan	118,751,261	92,876,932
Gold loan	1,188,284,906	694,875,023
	7,117,016,659	4,967,195,473
Less: Allowance for impairment losses (note 16.1)	(278,650,259)	(141,774,313)
	6,838,366,400	4,825,421,160
16.1 Impairment allowance for loans and advances to customers		
As at the beginning of the year	141,774,313	86,439,970
Net charge for the year	164,118,963	55,334,343
Write off during the year	(27,243,017)	-
As at the end of the year	278,650,259	141,774,313
Individual impairment	46,650,042	20,604,672
Collective impairment	232,000,217	121,169,641
Total impairment	278,650,259	141,774,313

		31.03.2017	31.03.2016
		Rs.	Rs.
17.	LEASE RENTALS RECEIVABLE AND HIRE PURCHASE		
	Lease rentals receivables (note 17.1)	1,263,638,484	1,317,971,719
	Hire purchases (note 17.2)	161,041,338	384,447,534
		1,424,679,822	1,702,419,253
17.1	Lease rentals receivables		
	Gross rentals receivable	1,712,966,551	1,872,200,246
	Less: Unearned income	(399,920,517)	(465,765,349)
	Allowance for impairment losses 17.3.1	(49,407,550)	(88,463,178)
		1,263,638,484	1,317,971,719
17.2	Hire purchases		
	Gross rentals receivable	246,473,625	556,577,909
	Less: Unearned income	(14,601,724)	(66,527,744)
	Pre-paid rentals	(1,940,335)	(9,653,957)
	Allowance for impairment losses 17.3.2	(68,890,228)	(95,948,674)
		161,041,338	384,447,534
17.3	Allowance for impairment losses		
17.3.1	Lease rentals receivable		
	As at the beginning of the year	88,463,178	69,614,974
	Net charge for the year	31,636,410	18,848,204
	Write off during the year	(70,692,038)	-
	As at the end of the year	49,407,550	88,463,178
	Individual impairment	-	3,173,990
	Collective impairment	49,407,550	85,289,188
	Total allowance for impairment losses	49,407,550	88,463,178
17.3.2	Hire purchase		
	As at the beginning of the year	95,948,674	86,183,615
	Net charge for the year	31,592,708	9,765,059
	Write off during the year	(58,651,154)	-
	As at the end of the year	68,890,228	95,948,674

Notes to the Financial Statements

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

17.3 Allowance for impairment losses (Contd.)

17.3.2 Hire purchase (Contd.)

	31.03.2017	31.03.2016
	Rs.	Rs.
Individual impairment	-	-
Collective impairment	68,890,228	95,948,674
Total allowance for impairment losses	68,890,228	95,948,674
17.4 Age analysis of lease and hire purchase		
17.4.1 Lease and hire purchase receivable not later than 1 year		
Gross rentals receivable	967,402,336	596,606,844
Less: Unearned income	(164,366,015)	(149,591,105)
Pre-paid rentals	(1,940,335)	(6,525,000)
Allowance for impairment losses	(58,405,226)	(139,112,790)
	742,690,760	301,377,949
17.4.2 Lease and hire purchase receivable later than 1 year and not later than 5 years		
Gross rentals receivable	992,037,841	1,832,171,311
Less: Unearned income	(250,156,226)	(382,701,988)
Pre-paid rentals	-	(3,128,957)
Allowance for impairment losses	(59,892,552)	(45,299,062)
	681,989,063	1,401,041,304
18. OTHER ASSETS		
Other receivables	15,626,098	14,958,827
	15,626,098	14,958,827
19. ADVANCES, DEPOSITS AND PREPAYMENTS		
Advances, deposits and prepayments	64,760,286	60,178,750

	31.03.2017		31.03.2016	
	Number of shares	Directors valuation* Rs.	Number of shares	Directors valuation* Rs.
20. FINANCIAL ASSETS - AVAILABLE FOR SALE				
Unquoted cumulative redeemable preference shares				
Platinum Reality Investment Limited	25,000	6,500,000	25,000	6,500,000
Less: Impairment charge	-	(6,500,000)	-	(6,500,000)
	-	-	-	-
Unquoted Ordinary shares				
Siedles T.V. Industries Limited	-	-	2,000	28,000
Pure Beverages Company Limited	-	-	709	43,958
Less : Write off during the year	-	-	-	(71,958)
	-	-	-	-
Finance Houses Consortium Private Limited	45,000	200,000	45,000	200,000
Credit Information Bureau of SL (CRIB)	67	306,659	67	306,659
	45,067	506,659	45,067	506,659

*The Directors' valuation of non quoted securities based on cost of investment less impairment amounts to Rs.506,659/- (2016 - Rs.506,659/-).

21. PROPERTY, PLANT AND EQUIPMENT

21.1 Gross carrying amounts

	Balance as at 01.04.2016 Rs.	Additions Rs.	Disposals/ transfers Rs.	Balance as at 31.03.2017 Rs.
Freehold assets				
Cost				
Plant	25,930,613	-	-	25,930,613
Building	20,160,000	-	-	20,160,000
Motor vehicle	45,093,206	22,115,612	(13,976,260)	53,232,558
Office equipment	74,431,213	20,603,611	(5,896,879)	89,137,945
Computers	23,124,081	9,936,684	(3,950,786)	29,109,979
Furniture and fittings	16,891,757	2,770,362	(361,701)	19,300,418
	205,630,870	55,426,269	(24,185,626)	236,871,513

Notes to the Financial Statements

21. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

21.2 Accumulated depreciation

	Balance as at 01.04.2016 Rs.	Charge for the year Rs.	Disposals/ transfers Rs.	Balance as at 31.03.2017 Rs.
Plant	1,080,442	3,241,327	-	4,321,769
Building	1,470,000	2,520,000	-	3,990,000
Motor vehicle	21,226,987	9,868,923	(8,475,182)	22,620,728
Office equipment	19,661,978	10,598,334	(4,197,022)	26,063,290
Computers	9,826,265	2,837,544	(3,858,694)	8,805,115
Furniture and fittings	7,338,345	2,092,816	(291,652)	9,139,509
	60,604,017	31,158,944	(16,822,550)	74,940,411

	31.03.2017 Rs.	31.03.2016 Rs.
Net Book value		
Plant	21,608,844	24,850,171
Building	16,170,000	18,690,000
Motor vehicle	30,611,830	23,866,219
Office equipment	63,074,655	54,769,235
Computers	20,304,864	13,297,816
Furniture and fittings	10,160,909	9,553,412
	161,931,102	145,026,853

21.3 During the financial year, the company acquired property, plant and equipment to the aggregate value of Rs.55,426,269/- (2016 - Rs.115,217,843/-). Cash payments amounting to Rs.55,426,269/- (2016 - Rs.95,057,843/-) was paid during the year for purchases of property, plant and equipment.

21.4 Property, plant and equipment includes fully depreciated assets having a gross carrying amount of Rs.17,182,385/- (2016 - Rs.19,246,129/-).

21.5 Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31st March, 2017 and 31st March, 2016.

21.6 Title restriction on property, plant and equipment

There were no resolution on the title of property, plant and equipment as at 31st March, 2017 and 31st March, 2016.

21.7 Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities as at 31st March, 2017 and 31st March, 2016.

	31.03.2017	31.03.2016
	Rs.	Rs.
22. INVESTMENT PROPERTY		
Balance at the beginning of the year	143,706,564	80,842,794
Aquisitions during the year	173,282,051	78,612,570
Expenses capitalized during the year	195,000	-
Disposals during the year	(10,930,451)	(15,748,800)
Balance at the end of the year	306,253,164	143,706,564

Fair value of the investment property for the purpose of disclosure in note 22.2 is ascertained by valuations carried out by the independent valuers as required by LKAS 40.

22.1 The amounts recognised to profit or loss on investment property is as follows :		
Direct expenses (including security charges and other utility charges)	616,738	637,100
	616,738	637,100

Location of the land	Valuers name and report date	Total extent	31.03.2017		31.03.2016	
			Fair value Rs.	Cost Rs.	Fair value Rs.	Cost Rs.
Lot 05, Dangahahena Land, Anamaduwa Road, Andigama.	D. Jayawardene (Incorporated Valuer) - valuation report dated 29th March, 2014.	39.04 P (0.09965 Ha)	9,650,000	1,250,000	9,650,000	1,250,000
Delgahawaththa Land, Walpitamulla, Dewalapola, Naiwala, Gampaha.	D. Jayawardene (Incorporated Valuer) - valuation report dated 28th March, 2014.	24.20 P (0.0612 Ha)	1,750,000	695,000	1,750,000	500,000
No 25/20, Kalyani Mawatha, Mabola, Wattala.	D. Jayawardene (Incorporated Valuer) - valuation report dated 29th March, 2014.	0.1R-12.30P	17,800,000	15,453,317	17,800,000	15,453,317
Lot no. 21 at Thumbowila West, Piliyandala.	D. Jayawardene (Incorporated Valuer) - valuation report dated 28th March, 2014.	10.04 P (0.0254 Ha)	3,000,000	1,800,000	3,000,000	1,800,000
Lot no. 01 at Andiambalama, Kimbulapitiya.	D. Jayawardene (Incorporated Valuer) - valuation report dated 29th March, 2014.	14.00 P	5,600,000	3,500,000	4,030,000	3,500,000
Plan no. 377, NavindanKandu, Kaddaikadu Thoppukadu.	V. Selvanayakam AIV (Incorporated Valuer) - valuation report dated 16th May, 2014.	10 Lms	4,000,000	3,160,226	4,000,000	3,160,226
Athurgiriya Land (No861/5 Authrugiriya Road, Hohanadara North, Authrugiriya).	D. Jayawardene (Incorporated Valuer) - valuation report dated 28th May, 2014.	30.80 P (0.0779 Ha)	-	-	20,000,000	9,730,451

Notes to the Financial Statements

22. INVESTMENT PROPERTY (CONTD.)

22.1 The amounts recognised to profit or loss on investment property is as follows : (Contd.)

Location of the land	Valuers name and report date	Total extent	31.03.2017		31.03.2016	
			Fair value Rs.	Cost Rs.	Fair value Rs.	Cost Rs.
Lot 08 Kosgahawatta Land (Pinkellawatta Road, Hirana, Panadura).	D. Jayawardene (Incorporated Valuer) - valuation report dated 03rd March, 2014.	16.70 P (0.0423 Ha)	-	-	1,340,000	1,200,000
Gonapola Land (No358, Horana Colombo Road, Kumbuka Gonapola).	D. Jayawardene (Incorporated Valuer) - valuation report dated 30th March, 2015.	02R-01.10 P (0.2051 Ha)	20,250,000	19,500,000	20,250,000	19,500,000
Manipay Land (No 55 Nachchimar Kovil Road, Manipay).	V. Selvanayakam AIV (Incorporated Valuer) - valuation report dated 08th August, 2014.	10.50 Lms	10,000,000	9,000,000	10,000,000	9,000,000
No.21,14th Lane,I.Jothipala Mawatha,Malabe.	D. Jayawardene (Incorporated Valuer) - valuation report dated 20th Feb 2016.	10.00 P (0.0253 Ha)	14,500,000	12,865,866	13,500,000	12,865,866
Lot 1-46 Plan no;3393 at Tembiligaha Pallegama Gampola.	D. Jayawardene (Incorporated Valuer) - valuation report dated 10th October, 2015.	02A-02R-15 P	17,700,000	14,964,221	17,700,000	14,964,221
Lot No;1 in Plan no;5644 at Lenadora,Dambulla.	D. Jayawardene (Incorporated Valuer) - valuation report dated 12th October, 2015.	01A-02R-02.60 P (0.6122 Ha)	33,000,000	16,644,799	33,000,000	16,644,799
Oslo furnitures Industries (Pvt) Ltd Welagane, Maspotha, Kurunegala.	D. Jayawardene (Incorporated Valuer) - valuation report dated 05th October, 2015.	01R-35.00 P (0.1897 Ha)	59,000,000	34,137,684	59,000,000	34,137,684
Lots No A,B,C,D,E & F in Plan no 4361 at Aramanagolla,Horana.	D. Jayawardene (Incorporated Valuer) - valuation report dated 03rd March, 2016.	02R-15.70 P (0.2420 Ha)	14,800,000	12,180,317	-	-
Sandiyakalikuda & Mundalamakadu of Puttalam Rd,Mundalama.	D. Jayawardene (Incorporated Valuer) - valuation report dated 30th March, 2015.	05A-03R-30 P	33,500,000	32,000,000	-	-
Karukottiheevu,thamputtai 02,Akkaraipattu.	D. Jayawardene (Incorporated Valuer) - valuation report dated 23rd March, 2016.	10A-01R-05P (4.1602 Ha)	107,000,000	95,236,734	-	-
Galapitamillahena Polarambegama Kegalle.	D. Jayawardene (Incorporated Valuer) - valuation report dated 18th September, 2016.	6A-01R-00P (2.52928 Ha)	25,000,000	25,000,000	-	-
No.20, Church Road, Balangoda	D. Jayawardene (Incorporated Valuer) - valuation report dated 17th February, 2015.	15.90P	7,355,760	8,865,000	-	-
			383,905,760	306,253,164	215,020,000	143,706,564

23. INTANGIBLE ASSETS**23.1 Gross carrying amounts**

	Balance as at 01.04.2016 Rs.	Additions Rs.	Disposals/ transfers Rs.	Balance as at 31.03.2017 Rs.
Cost				
Intangible asset	21,019,855	2,444,175	-	23,464,030
	21,019,855	2,444,175	-	23,464,030

23.2 Amortization

	Balance as at 01.04.2016 Rs.	Charge for the year Rs.	Disposals/ transfers Rs.	Balance as at 31.03.2017 Rs.
Intangible asset	9,434,193	2,850,804	-	12,284,997
	9,434,193	2,850,804	-	12,284,997

	31.03.2017 Rs.	31.03.2016 Rs.
Net book value		
Intangible asset	11,179,033	11,585,662
	11,179,033	11,585,662

24. DUE TO BANKS

Due to banks- bank overdrafts	36,031,902	166,925,303
	36,031,902	166,925,303

25. OTHER LIABILITIES

Other payables - related party (25.1)	-	23,595
Accrued expenses and other payables	46,791,280	40,387,189
	46,791,280	40,410,784

25.1 Other payables - related party

Asia Capital PLC	-	23,595
	-	23,595

Notes to the Financial Statements

26. CURRENT TAX LIABILITIES

	31.03.2017	31.03.2016
	Rs.	Rs.
Balance at the beginning of the year	28,044,517	(3,472,184)
Income tax expense for the year	56,155,780	37,078,730
Under/over provision of previous year	60,276	(742,029)
	84,260,573	32,864,517
Income tax paid	(35,776,407)	-
Less: Tax credits		
WHT and notional tax	(8,256,823)	(4,820,000)
ESC paid	(9,478,270)	-
Balance at the end of the year	30,749,073	28,044,517

27. OTHER BORROWED FUNDS

Securitized borrowings	1,602,911,979	1,217,730,712
Bank loans	873,606,244	392,102,463
	2,476,518,223	1,609,833,175

27.1 Securitized borrowings

27.1.1 Securitized borrowings

	As at 01.04.2016 Rs.	Loans obtained Rs.	Interest for the period Rs.	Repayments Rs.	As at 31.03.2017 Rs.
Securitization Loan 01	197,917,444	-	15,717,821	(162,615,387)	51,019,878
Securitization Loan 02	131,296,736	-	5,626,337	(136,923,073)	-
Securitization Loan 03	465,825,597	-	39,732,208	(268,011,735)	237,546,070
Securitization Loan 04	209,604,101	-	16,851,501	(127,000,000)	99,455,602
Securitization Loan 05	213,086,834	-	22,468,218	(124,070,742)	111,484,310
Securitization Loan 06	-	447,289,742	49,807,049	(160,000,000)	337,096,791
Securitization Loan 07	-	200,000,000	18,387,176	(17,489,490)	200,897,686
Securitization Loan 08	-	275,000,000	20,165,374	(69,437,356)	225,728,018
Securitization Loan 09	-	249,860,896	18,173,293	-	268,034,189
Securitization Loan 10	-	70,056,172	1,593,263	-	71,649,435
	1,217,730,712	1,242,206,810	208,522,240	(1,065,547,783)	1,602,911,979

27.1.2 Bank loans

	As at 01.04.2016 Rs.	Loans obtained Rs.	Interest for the period Rs.	Repayments Rs.	As at 31.03.2017 Rs.
Sampath Bank loan 01	192,037,302	-	22,406,297	(72,683,598)	141,760,001
DFCC Vardhana Bank 01	200,065,161	-	24,668,995	(74,734,156)	150,000,000
DFCC Vardhana Bank 02	-	200,000,000	62,184	-	200,062,184
Central Finance Loan 01	-	100,000,000	5,362,032	(19,585,248)	85,776,784
Sampath Bank Loan 02	-	100,000,000	127,068	-	100,127,068
HNB Bank Loan 01	-	200,000,000	2,844,657	(6,964,450)	195,880,207
	392,102,463	600,000,000	55,471,233	(173,967,452)	873,606,244

27.1.3 Loan details

Bank	Approved facility	Purpose	Term of the loan	Security	Security amount Rs.
BOC - Securitization loan 01	Rs.400 Mn	Working capital requirements	37 monthly instalments	Lease and hire purchase receivables	Rs.68 Mn
BOC - Securitization loan 02	Rs.199.8 Mn	Working capital requirements	18 monthly instalments	Fixed deposit pledged loan and micro finance receivables	-
BOC - Securitization loan 03	Rs.500 Mn	Working capital requirements	36 monthly instalments	Vehicle mortgage and group personal loan receivables	Rs.329.8 Mn
BOC - Securitization loan 04	Rs.200 Mn	Working capital requirements	30 monthly instalments	Lease and hire purchase and vehicle mortgage receivables	Rs.134.8 Mn
BOC - Securitization loan 05	Rs.211 Mn	Working capital requirements	18 monthly instalments	Lease and Hire purchase and vehicle mortgage receivables	Rs.147.7 Mn
BOC - Securitization loan 06	Rs.447.2 Mn	Working capital requirements	22 monthly instalments	Micro finance loan and group personal loan receivable	Rs.460 Mn
BOC - Securitization loan 07	Rs.200 Mn	Working capital requirements	36 monthly instalments	Lease and hire purchase receivables	Rs.239 Mn
First Capital Trustee Services- Securitization loan 08	Rs.275 Mn	Working capital requirements	18 monthly instalments	Lease and group personal loan receivables	Rs.311.3 Mn
BOC - Securitization loan 09	Rs.249 Mn	Working Capital Requirements	14 monthly instalments	Micro finance receivables	Rs.364 Mn

Notes to the Financial Statements

27. OTHER BORROWED FUNDS (CONTD.)

27.1.3 Loan details (Contd.)

Bank	Approved facility	Purpose	Term of the loan	Security	Security amount Rs.
BOC - Securitization loan 10	Rs.70 Mn	Working capital requirements	14 monthly instalments	Pledge loans receivables	Rs.106 Mn
Sampath Bank PLC 01	Rs.200 Mn	Working capital requirements	48 monthly instalments	Loan agreement for Rs.200 Mn.	N/A
DFCC Vardhana Bank 01	Rs.200 Mn	Working capital requirements	48 monthly instalments	Promissory note	Rs.200 Mn
DFCC Vardhana Bank 02	Rs.200 Mn	Working capital requirements	48 monthly instalments	Promissory note	Rs.200 Mn
Central Finance loan 01	Rs.100 Mn	Working capital requirements	24 monthly instalments	Lease receivables and promissory note	Lease - Rs. 130 Mn and Promissory note - Rs. 100 Mn
Sampath Bank PLC 02	Rs.100 Mn	Working capital requirements	36 monthly instalments	Loan, lease and hire purchase receivables	Rs.133 Mn
Hatton National Bank PLC 01	Rs.200 Mn	Working capital requirements	36 monthly instalments	Mortgage bond over loan recoverable consist of business loan, corporate loan and mortgage loan	Rs.200 Mn

	31.03.2017	31.03.2016
	Rs.	Rs.
28. DUE TO CUSTOMERS		
Fixed deposits	5,681,178,140	4,796,299,899
	5,681,178,140	4,796,299,899
29. RETIREMENT BENEFIT OBLIGATION		
Retirement benefit obligations - gratuity		
Balance at the beginning of the year	12,355,588	10,384,222
Amount charged for the year	7,006,867	2,286,366
Payments made during the year	(587,500)	(315,000)
Balance at the end of the year	18,774,955	12,355,588

	31.03.2017	31.03.2016
	Rs.	Rs.
29.1 Amount recognized in statement of profit or loss		
Current Service cost for the year	3,311,720	2,085,289
Interest cost for the year	1,594,851	1,038,422
	4,906,571	3,123,711
29.2 Amount recognised in other comprehensive income		
Actuarial gain/loss for the year	2,100,296	(837,345)
	2,100,296	(837,345)

- 29.3** Messrs. Actuarial and Management Consultants (Pvt) Ltd, Actuaries, carried out an actuarial valuation of the retirement benefit obligation for Asia Asset Finance PLC as at 31st March, 2017. The valuation method used by the Actuary to value the liability is the 'Projected Unit Credit Actuarial Cost Method' recommended by LKAS 19. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	31.03.2017	31.03.2016
	Rs.	Rs.
Actuarial assumptions		
Discount rate	13%	13%
Salary increment rate	12%	10%
Staff turnover	15%	15%
Retirement age	55 Years	55 Years
Mortality	67/70 Mortality Table (Institute of Actuaries London)	

29.4 Sensitivity analysis

In order to illustrate the significance of the salary increment rates and discount rates assumed in the valuation, the sensitivity analysis is as follows:

	31.03.2017	31.03.2016
	Rs.	Rs.
Discount rate		
Effect on retirement benefit obligation due to 1% increase	17,933,521	11,763,812
Effect on retirement benefit obligation due to 1% decrease	19,703,155	12,821,037
Salary increment rate		
Effect on retirement benefit obligation due to 1% increase	19,666,032	12,766,595
Effect on retirement benefit obligation due to 1% decrease	17,953,078	11,806,126

Notes to the Financial Statements

		31.03.2017		31.03.2016	
		Number	Rs.	Number	Rs.
30.	STATED CAPITAL				
30.1	Fully paid ordinary shares	839,207,833	1,388,935,273	839,207,833	1,388,935,273
30.1.1	Balance at beginning of the year	839,207,833	1,388,935,273	839,207,833	1,388,935,273
	Balance at end of the year	839,207,833	1,388,935,273	839,207,833	1,388,935,273

30.2 Rights of shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meeting.

All shares rank equally with regard to the company's residual assets.

		31.03.2017	31.03.2016
		Rs.	Rs.
31.	STATUTORY RESERVE FUND OTHER RESERVES		
	Statutory reserve fund	56,347,669	42,579,648
	General reserve	3,000,000	3,000,000
		59,347,669	45,579,648

31.1 Statutory reserve fund

Statutory reserve fund is a capital reserve which contains profits transferred as required by Section 3 (b) (i) of Finance Companies (Capital Funds) Direction No. 1 of 2003.

31.2 General reserve

General Reserve represents the amounts set aside by the directors for general application.

32. EARNINGS PER SHARE

32.1 Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

32.2 The following reflects the income and share data used in the basic earnings per share computation.

	31.03.2017	31.03.2016
	Rs.	Rs.
Amounts used as the numerators:		
Net profit attributable to ordinary shareholders for basic earnings per share	278,048,809	175,218,124

	31.03.2017	31.03.2016
	Number	Number
Number of ordinary shares used as denominators for basic earnings per share		
Weighted average number of ordinary shares in issue	839,207,833	839,207,833
Basic earnings per share	0.33	0.21

33. CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, the company makes various commitments and incurs contingent liabilities. No material losses are anticipated as a result of these transactions.

		31.03.2017	31.03.2016
		Rs.	Rs.
33.1 Commitments			
Promissory note to DFCC Bank PLC Loans	33.1.1	400,000,000	200,000,000
Promissory note to Central Finance Loan	33.1.1	100,000,000	-
Undrawn commitments	33.1.2	5,455,500	10,794,538
		505,455,500	210,794,538

33.1.1 Promissory notes

The related loan balances on issued promissory notes are as follows as at the reporting date.

	Promissory note Value Rs	Loan outstanding as at 31.03.2017 Rs.
Promissory notes to DFCC Bank PLC	400,000,000	350,062,183
Promissory notes to Central Finance	100,000,000	85,776,784
	500,000,000	435,838,967

Notes to the Financial Statements

33. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

33.1 Commitments (Contd.)

33.1.2 Undrawn commitments

Undrawn commitments consists of facilities granted to customers where the company reserves the right to unconditionally cancel or recall the facility at its discretion.

33.2 Contingent liabilities

The company does not have significant contingent liabilities as at the reporting date.

34. ASSETS PLEDGED

The following assets have been pledged as securities for liabilities.

Nature of assets	Nature of liabilities	Carrying amount pledged		Included under
		31.03.2017	31.03.2016	
		Rs.	Rs.	
Lease and hire purchase receivables	BOC - securitization loan 01	51,019,878	197,917,444	Lease rentals receivables and hire purchase
Vehicle mortgaged loans and group personnel loans	BOC - securitization loan 03	237,546,070	465,825,597	Loans and advances
Lease and hire purchase	BOC - securitization loan 04	99,455,602	209,604,101	Lease rentals receivables and hire purchase
Lease, hire purchase and vehicle mortgaged loans	BOC - securitization loan 05	111,484,310	213,086,834	Lease rentals receivables and hire purchase, loans and advances
Micro contracts and group personnel loans	BOC - securitization loan 06	337,096,791	-	Loans and advances
Lease and hire purchase	BOC - securitization loan 07	200,897,686	-	Lease rentals receivables and hire purchase
Loans and group personnel loans receivables	First Capital Trustee Services - securitization loan 08	225,728,018	-	Loans and advances
Micro finance receivables	BOC - securitization loan 09	268,034,189	-	Loans and advances
Pledge loans receivables	BOC - securitization loan 10	71,649,435	-	Loans and advances

35. MATURITY ANALYSIS

An analysis of the total assets employed and total liabilities at the year end, based on the remaining at the reporting date to the respective contractual maturity dates are given below:

	Less than 3 months Rs.	3-12 months Rs.	1-3 years Rs.	Over 3 years Rs.	Total Rs.
Cash and cash equivalents	601,891,827	-	-	-	601,891,827
Investment in reverse repurchase agreements against treasury bills and bonds	433,333,648	-	-	-	433,333,648
Other financial assets	-	-	-	-	-
Financial assets - held for trading	50,204,691	-	-	-	50,204,691
Loans and advances	2,323,765,004	2,624,585,018	1,637,694,396	252,321,982	6,838,366,400
Lease rentals receivable and hire purchase	284,126,308	459,007,985	609,451,561	72,093,968	1,424,679,822
Real estate inventories	-	-	-	-	-
Other assets	15,626,098	-	-	-	15,626,098
Deposits and prepayments	1,704,245	35,328,290	27,727,751	-	64,760,286
Financial assets - available for sale	-	-	-	506,659	506,659
Property, plant and equipment	-	-	-	161,931,102	161,931,102
Investment property	-	-	-	306,253,164	306,253,164
Deferred tax asset	-	-	118,202,709	-	118,202,709
Intangible assets	-	-	-	11,179,033	11,179,033
As at 31.03.2017	3,710,651,821	3,118,921,293	2,393,076,417	804,285,908	10,026,935,439
As at 31.03.2016	3,327,784,927	2,256,210,607	1,910,281,007	622,275,786	8,115,400,702
Liabilities					
Due to banks	36,031,902	-	-	-	36,031,902
Other liabilities	46,791,280	-	-	-	46,791,280
Current tax liabilities	30,749,073	-	-	-	30,749,073
Other borrowed funds	603,922,464	1,137,574,339	685,021,419	50,000,000	2,476,518,223
Due to customers	1,666,234,591	2,771,729,391	956,587,052	286,627,105	5,681,178,140
Retirement benefit obligation	-	-	-	18,774,955	18,774,955
As at 31.03.2017	2,383,729,310	3,909,303,730	1,641,608,471	355,402,060	8,290,043,573
As at 31.03.2016	898,884,037	2,302,591,885	2,062,822,724	1,389,570,622	6,653,869,266
Net amount					
As at 31.03.2017	1,326,922,511	(790,382,437)	751,467,946	448,883,848	1,736,891,866
As at 31.03.2016	2,428,900,890	(46,381,278)	(152,541,717)	(767,294,836)	1,461,531,436

Notes to the Financial Statements

36. CURRENT / NON CURRENT ANALYSIS

	31.03.2017			31.03.2016		
	Within 12 months Rs.	After 12 months Rs.	Total Rs.	Within 12 months Rs.	After 12 months Rs.	Total Rs.
Cash and cash equivalents	601,891,827	-	601,891,827	690,797,870	-	690,797,870
Investment in reverse repurchase agreements against treasury bills and bonds	433,333,648	-	433,333,648	328,866,266	-	328,866,266
Other financial assets	-	-	-	8,817,330	-	8,817,330
Financial assets - held for trading	50,204,691	-	50,204,691	48,244,689	-	48,244,689
Loans and advances	4,948,350,022	1,890,016,378	6,838,366,400	3,153,510,844	1,671,910,316	4,825,421,160
Lease rentals receivable and hire purchase	743,134,293	681,545,529	1,424,679,822	1,293,989,958	408,429,295	1,702,419,253
Real estate inventories	-	-	-	34,468,475	-	34,468,475
Other assets	15,626,098	-	15,626,098	14,958,827	-	14,958,827
Advances, deposits and prepayments	37,032,535	27,727,751	64,760,286	9,189,650	50,989,100	60,178,750
Financial assets - available for sale	-	506,659	506,659	-	506,659	506,659
Property, plant and equipment	-	161,931,102	161,931,102	-	145,026,853	145,026,853
Investment property	-	306,253,164	306,253,164	-	143,706,564	143,706,564
Deferred tax asset	-	118,202,709	118,202,709	-	100,402,344	100,402,344
Intangible assets	-	11,179,033	11,179,033	-	11,585,662	11,585,662
Total assets	6,829,573,114	3,197,362,325	10,026,935,439	5,582,843,909	2,532,556,793	8,115,400,702
Liabilities						
Due to banks	36,031,902	-	36,031,902	166,925,303	-	166,925,303
Other liabilities	46,791,280	-	46,791,280	40,410,784	-	40,410,784
Current tax liabilities	30,749,073	-	30,749,073	28,044,517	-	28,044,517
Other borrowed funds	1,741,496,804	735,021,419	2,476,518,223	146,599,225	1,463,233,950	1,609,833,175
Due to customers	4,437,963,983	1,243,214,157	5,681,178,140	2,819,496,092	1,976,803,807	4,796,299,899
Retirement benefit obligation	-	18,774,955	18,774,955	-	12,355,588	12,355,588
Total liabilities	6,293,033,042	1,997,010,531	8,290,043,573	3,201,475,921	3,452,393,345	6,653,869,266
Net balance	536,540,072	1,200,351,794	1,736,891,866	2,381,367,988	(919,836,552)	1,461,531,436

37. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AND FAIR VALUE HIERARCHY**37.1 Determination of fair value and fair value hierarchy**

As at 31st March, 2017 the company held the following assets carried at fair value on the statement of financial position. The company uses the following hierarchy for determining and disclosing the fair value of those assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

37.1.1 Assets measured at fair value

31.03.2017				
	Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.
Financial assets - held for trading	50,204,691	50,204,691	-	-
Financial assets - available for sale	506,659	-	-	506,659
Total assets at fair value	50,711,350	50,204,691	-	506,659

31.03.2016				
	Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.
Financial assets - held for trading	48,244,689	48,244,689	-	-
Financial assets - available for sale	506,659	-	-	506,659
Total assets at fair value	48,751,348	48,244,689	-	506,659

Notes to the Financial Statements

38. FINANCIAL REPORTING BY SEGMENT

	Finance lease		Hire purchase	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
	Rs.	Rs.	Rs.	Rs.
Interest income	293,976,605	243,917,442	39,716,631	88,494,113
Other income	6,579,036	18,368,400	923,674	5,647,874
Total revenue	300,555,641	262,285,842	40,640,305	94,141,988
Segmental result	52,718,767	48,649,404	7,128,486	17,388,532
Value added tax on financial services				
Profits from operations				
Income tax charge for the year				
Net profit for the year				
Segment assets	1,263,638,484	1,317,971,719	161,041,338	384,447,534
Unallocated assets				
Total assets	1,263,638,484	1,317,971,719	161,041,338	384,447,534
Segment liabilities	1,183,766,108	1,220,997,759	150,862,198	356,160,584
Unallocated liabilities				
Total liabilities	1,183,766,108	1,220,997,759	150,862,198	356,160,584

In determining segment results, expenses have been allocated in proportionately basis on interest income and segment liabilities have been proportionately allocated based on the segment assets.

39. EVENTS OCCURRING AFTER THE REPORTING DATE

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

Loans and advances		Investment		Other		Total	
31.03.2017	31.03.2016	31.03.2017	31.03.2016	31.03.2017	31.03.2016	31.03.2017	31.03.2016
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1,598,088,546	878,266,791	88,775,175	54,323,483	-	-	2,020,556,957	1,265,001,829
92,186,594	70,889,699	3,204,360	(2,277,421)	7,156,955	26,179,122	110,050,619	118,807,674
1,690,275,140	949,156,490	91,979,535	52,046,062	7,156,955	26,179,122	2,130,607,576	1,383,809,503
296,481,614	175,396,670	16,133,611	10,330,059	1,255,361	4,826,515	373,717,838	256,591,180
						57,841,421	47,358,658
						315,876,417	209,232,522
						(37,827,608)	(34,014,398)
						278,048,809	175,218,124
6,838,366,400	4,825,421,160	483,538,339	385,928,285			8,746,584,561	6,913,768,698
				1,280,350,878	1,201,632,004	1,280,350,878	1,201,632,004
6,838,366,400	4,825,421,160	483,538,339	385,928,285	1,280,350,878	1,201,632,004	10,026,935,439	8,115,400,702
6,406,125,233	4,471,442,346	452,974,727	357,532,384	-	-	8,193,728,265	6,406,133,073
				96,315,308	247,736,193	96,315,308	247,736,193
6,406,125,233	4,471,442,346	452,974,727	357,532,384	96,315,308	247,736,193	8,290,043,573	6,653,869,266

Notes to the Financial Statements

40. RELATED PARTY DISCLOSURES

The company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Details of significant related party disclosures are as follows:

40.1 Parent and ultimate controlling party

The ultimate parent of the company as at 31st March, 2017 is Muthoot Finance Limited.

40.2 Transactions with related entities

40.2.1 Muthoot Finance Limited

Relationship - Ultimate parent

	31.03.2017	31.03.2016
	Rs.	Rs.
Transactions during the year		
Expenses incurred for Muthoot Finance Limited	1,384,645	722,597

40.2.2 Asia Capital PLC

Relationship - Ultimate parent till 30th October, 2014

Related entity from 30th October, 2014 with 18% ownership in shares and with one board member appointed from Asia Capital PLC until 07th June, 2016 when all shares were sold.

	31.03.2017	31.03.2016
	Rs.	Rs.
Transactions during the year		
Receipt of operating lease rentals	-	543,456
Income statement items		
Operating lease rental income	-	1,086,912
Items in statement of financial position		
Financial assets - held for trading	-	675,120

40.3 Transactions with key management personnel of the company

The key managerial personnel of the company are the members of its board of directors and the parent company. Following transactions are entered between the company and its key management personnel and their close family members.

	31.03.2017	31.03.2016
	Rs.	Rs.
40.3.1 Key management personnel compensation		
Short term employment benefits paid	25,146,351	25,219,176
40.3.2 Other transactions with key management personnel		
Fixed deposits held	9,210,000	9,326,687
Upliftment of fixed deposits	50,000	3,116,687
Interest expenses	1,179,256	110,141
40.3.3 Share transactions with key management personnel		
Number of ordinary shares held at the year end	24,055,845	38,363,680

41. RISK MANAGEMENT

The management of the company considers the risk management as an important factor behind the recent success of the company. The company has developed a culture within the organization, which shapes influences the risk decisions taken by the management and the employees. The adequacy and the effectiveness of the risk management decisions taken by the company's management will be reviewed regularly through its committees and reported to the "Integrated risk management committee" for reference and guidance. We believe successful risk management will enable the company to be resilient to any unfavourable event caused by internal or external factors.

41.1 Risk management committees**41.1.1 Assets and liability committee (ALCO)**

ALCO is chaired by the chief executive officer and its representatives are, the chief operating officer, general manager, the assistant general manager finance, the senior manager treasury and assistant manager - analyst. The committee meeting is held once a month to monitor and manage the assets and liabilities of the company and also overall liquidity position to keep the company's liquidity at healthy levels whilst satisfying regulatory requirements.

Notes to the Financial Statements

41. RISK MANAGEMENT (CONTD.)

41.1 Risk management committees (Contd.)

41.1.2 Integrated risk management committee (IRM)

The IRM committee, which has the responsibility to monitor the overall risk process within the company. The IRM committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The IRM committee is responsible for managing risk decisions and monitoring risk levels and reports on a periodical basis to the board.

41.2 Credit risk

Credit risk is the likelihood that a borrower or counterparty will not honor its obligations in accordance with the terms of agreement, i.e. the risk of default which is one of the most vulnerable risks faced by any financial institution. Credit risk is inherent to all financial institutions where the main business is lending. The main aim of the "credit risk management" is to minimize the risk and to maximize the risk-adjusted rate of return of the financial institution.

41.2.1 Impairment assessment

For accounting purposes, the company uses a collective and individual model for the recognition of losses on impaired financial assets.

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant lease, hire purchase and loan on an individual basis, including any overdue payments of interests or credit rating downgrades. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date.

Collectively assessed allowances

Allowances are assessed collectively for losses on leases, hire purchase and loan and for held to maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The company generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, the company would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The company may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, loan to collateral ratios) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by management to ensure alignment with the company's overall policy.

41.2.2 Company's approach to credit risk

The company caters to mainly the small and medium corporate sector and to the retail sector. Therefore, company has adopted a process where the credit evaluation is not restricted to its financials but also on qualitative factors, giving company the opportunity to evaluate customer's operations, product feasibility, management structure etc.

In order to mitigate the risk of exposing in to high risk sectors, company has imposed sector restrictions and exposure ceilings. Effective management of portfolio ensures that company avoids the risk of concentration of exposures. Further, company is continuously conducting environment analysis and periodic reviews to monitor credit exposures, portfolio performance and to identify emerging credit risks.

The recoveries department consistently monitors portfolio delinquency and the collections. A monthly report is submitted to the chief executive officer on the performance of individual marketer.

The credit policy of the company recommends an innovative approach in evaluating a borrower without hindering the credit quality. The company has introduced exposure ceilings, delegated authority levels for credit approval internal risk rating model and risk based pricing through the credit policy.

Notes to the Financial Statements

41. RISK MANAGEMENT (CONTD.)

41.2 Credit risk (Contd.)

41.2.3 Credit quality by class of financial assets

	Neither past due nor impaired Rs.	Past due and impaired Rs.	Individually impaired Rs.	31.03.2017 Total Rs.
Cash and cash equivalents	601,891,827	-	-	601,891,827
Investment in reverse repurchase agreements against treasury bills and bonds	433,333,648	-	-	433,333,648
Financial assets - held for trading	50,204,691	-	-	50,204,691
	1,085,430,166	-	-	1,085,430,166
Loans and advances				
Gross loans and advances	6,638,506,327	359,654,072	118,856,261	7,117,016,659
Less : Impairment charge	(99,808,896)	(133,677,595)	(44,460,709)	(278,650,259)
	6,538,697,431	225,976,477	74,395,552	6,838,366,400
Lease rentals receivable and hire purchase				
Gross lease rentals receivable and hire purchase	1,344,324,716	198,652,885	-	1,542,977,600
Less : Impairment charge	(27,079,229)	(91,218,549)	-	(118,297,777)
	1,317,245,487	107,434,336	-	1,424,679,823
Financial assets - available for sale				
Financial assets - available for sale	506,659	-	-	506,659
Less : Impairment charge	-	-	-	-
	506,659	-	-	506,659

Note : Neither past due not impaired lease rental receivables, hire purchase and loans include any facility that is not in arrears as at the reporting date and assessed for impairment on a collective basis. Past due but not impaired lease rental receivable, hire purchase and loans include any facility that is in arrears for more than one day and assessed for impairment on a collective basis.

41.2.4 Concentration of credit risk

The company's concentration of risk in relation to the lending portfolio is managed by the industry sector which is detailed below:

	31.03.2017	31.03.2016
	Rs.	Rs.
Textile and wearing apparel	24,843,447	47,967,783
Manufacturing	788,545,891	657,645,537
Metals, chemicals and engineering	27,947,962	74,766,304
Transport	176,980,583	404,592,289
Services	1,264,958,918	1,127,798,640
Agro-business and fisheries	253,019,642	330,697,191
Construction	218,443,879	199,668,484
Commercial trading	500,720,696	190,906,485
Others	5,404,533,241	3,819,983,865
Total lending portfolio	8,659,994,259	6,854,026,578
Total receivable		
Loans and advances	7,117,016,659	4,967,195,473
Lease	1,313,046,034	1,406,434,897
Hire purchase	229,931,566	480,396,208
	8,659,994,259	6,854,026,578

41.3 Market risk

Market risk is identified by the company as the possibility of loss to the company caused by changes in the market variables. Market risk mainly includes interest rate risk, liquidity risk, foreign exchange risk and country risk.

41.3.1 Interest rate risk

Interest rate risk is the potential negative impact on the net interest income based on rate fluctuations and impact to the profitability of the company. The company does not have variable interest rates and all facilities granted are on fixed interest rates.

When all borrowings and lending are done on fixed rates the net interest margin is affected due to the following reasons,

Maturity mismatch/GAP

One of the major concerns in financial business is the maturity mismatch, where the average loan period is over 2 years whilst the average deposit period is less than one year. Hence, where the interests are on an increasing trend the company's net interest margin will reduce.

Please refer note 35 to the financial statements for the maturity analysis.

Notes to the Financial Statements

41. RISK MANAGEMENT (CONTD.)

41.3 Market risk (Contd.)

Re-Investment risk

These are uncertainties with regard to interest rate at which the future cash flows could be re-invested. On an increasing trend, this would be beneficial for Asia Asset Finance PLC.

Net interest position

When the market rates are on a downward trend and the company earning assets are higher than its liabilities, the risk of net interest position falling is high.

Liquidity risk

Liquidity is the ability to efficiently accommodate deposit as also reduction in liabilities and to fund the loan growth and possible funding of the off-balance sheet claims liquidity risk arises through maturity mismatch of loans and deposits.

Foreign exchange (FOREX) and country risk

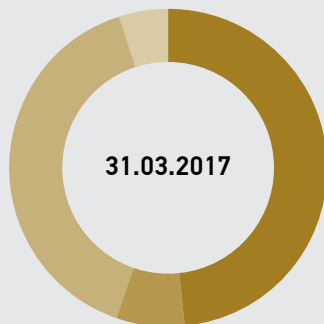
FOREX is the risk that finance companies may suffer loss as a result of adverse exchange rate movements. Country risk is the risk that arises due to cross border transactions. Asia Asset Finance PLC does not have any foreign borrowings or foreign transactions overseas except for Oracle financials licensing fee, which does not consists a substantial impact on the company to conduct in-depth analysis. However, there is a slight impact when budgeting for this cost. The above risks are triggered by the treasury operations.

Value Addition

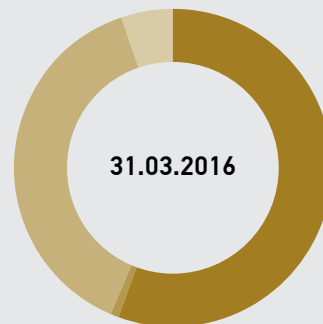
	2016/2017	2015/2016	%	2014/2015	%
Income	2,020,556,957.00	1,265,001,829		850,447,095	
Other Income	110,050,619.00	118,807,674		97,511,679	
Cost of borrowing and services	(1,150,591,381.00)	(794,643,938.00)		(602,435,168.00)	
Provisions	(227,348,081.00)	(83,947,606.00)		(24,748,372.00)	
Value Added Tax	(57,841,421.00)	(47,358,658.00)		(21,284,545.00)	
	694,826,693	457,859,301		299,490,689	

	As at 31.03.2017		As at 31.03.2016			
Distribution Value Added						
To employees						
Remuneration and other benefits	340,201,838.00	49	252,993,197	55	180,868,301	60
To Government						
Taxes	45,254,677.00	7	4,820,000	1	2,332,478	1
To Expansion and Growth						
Retained Profit	275,360,430.00	40	175,821,012	38	100,429,981	34
Depreciation and Amortization	34,009,748.00	5	24,225,092	5	15,859,929	5
	694,826,693	100.0	457,859,301	100	299,490,689	100

Value Added as at 31.03.2017



Value Added as at 31.03.2016



- Remuneration and other benefits
- Taxes
- Retained Profit
- Depreciation and Amortization

Ten Year Summary

Income Statement

Year ended 31 March	2008	2009	2010	2011
	Rs.	Rs.	Rs.	Rs.
Income	162,624,899	219,513,548	188,651,062	327,593,843
Interest Income	136,284,393	190,844,876	137,860,664	206,628,351
Interest Expenses	(120,555,044)	(203,910,764)	(186,250,897)	(147,370,897)
Net Interest Income	15,729,349	(13,065,888)	(48,390,233)	59,257,454
Net Trading Loss on Equity Securities	(5,451,560)	(14,058,572)	-	-
Other Income	26,340,506	28,668,672	50,790,398	120,965,492
Net Operating Income	36,618,295	1,544,212	2,400,165	180,222,946
Less: Operating Expenses				
Personnel Costs	(14,858,868)	(25,012,211)	(25,318,637)	(32,329,757)
Provision for Staff Retirement Benefits Cost	(360,000)	(606,875)	(428,750)	(981,375)
Other General & Administrative Expenses	(42,563,971)	(52,540,336)	(48,188,614)	(77,453,688)
Reversal / (Provision) of Losses on Loans and Advances	(28,647,135)	(98,958,943)	(12,500,099)	(2,826,184)
Net Profit / (Loss) Before Income Tax Expenses	(49,811,679)	(175,574,153)	(84,035,935)	66,631,942
Income Tax (Charge)/Reversal		-	-	5,363,331
Net Profit / (Loss) after Taxation	(49,811,679)	(175,574,153)	(84,035,935)	71,995,273
Actuarial Loss on Retirement Benefit Liability				
Income Tax on Other Comprehensive Income				
Other Comprehensive Income for the Year Net of Tax	-	-	-	-
Total comprehensive Income for the Year	(49,811,679)	(175,574,153)	(84,035,935)	71,995,273
Earnings per Share	(2.55)	(8.99)	(1.58)	0.28

Figures in brackets indicate deductions

2012	2013	2014	2015	2016	2017
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
435,341,934	626,800,329	768,716,521	923,347,861	1,383,809,503	2,130,607,576
378,483,748	589,316,038	732,367,042	850,447,095	1,265,001,829	2,020,556,957
(207,019,231)	(336,876,108)	(437,557,304)	(480,997,160)	(592,688,880)	(919,297,655)
171,464,517	252,439,930	294,809,738	369,449,935	672,312,949	1,101,259,302
(24,957,371)	(2,679,882)	5,684,335	24,610,913	(7,947,048)	2,326,220
56,858,186	37,484,291	36,349,479	72,900,766	126,754,722	107,724,399
203,365,332	287,244,339	336,843,552	466,961,614	791,120,623	1,211,309,921
(76,401,233)	(118,289,225)	(123,044,068)	(178,237,431)	(249,869,486)	(335,295,267)
(489,287)	(1,516,681)	(1,947,985)	(2,630,870)	(3,123,711)	(4,906,571)
(88,292,343)	(96,156,535)	(138,765,746)	(158,582,482)	(244,947,298)	(327,883,585)
(21,624,545)	(25,973,097)	(29,886,795)	(24,748,372)	(83,947,606)	(227,348,081)
16,557,924	45,308,801	43,198,958	102,762,459	209,232,522	315,876,417
31,428,577	16,382,992	3,318,687	(1,576,656)	(34,014,398)	(37,827,608)
47,986,501	61,691,793	46,517,645	101,185,803	175,218,124	278,048,809
	(41,739)	(196,156)	(1,049,754)	837,345	(2,100,296)
	11,687	54,924	293,931	(234,457)	(588,083)
-	(30,052)	(141,232)	(755,823)	602,888	(2,688,379)
47,986,501	61,661,741	46,376,413	100,429,980	175,821,012	275,360,430
0.10	0.11	0.08	0.15	0.21	0.33

Ten Year Summary

Balance Sheet

Year ended 31 March	31.03.2008	31.03.2009	31.03.2010	31.03.2011
	Rs.	Rs.	Rs.	Rs.
ASSETS				
Cash & Cash Equivalents	10,454,901	12,445,218	130,989,399	31,979,594
Investment in Reverse Repurchase Agreements against Treasury Bills	36,024,690	23,398,661	139,298,185	94,592,860
Other Financial Assets	106,465,836	78,042,308	-	40,863,010
Financial Asset -Held for Trading			38,972,796	56,210,473
Loans & Advances Including Lease Rentals Receivables and Hirepurchase	708,388,115	738,765,295	648,266,160	1,153,795,633
Financial Asset-Available for Sale			-	7,949,894
Vehicle Stock		-	8,670,650	33,118,250
Real Estate Inventories			-	-
Other Debtors ,Deposits & Prepayments	26,279,598	74,108,599	59,963,734	84,428,291
Income Tax Receivable			-	9,175,825
Property, Plant, Equipment & Intangible Assets	6,808,772	9,563,490	9,818,532	28,264,509
Investment Property	12,730,504	12,023,254	27,039,000	32,934,517
Deffered Tax Asset			-	13,887,934
	907,152,416	948,346,825	1,063,018,456	1,587,200,790
LIABILITIES & EQUITY				
Liabilities				
Customer Deposits	786,896,173	999,860,605	1,032,293,705	1,351,662,050
Bank Overdraft	14,240	11,104,498	-	-
Borrowings	14,617,800	13,442,800	-	-
Creditors & Accruals	64,148,625	67,567,009	48,425,024	15,424,726
Retirement Benefits Obligation	1,364,250	1,849,625	1,813,375	2,754,750
	867,041,088	1,093,824,537	1,082,532,104	1,369,841,526
Shareholders' Funds				
Stated Capital	195,342,860	195,342,860	395,342,860	580,538,748
Reserves	(155,231,532)	(330,820,572)	(414,856,508)	(363,179,484)
Total Equity	40,111,328	(135,477,712)	(19,513,648)	217,359,264
Total Equity and Liability	907,152,416	958,346,825	1,063,018,456	1,587,200,790
Contingent Liabilities and commitments				
Net Asset per Share	2.05	(6.94)	(0.37)	0.54

Figures in brackets indicate deductions

Certification

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

31.03.2012	31.03.2013	31.03.2014	31.03.2015	31.03.2016	31.03.2017
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
66,804,910	193,568,463	229,616,166	446,524,236	690,797,870	601,891,827
88,255,490	129,938,359	184,467,915	259,698,505	328,866,266	433,333,648
204,666,796	242,652,390	112,059,685	9,254,835	8,817,330	-
23,323,863	6,775,855	81,008,250	69,263,955	48,244,689	50,204,691
2,002,530,734	2,501,348,943	2,994,869,411	4,137,897,770	6,527,840,413	8,263,046,222
7,771,958	578,617	578,617	578,617	506,659	506,659
22,935,143	8,755,453	8,928,571	46,797,426	-	
-	-	-	41,698,793	34,468,475	
108,035,936	92,641,825	84,251,334	71,228,510	75,137,577	80,386,384
6,759,699	6,252,769	3,870,578	3,472,184	-	
50,676,540	57,152,755	53,733,373	79,304,388	156,612,515	173110135
42,934,517	32,934,517	98,352,117	80,842,794	143,706,564	306,253,164
53,786,050	77,714,479	88,626,969	97,845,584	100,402,344	118,202,709
2,678,481,636	3,350,314,425	3,940,362,986	5,344,407,597	8,115,400,702	10,026,935,439
1,921,449,893	2,591,165,554	3,033,741,505	3,672,180,230	4,796,299,899	5,681,178,140
20,231,345	1,950	78,787,246	62,326	166,925,303	36,031,902
76,551,117	48,544,214	64,106,983	344,516,666	1,609,833,175	2,476,518,223
27,067,942	14,201,207	15,548,199	31,553,729	68,455,301	77,540,353
3,244,037	4,802,457	6,703,598	10,384,222	12,355,588	18,774,955
2,048,544,334	2,658,715,382	3,198,887,531	4,058,697,173	6,653,869,266	8,290,043,573
945,130,285	945,130,285	945,130,285	1,388,935,273	1,388,935,273	1,388,935,273
(315,192,983)	(253,531,242)	(203,654,830)	(103,224,849)	72,596,163	347,956,593
629,937,302	691,599,043	741,475,455	1,285,710,424	1,461,531,436	1,736,891,866
2,678,481,636	3,350,314,425	3,940,362,986	5,344,407,597	8,115,400,702	10,026,935,439
1.13	1.24	1.33	1.53	1.74	2.07

Notice of the 06th Annual General Meeting

OF ASIA ASSET FINANCE PLC FOR THE YEAR ENDED 31ST MARCH 2016/2017

NOTICE IS HEREBY GIVEN that the 6th Annual General Meeting of Asia Asset Finance PLC will be held on 31st August 2017 at 10.00 am at The Club House, 324, Havelock city, Colombo 06.

AGENDA

1. To receive and consider the Report of the Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st March 2017 and the report of the auditors thereon.
2. Mr. R.A.T.P. Perera retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself for re-election in terms of Article 88 of the Articles of Association.
3. Mr. G. Alexander retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers herself for re-election in terms of Article 88 of the Articles of Association.
4. Mr. K.R. Bijimon retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers herself for re-election in terms of Article 88 of the Articles of Association.
5. To re-appoint BDO Partners Chartered Accountants as the Auditors to the Company for the ensuing year and to authorize the Directors to determine their remuneration.

BY ORDER OF THE BOARD



Director/Secretaries

Colombo, 27th July 2017.

Notes:

*A member is entitled to appoint a proxy to attend and vote at this meeting on his/he behalf.

*A proxy need not be a member of the Company.

*A member wishing to vote by proxy may use the Form of Proxy enclosed

*To be valid the completed Form of proxy must be lodged at the Registered Office No. 76/1, Dharmapala Mawatha, Colombo 03, Sri Lanka not less than 48 hours before the time appointed for the holding of the meeting.

*Members/Proxy holders are kindly requested to bring along with them their National Identity Card or a similar form of accepted identity when attending the meeting.

Form of Proxy

I/We of being a Member/
 Member* of the above named Company, hereby appoint of
 failing him/her.

- | | | | |
|------------------------------|----------------|----------------------------|----------------|
| (1) Mr. H.L.L.M. Nanayakkara | or failing him | (6) Mr. G. Alexander | or failing him |
| (2) Mr. R.J.A. Gunawardena | or failing him | (7) Mr. K.R. Bijimon | or failing him |
| (3) Mrs. D. P. Pieris | or failing her | (8) Mr. K. G. K. Pillai | or failing him |
| (4) Mr. C. Ramachandra | or failing him | (9) Mr. R. A. B. Basnayake | |
| (5) Mr. R.A.T.P. Perera | or failing him | | |

as my/our* proxy to represent me/ us* and speak and vote for me/us* on my/our* behalf at the 6th Annual General Meeting of the Company to be held on the 31st August 2017 at 10.00 am at The Club House 324, Havelock City, Colombo 06 and at any poll which may be taken in consequence thereof at the aforesaid meeting, and at any adjournment thereof.

I/WE INDICATE MY/OUR VOTE ON THE RESOLUTIONS BELOW AS FOLLOWS;

	For	Against
1. To receive and consider the Report of the Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st March 2017 and the report of the auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Mr. R.A.T.P. Perera retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself for re-election in terms of Article 88 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
3. Mr. G. Alexander retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers herself for re-election in terms of Article 88 of the Articles of Association	<input type="checkbox"/>	<input type="checkbox"/>
4. Mr. K.R. Bijimon retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers herself for re-election in terms of Article 88 of the Articles of Association	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint BDO Partners Chartered Accountants as the Auditors to the Company for the ensuing year and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of 2017

.....
 Signature of shareholder

.....
 N.I.C.No

- Note:**
1. A proxy need not be a member of the company.
 2. Instruction as to completion appear overleaf

Form of Proxy

Instructions as to completion

1. Kindly perfect the Form of Proxy by filing in legibly your full name, National Identity Card/ Passport/ Company Registration Number, your address and your instructions as to voting and by signing in the space provided and filing in the date of signature. Please ensure that all details are legible.
2. Please mark "X" in appropriate cages, to indicate your instructions as to voting on each resolution. If no indication is given, the Proxy holder in his/her discretion will vote as he/her thinks fit.
3. To be valid, the completed Form of Proxy must be deposited at the Registered Office of the Company, No. 76/1, Dharmapala Mawatha, Colombo 03 not less than 48 hours before the time appointed for the holding of the meeting.
4. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy, please insert the relevant details (1) overleaf and initial against this entry.
5. In the case of a Company/Corporation, the Proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by Articles of Association/ Act of Incorporation.
6. In the case of a Proxy signed by an Attorney, a certified copy of the Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

Corporate Information

Name of the Company

Asia Asset Finance PLC

Legal Form

Incorporated as a Private Limited Liability Company under the Companies ordinance, no 51 of 1938 (Cap 145) on 23 September 1970 and name changed under the Companies ordinance, no 51 of 1938 (Cap 145) on 03 October 2006 and Re-registered under the companies Act No.07 of 2007 on 23 January 2008 and converted to a public company under the companies Act No.07 of 2007 on 20 March 2012.

Registration Number (Under the Companies Act No.17 of 1982)

PVS/PBS 3266

New Registration Number (Under the Companies Act No.7 of 2007)

PB 139 PQ

Registered Office

No.76/1, Dharmapala Mawatha, Colombo 03.

Telephone

011 5 66 99 22

Fax

011 2 57 74 77

E-mail

info@asiaassetfinance.lk

Website

<http://www.asiaassetfinance.lk/>

Board of Directors of the Company

Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara
Mr. Rajiv James Abeywickrema Gunawardena
Mr. Chandrakumar Ramachandra
Ms. Dayangani Priyanthi Pieris
Mr. Ranasinghe Arachchige Thusitha Priyantha Perera
Mr. George Muthoot Alexander
Mr. Kuttikattu Rajappan Bijimon
Mr. Kiran Gopala Krishna Pillai
Mr. Rajitha Ananda Bandara Basnayake

Company Secretary

P. R. Secretarial Services (Pvt) Ltd
59 Gregory Road, Colombo 07.

Lawyers of the Company

Shiranthi Gunawardena Associates
No.22/1, Elliot Place, Colombo 08.

Company Auditors - External

BDO Partners
65/2, Sir Chittapalam A Gardiner Mawatha,
Colombo 02.

Bankers of the Company

Bank of Ceylon
Commercial Bank of Ceylon PLC
DFCC Vardhana Bank PLC
Hatton National Bank PLC
Pan Asia Banking Corporation
PLC People's Bank
Sampath Bank PLC
National Development Bank PLC
Seylan Bank PLC
Indian Bank

Audit Committee

Mr. Ranasinghe Arachchige Thusitha Priyantha Perera
Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara
Mr. Chandrakumar Ramachandra
Mr. Kuttikattu Rajappan Bijimon
Mr. Rajitha Ananda Bandara Basnayake

Integrated Risk Management Committee

Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara
Mr. Chandrakumar Ramachandra
Mr. Rajiv James Abeywickrema Gunawardena
Mr. Ranasinghe Arachchige Thusitha Priyantha Perera
Mr. Roshan De Silva Gunasekara (Chief Operating Officer)

Remuneration Committee

Mr. Chandrakumar Ramachandra
Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara
Mr. Ranasinghe Arachchige Thusitha Priyantha Perera
Mr. George Muthoot Alexander
Mr. Rajitha Ananda Bandara Basnayake

Related Party Transactions Review Committee

Mr. Chandrakumar Ramachandra
Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara
Ms. Dayangani Priyanthi Pieris
Mr. Kuttikattu Rajappan Bijimon

IT committee

Mr. Rajitha Ananda Bandara Basnayake
Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara
Mr. Chandrakumar Ramachandra
Ms. Dayangani Priyanthi Pieris



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A Muthoot Group Company



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