

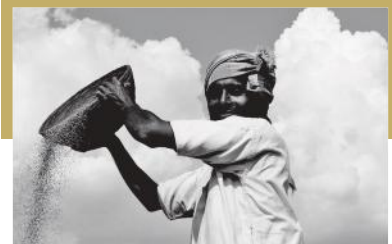
MEETING *the* REAL NEEDS





MEETING *the* REAL NEEDS

Asia Asset Finance PLC has conquered un-chartered territories with a varied product mix. This is truly unique to a local finance company. Our diversity in terms of product variations coupled with our unique expertise makes us stand out in the market. We do not rest on our laurels as we strive further to create the difference with product innovations. Thereby, we can be truly defined as different in the financial landscape of the country.



Contents



“ The net profits of the Company increased 73% over that of the preceding year. The increase in the top line growth YOY is over 31%. In fact the compounded annual growth rate in gross profitability over the last nine years is approximately 33%”

08 | Chairman’s Message

03 | Goal, Vision & Mission

04 | Corporate Structure

06 | Financial Highlights

08 | Group Managing Director’s Message

10 | Chairman’s Message

16 | Chief Executive Officer’s Message

22 | Board of Directors

28 | Senior Management

33 | Consultants

Management Discussion and Analysis

36 | Operational Review

41 | Financial Review

42 | Credit Review

43 | Human Resources Review

45 | IT Review

46 | Corporate Social Responsibility

48 | Corporate Governance

96 | Risk Management Review

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

106 | Responsibility of the Directors of the Company

107 | Directors Statement on Internal Control Over Financial Reporting

108 | Remuneration Committee Report

109 | Audit Committee Report

110 | Related Party Transaction Review Committee Report

111 | Compliance Report

112 | Questions & Answers

113 | Sinhalese Article

Financial Information

116 | Independent Auditor’s Report

117 | Statement of Profit or Loss and other Comprehensive Income

118 | Statement of Financial Position

119 | Statement of Changes In Equity

120 | Statement of Cash Flows

122 | Notes to the Financial Statements

171 | Value Addition

174 | Ten Year Summary

178 | Notice of Annual General Meeting

179 | Form of Proxy

Goal, Vision & Mission

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

Vision “Empowering people transforming lives.”

Mission

Towards the Customers

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

Towards the Shareholders

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

Towards our Family of Employees

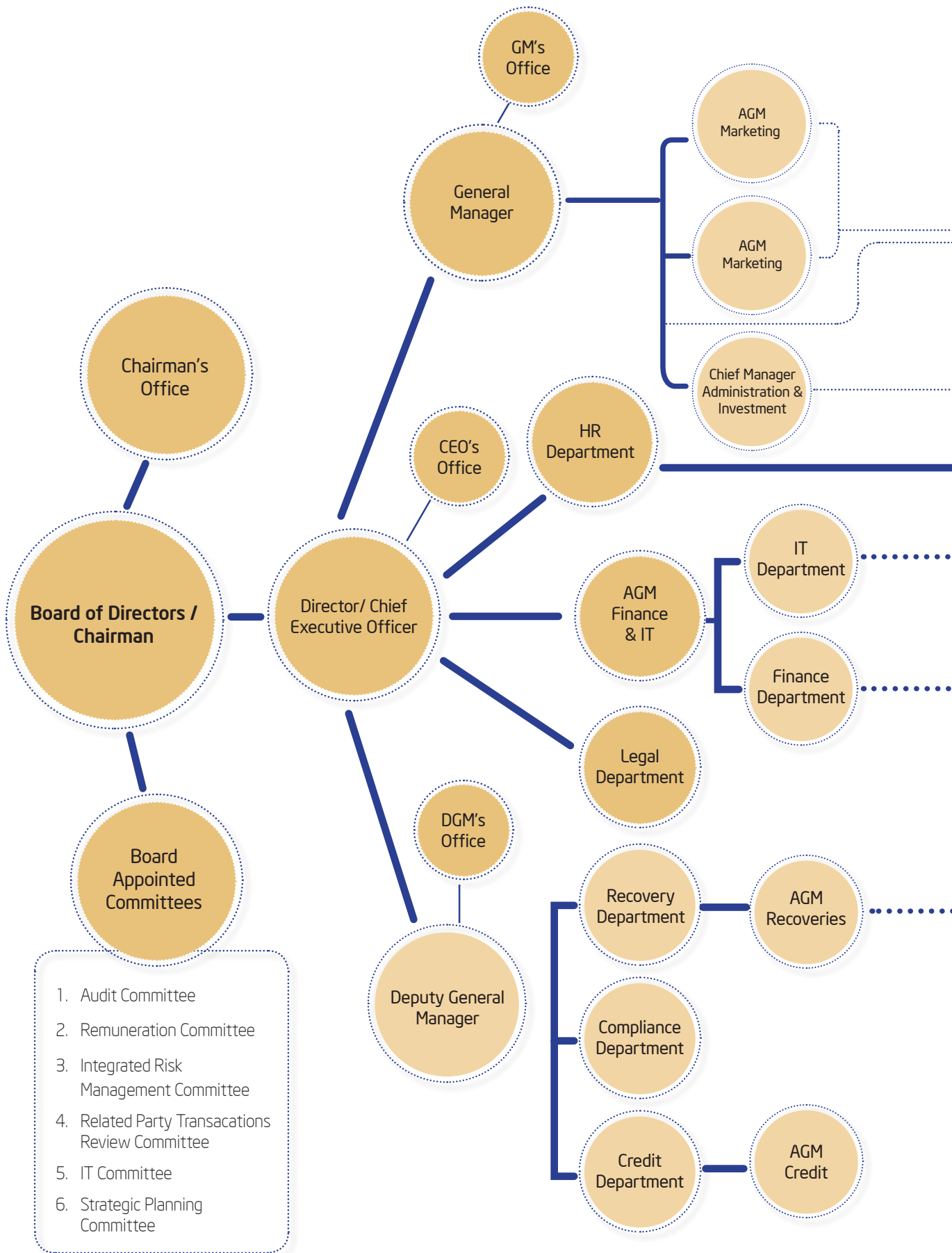
A Company that fosters and harnesses equality amongst employees along with personnel development and to create the perfect work-life balance in the organization.

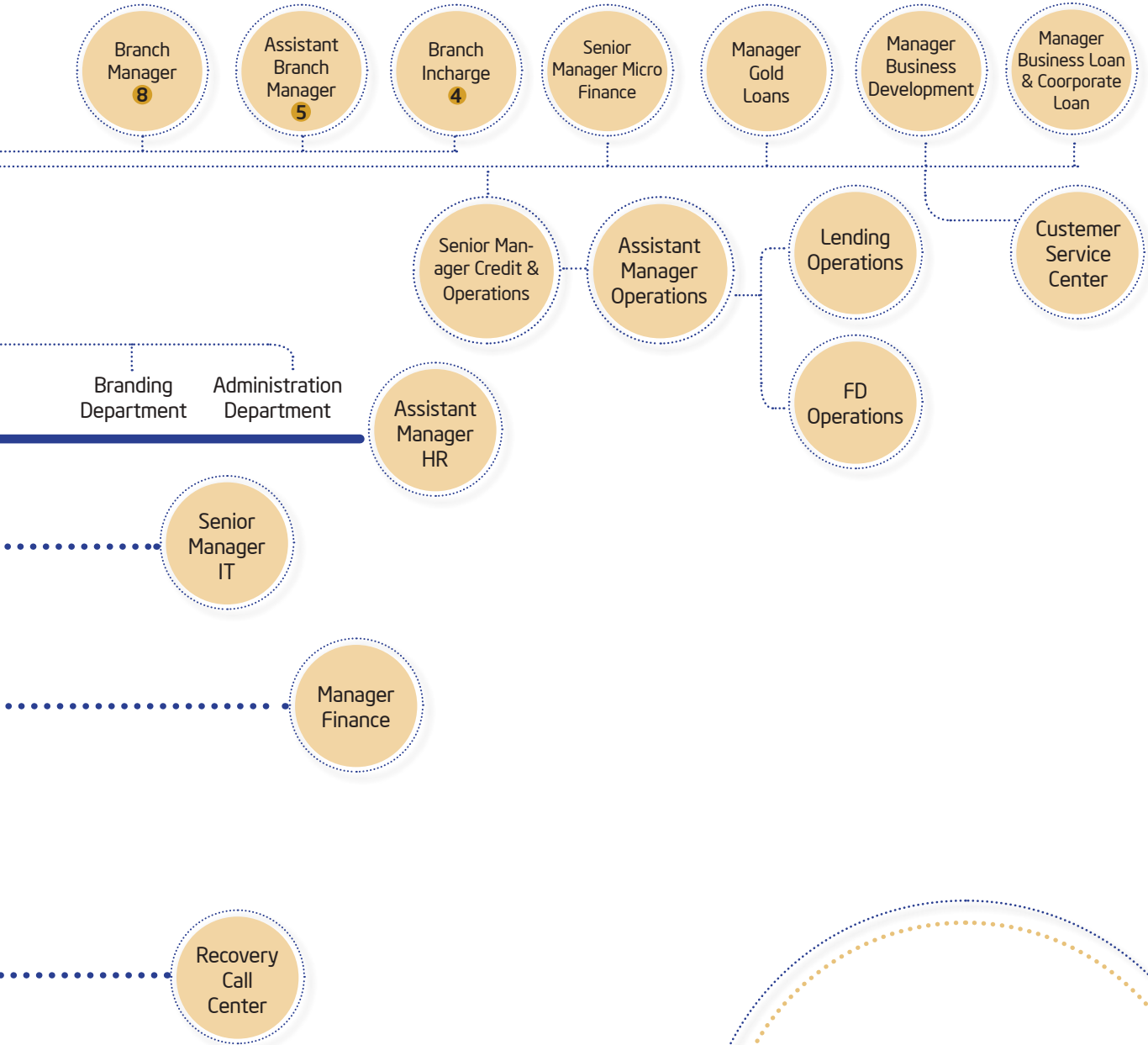
Towards Society

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

Towards the Values of our Company

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





Corporate Structure

Financial Highlights

For the year ended 31 March	2016	2015
	Rs.	Rs.
Performance Indicators		
Net Interest Income	672,312,949	369,449,935
Operating Expenses	534,529,443	342,914,610
Interest Expenses	592,688,880	480,997,160
Total Profit	175,821,012	100,429,981
Net Profit Before Tax	209,232,522	102,762,459
Net Profit After Tax	175,218,124	101,185,804
Total Assets	8,115,400,702	5,344,407,597
FD Base	4,796,299,899	3,672,180,230
Gross Portfolio	6,527,840,413	4,137,897,770
Outstanding Borrowings	1,609,833,175	344,516,666
New Executions	4,962,541,347	3,764,684,840
Key Indicators (Rs. Per share)		
Market Price per Share	1.30	1.60
Net Asset Value per Share	1.74	1.53
Earnings per Share (Times)	0.21	0.15
Debt to Equity Ratio	1.17	0.34
Return on Equity (%)	13%	10%

Total Equity LKR Mn **1,462 Mn**

2016	1,462
2015	1,286
2014	741
2013	692
2012	630

Income LKR Mn **1,384 Mn**

2016	1,384
2015	923
2014	769
2013	627
2012	435

Liabilities LKR Mn **6,654 Mn**

2016	6,654
2015	4,058
2014	3,199
2013	2,659
2012	2,049

Interest Income LKR Mn **1,265 Mn**

2016	1,265
2015	850
2014	732
2013	589
2012	378

Interest Expenses LKR Mn **593 Mn**

2016	593
2015	481
2014	438
2013	337
2012	207

Share Holders Fund LKR Mn **73 Mn**

2016	73
2015	(103)
2014	(204)
2013	(254)
2012	(315)

Gross portfolio LKR Mn **6,528 Mn**

2016	6,528
2015	4,138
2014	2,995
2013	2,501
2012	2,003

Customer Deposits LKR Mn **4,796 Mn**

2016	4,796
2015	3,672
2014	3,034
2013	2,591
2012	1,921

Net profit before tax LKR Mn **209 Mn**

2016	209
2015	103
2014	43
2013	45
2012	17

Total Assets LKR Mn **8,115 Mn**

2016	8,115
2015	5,344
2014	3,940
2013	3,350
2012	2,678

Group Managing Director's Message

The Company's Fy 2016 performances are a testament to synergies, which have been created during the past financial year, with Muthoot taking the role as the parent of AAF, the Company's overall profitability increasing by 73% and the overall asset base increasing by 51% are few of the highlights of Fy 2016 .

Muthoot Group having a history of over 129 Years and a presence in over 5 countries is proud to be a part of the Sri Lanka financial services sector through our investment in Asia Asset Finance PLC (AAF), which maintains a history of over 45 years. AAF was included to the Muthoot group in the year Fy2015.

Having over 4,500 branches across India with a staff of over 30,000, our intention to be present in Sri Lanka, had been an aforethought, with the two countries having close relations for over centuries, and a rich history complementing the cultures of the two countries, we saw an opportunity, which could benefit the two companies mutually.

Muthoot Finance being a leading finance company in India, servicing over 80,000 customers per day, studied the potential of the Sri Lankan Financial sector. Being experienced in the business practices of finance companies, decided to make its presence in Sri Lanka through AAF which we believe has the potential and the capabilities to carry out the same business ethics as Muthoot Finance.

The Company's Fy 2016 performances are a testament to synergies, which have been created during the past financial year, with Muthoot taking the role as the parent of AAF, the Company's overall profitability increasing by 73% and the overall asset

base increasing by 51% are few of the highlights of Fy 2016. The CEOs Statement provides further details of the financial achievements of the Company during Fy 2016.

Gold Loans, was a new product introduced by Muthoot to AAF and the technical expertise of Muthoot have contributed dramatically to strengthen the Gold Loan product of AAF. 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 company 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. Hence, Muthoot is working closely to build a work culture which can be a benchmark for high quality customer service.

Muthoot is confident that AAF will continue to improve and strengthen the business operations of the Company, whilst maintaining strong values, which Muthoot operations are built on.

We would wish to congratulate the management and the staff of AAF, for improved financial performance during Fy 2016, and we thank our customers for having the confidence with AAF for banking with us. Your continued trust in us will be a strength to AAF.

We assure you that the Muthoot Group will provide all necessary 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 year Fy 2017 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 Ltd.

Chairman 's Message

“The net profits of the company increased 73% over that of the preceding year. The increase in the top line growth YOY is over 31%. In fact the compounded annual growth rate in gross profitability over the last nine years is approximately 33%.”

It is with great pleasure that I welcome you to the Fifth Annual General Meeting of Asia Asset Finance PLC, and present to you the Annual Report of the Company containing the financial statements for the year 2015/16. The financial report for the period has been presented to you by the Chief Executive Officer, Mr. Rajiv Gunawardena, elsewhere in this report. The financial year 2015/2016 was an outstanding year for your company in terms of performance. My Annual Report message is becoming somewhat repetitive each year for the last few years; with the company performance surpassing that of the preceding year by a wide margin in each successive year. The net profits of the company increased 73% over that of the preceding year. The increase in the top line growth YOY is over 31%. In fact the compounded annual growth rate

in gross profitability over the last nine years is approximately 33%.

The increase in profitability was a combination of an increase in the top line and a reduction in cost ratios. Interest as a percentage of turnover was only 46% during the year under review. This represents a dramatic drop from the 56% in the preceding financial year. In fact five years ago when the management took a strategic decision to drive down the relative costs of interest, the figure stood at approximately 71%. How was this improvement achieved?

- i) The Management concentrated on introducing high margin products, culling low margin products; and
- ii) Diversifying sources of funding away from fixed deposits to bank borrowings; and securitization. Serendipitously, the general market rates of interest dropped over the same period. However, it is my view that this rate of interest may start gradually increasing again due to recent tightness prevailing in the money market, consequent to a decision to increase the Bank Reserve rate and reduce liquidity in the money market.

Meanwhile, we hope to continue to focus on high yielding products

to ensure our healthy margins are maintained. The high yielding products are Micro Finance Loans, Small Business Loans, and Gold Loans.

Could these levels of growth be maintained? It is my considered view it is possible to maintain rapid growth.

The loan book is expected to grow in the near term, subject to the Company's ability to raise funds. Meanwhile, we are aggressively looking to expand our geographical coverage and diversify our geographical risk. The branch expansion is expected to continue to improve our asset growth and further diversify our product portfolio.

Product Performance

The growth of the Microfinance portfolio was very rewarding. At the point of writing my last year's Chairman's Review, AAF had a total Microfinance portfolio of only Rs. 300 Mn (139 Mn as at 31st March 2015). At the point of writing this year's Chairman's Review, the portfolio is a little over Rs.1 Bn (758 Mn as at 31st March 2016). Similarly, the number of villages where we have organized Village Level Associations of women entrepreneurs, have increased from 180 to over 1150 during the course of one year.

The growth of the Microfinance portfolio was very rewarding.

**Growth of
Microfinance
portfolio**

Rs.300 Mn  **Rs.1 Bn**
180 villages 1,150 villages



Gold Loan portfolio is approximately Rs.700 Mn, amounting to 11% of our total portfolio.



Rs.130 Mn → **Rs.700 Mn**
Growth of Gold Loan portfolio

Chairman's Message

This works out to approximately three new Village Associations every day of the year. At the time of writing AAF has over 25,000 Microfinance clients, each heading a family unit of four, which is the national average. We may estimate that our Microfinance programme is serving approximately 100,000 individuals to transform their lives who consist a part of the 'Bottom of the Economic Pyramid'.

Our Microfinance team has been working very hard. However, we still cover only a small component of the 38,000 villages in Sri Lanka. We believe that the potential for growth in the Micro Finance sector is vast, and the company is focused on continuing to grow in this sector. In this regard, we are happy to note that the Government has recently passed a Microfinance Bill which is likely to encourage the industry to structure with the appropriate regulatory oversight. It will also encourage the appropriate moral and ethical practices by the institutions in the sector.

AAF is particularly strong in the Gampaha District and recently commenced greater Microfinance activities in the Kurunegala, Puttlam, Kilinochchi, Jaffna and Batticaloa districts.

We are confident Micro Finance will continue to grow at current levels for several years to come.

Gold Loans

In my Chairman's review last year, I indicated that our focus in the future was in Gold Loans and Micro Finance. At the time of writing the Gold Loan

portfolio is approximately Rs. 700 Mn, amounting to 11% of our total Portfolio. A year ago it was only about Rs.130 Mn (85 Mn as at 31st March 2015) amounting to 3% of our total portfolio. This is a relatively young product as we introduced it only about eighteen months ago. Our roll - out programme of gold loans has not been aggressive as we are concurrently training and developing our staff. We are in the process of obtaining Central Bank approval to open more branches, with the roll - out particular focus on Gold Loans and Microfinance.

We estimate our market share to be only 0.12% per cent of the total Gold Loans in the country, without taking into account the informal sector. Taking into consideration extensive experiences of Gold Loans by our Parent, Muthoot Finance Co., Asia Asset Finance pays particular attention to the risk management in this particular business, including comprehensive administrative and internal controls of processes relating to Gold Loans; acquisition and commodity risk, including timely provisioning, and speedy disposal of client's assets in case of default.

We are also aware of various statements made by the Central Bank officials indicating the Central Bank is somewhat risk averse to encourage Gold Loans. However, we believe that Gold Loans are an inherent part of the culture of Sri Lankans, of all classes both the proletariat and the bourgeoisie. With individuals maintaining their savings in the form of gold; having a vibrant Gold Loan system is essential to provide liquidity to those individuals. We understand the Central Bank's reticence

in discouraging the expansion of Gold Loans due to commodity price risks and the moral hazards embedded in the process on Gold Loan transactions. Their views may be driven by an abundance of caution. Actively encouraging companies. Like AAF to be involved in Gold Loans, to provide the necessary liquidity to individuals by marketing Gold Loans, is useful to discourage the citizenry from being exploited by the informal sector, while meeting liquidity goals, should be a matter of interest to the policy makers. We believe that with our knowledge in the field, including the expertise of our Parent Company, risks in the sector can be mitigated and managed at acceptable levels.

Bench Marking

Elsewhere in this report we are presenting 'Peer Group' comparisons. Asia Asset Finance appears to be performing well in relation to its peer group, of five companies with an asset base immediately smaller in size than Asia Asset Finance, and five companies that are immediately larger in size than Asia Asset Finance.

Greater details of Asia Asset performances YOY in relation to the peer group and the industry is presented elsewhere in the report.

Branch expansion is critical for the success of the Company. At the outset we hypothesized that Gold Loans and Micro Finance have inherent synergies. Micro Finance increase the footfalls at the branch levels, which in turn promote the Gold Loan product. The branch expansion is useful for Asia Asset Finance to diversify our geographical risks. As such, over the next year we hope to engage the authorities to

persuade them to relax their criterion of opening branches islandwide. Already Asia Asset Finance has fourteen branches. Subject to obtaining approvals Asia Asset Finance hopes to increase the number of branches by another five this year. Within the next three years we hope to have fifty branches. Our Parent Company, Muthoot Finance has over 4500 in India.

Trishaws

The total portfolio of trishaw leases at the beginning of the year was Rs. 700 Mn. By the end of the year the total portfolio for trishaws was only Rs. 400 Mn. This indicates the decline in growth.

Much of that decline could be attributed to the new Government regulations, requiring financial institutions to restrict the advances only to 70% of the value of trishaws. Earlier Asia Asset Finance used to lend upto 90%. However, even at these levels the non-performing loans of this product is limited to 1.5%. This new policy has destroyed the demand for trishaws.

Trishaws are a method particularly popular as an Intra modal form of transport used by the urban area proletariat.

Group Personal Loans

Group personal loans to government employees and to the private sector amounted to Rs. 608 Mn of the total portfolio at the beginning of the year. By the end of the year the amount was Rs. 828 Mn. However, a growth in this product has slowed down significantly this year.



“Branch expansion is critical for the success of the Company. At the outset we hypothesized that Gold Loans and Micro Finance have inherent synergies. Micro Finance increase the footfalls at the branch levels, which in turn promote the Gold Loan product. The branch expansion is useful for Asia Asset Finance to diversify our geographical risks.”

Both trishaws and group personal Loans indicate the declining trend. In the case of trishaws the decline is due to Government regulations. In the case of group personal loans, the decline can be attributed to main stream banks moving into that segment of the market. Elsewhere in the financial report we have presented segmental profits on a product basis. Accounting for 13% of the current portfolio, it is expected to decline over the next few years with the emergence of State Banks, as new competitors into this segment. However, the Company continues to be active in this sector, but face stiff resistance from competitors.

Way Forward

We see the ‘Way Forward’ as a continuation of branch openings, particularly in what we consider as ‘Blue Ocean’ areas, other than Western Province. Via new branch openings and focused on Gold, Micro Finance and Small Business Loans.

Small Business Loans is a new product that was introduced during the course of the year. We have had some success with this product. Small Business Loans provide attractive margins and integrates well in terms of continued assistance to our Micro Finance clients, who upgrade successfully to bigger business during the 2nd, 3rd and 4th loans, if they acquire them.

This segment is a natural market development strategy; with our intimate knowledge of our clients character and business through Microfinance and branch presence. This segment offers a successful growth trajectory to our Micro Finance clients. By the end of the year the portfolio in SMI loans was Rs. 1 Bn representing 14% of the total portfolio. This product is another ‘Bottom of the Pyramid Empowering People and Transforming Lives’.

On 31st March 2015, the portfolio size of Small Business Loans was only Rs.

Chairman's Message

250Mn. This was product innovation. I wish to congratulate our CEO, Mr. Rajiv Gunawardene, for innovating; shepherding; and staffing the product team; and being the Project Champion in the successful launch of this new product.

The product is a natural extension of our overall portfolio, and product offering to our client base.

Fund Mobilization

During the last Financial Year the Company made rapid progress in diversifying the source of funding from deposits. The Treasury Department was responsible for raising by Rs. 400m the amount of funds from the banking system and much more Rs. 1.1 Mn from securitization of our assets. We were also successful in obtaining an investment grade rating for a debenture issue of Rs. 500m. During the course of the year. The Company is currently debating on the timing of that issue, due to uncertain conditions of the money market. The Company is also contemplating raising finances overseas, and has made several contacts with and has been received positively by potential lenders.

Future Growth

We anticipate continued rapid growth in our chosen segments of Micro Finance, Gold Portfolios and SMB Loans in the current financial year.

We have largely abandoned Corporate and Hire Purchase loans which account for 16% of the portfolio. We also expect leases comprising of 21% of

our current portfolio to decline, due to the prevailing regulations and lack of competitive positioning.

Share Price Performance

One of the many disappointing aspects of the company has been the market performance of the AAF Share Price. At the time of writing it is trading, it is somewhat below, the Net Asset Value of Rs. 1.74, despite the stellar performance over the last two years. This I believe is due to two reasons:

First, the overall market has fared poorly over the last 12 -18 months.

Second, we have had a significant share holder selling their holdings in a piece meal fashion, thereby putting downward pressure on the share price.

This condition has now changed with the aforementioned share holder disposing all of his shares and Muthoot Finance our Parent Company, consolidating its share holding at 60%. We believe that the share Price will begin to reflect the fundamental value of the company as reflected by its earnings without unusual volatility due to individual share holder activities. It is our understanding that the share disposal by the subject shareholder was not a reflection of performance or potential of the Company, but was due to other pressures, driven by internal compulsions and goals of that shareholder.

One of the unusual aspects of the share price performance was the

general lack of volatility in relation to the market performance e.g. at the beginning of the Financial Year, this volatility measured in terms of the beta of the Share Price was 1.4.

However, by the middle of the year the beta has dropped from 1.4 to 1.2. Recently the Colombo Stock Exchange has reported the Beta of the company to be a negative .53. A negative beta is very unusual, as negative betas are possible for investment that goes up when the market goes down and vice versa. I expect the Company shares to be purchased by investors who want to calibrate their portfolio risks. To the best of my knowledge AAF is the only share with a negative beta in the Colombo Stock Market. I anticipate the company's performance to continue to out strip the wider market in the near term.

In summary based on the unique market served by your Company, your Company's performance is somewhat independent of the wider market, and appears to be largely insulated from the general economy in certain key aspects.

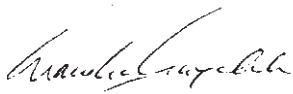
The negative beta is likely to persuade fund managers to buy into the shares of your company to calibrate the risks associated with their portfolios. We believe that this unusual situation is due to the company clocking growth of income in each of the last three years in contrast to the performance of the market indices during the same period.

I am of the view that the Company is likely to perform well in the near future

independent of the wider market performance

In conclusion, I wish to take the opportunity to thank our dynamic CEO Mr. Rajiv Gunawardene and the Management of the Company, who were receptive to my ideas for improvement, and for successfully guiding the company to yet another financial year. I would like to thank my colleagues of the Board for the advice and guidance during the course of this year. I wish to place on record our collective gratitude of the officers of the Central Bank and other Regulatory Bodies for the support extended to the Company at all times.

My heartfelt gratitude goes out to the wonderful employees of AAF, who have yet again put in a lot of hard work and shown their dedication and loyalty to the Company. Last but not least I like to thank all our customers for placing their trust in us for yet another year. We look forward to growing with them for years to come.



Manohan Nanayakkara
Chairman

26th August 2016

Chief Executive Officer's Message

“ The Company’s financial position was further strengthened during the year due to an increase in Total Assets of the Company by 52%, to reach the milestone of Rs 8 Billion. Loans and advances also increased by 58% to achieve the Rs 6.5 Billion mark. Moreover, the Total deposit base grew only by 31%, whilst the other borrowings increased by 367%, diversifying it’s fund mobilization actively.”

Asia Asset Finance PLC is pleased to present the 2015/16 Annual Report to its valued shareholders. The Company delivered a successful year both in terms of financial performance and operational development. The focus during the year was on growing the customer base and establishing stronger ties with stakeholders. The economic volatility and introduction of stringent regulations by the regulator made it a challenging year for the financial sector in Sri Lanka. Despite these challenges, we have been able to come out on top and excel in our performance to deliver a sound financial performance.

Overcoming Challenges

The Financial Year 2015/16 witnessed a whirlwind of changes from the political arena to the economic sector. These changes made the financial year 2015/16 one of the most challenging years for Asia Asset Finance (AAF) PLC. Despite the challenges and setbacks, AAF, with the dedication and commitment in mind, was able to adapt to the changing environment and understand consumer requirements to exceed budgetary targets and deliver an exceptional performance for FY 2015/16.

Financial Performance

Total Interest income exceeded Rs 1.2 Billion from a previous year of Rs 850 Million, which reflects growth of 49%. Meanwhile, Interest Expenses reached Rs. 592 Million, marking a rise of 23% from the previous year. As a result, the net interest income also grew up by 82% to reach Rs 672 Million. The operating expenses continued to increase with the focus on strengthening the infrastructure and resources, climbing by 33% to reach Rs. 450 Million. At the same time, the Company also increased its provisioning to create a transparent mechanism to accommodate the delinquent facilities increasing by 239%, reaching Rs 83 Million. Despite the increase in expenses and provisioning, the Company kept to

its target of Rs 175 Million, which marks a 73% increase in profitability.

The Company's financial position was further strengthened during the year due to an increase in Total Assets of the Company by 52%, to reach the milestone of Rs 8 Billion. Loans and advances also increased by 58% to achieve the Rs 6.5 Billion mark. Moreover, the Total deposit base grew only by 31%, whilst the other borrowings increased by 367%, diversifying its fund mobilization actively.

The above achievements have helped AAF to eliminate all retained losses accrued prior to 2009. Furthermore, as a result of the strong performance, Earnings per share increased to Rs. 0.21 from Rs 0.15 previously. I would like to affirm that shareholder funds are well utilized, which is depicted in an increase in the Return on Equity to 13%. Our enhanced performance during the year reflects the Company's commitment to enhancing the value and returns to our valued shareholders.

Products and services

The above achievement has been a combination of hard work and dedication, which contributed to the growth of the Company's performance. The core focus of AAF during the year was to improve Gold Loans, Micro

Return
on Equity

10%



13%



Gold loans played a pivotal role in the year 2015/16



Total Gold Loan base in the year 2015/16 was Rs. 695 Mn

718%
Growth of Gold Loan Base



Chief Executive Officer's Message

Finance and the SME Loans. AAF believes these types of loans will support customers to improve their business operations, and livelihood which in turn allows the client to meet its obligations in a timely manner.

The Gold loans played a pivotal role in the year 2015/16, reaching total base of Rs. 695Mn, which was a growth of 718%. The product has boosted the Company's performance by increasing its overall performance secured loan base. Furthermore, the tenure of the product has helped minimize the maturity mismatch between lending and the borrowings. The product has contributed to increase the returns of the Company and improve the cash inflows. Muthhoot Group continuously provides technical expertise to improve the quality and standards of the Gold Loan portfolio. As a result the Company boasts a NPA of 0% on Gold Loans.

Micro Finance similarly contributed to the growth of the Company. This product, as mentioned in the Chairman's Review, has been providing significant returns to the Company. The innovative business model created by AAF has given significant mileage to minimize the risk involved. Hence, the operational risk and the recoverability of the portfolio are justified by the low NPA ratio and strong returns.

The SME loans have also been a key contributor during the current financial year, supporting working capital requirements of our customers. This product has a successful collection ratio and consists of customers upgraded from the Micro Finance sector. This allows the Company to have in-depth knowledge of clients and to assist in the development of their businesses, thereby enabling us to provide a holistic solution for our clients.

The above products have proven to complement each other and as a result benefitted the marketing strategies of company. The Company continues to improve its Non performing accommodation during the year, by restricting products which has exposed AAF to higher risks and capitalising on products which precedes good return with better asset quality and collection ratio.

In terms of fund mobilizing, AAF has focused mainly on diversifying the funding lines of the Company. AAF has been able to successfully mobilize funds through securitizations and banking advances. These products have allowed AAF to further improve the maturity mismatch of the Company and shift focus from the traditional Fixed Deposit

mobilization. Fixed Deposits however continue to increase organically due to the increased confidence in the Company and its unblemished 46-year track record.

Internal Controls

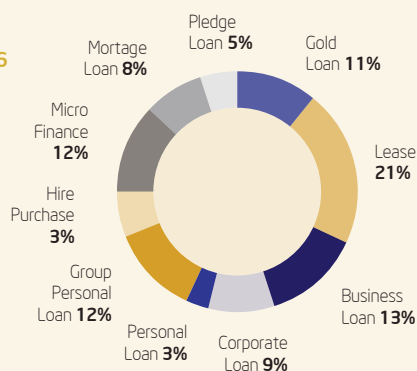
AAF continues to invest in the development of the Company's operations and in strengthening controls. The Company's focus is not restricted only to its financial performance, but is also trained on maintaining high standards expected by our stakeholders. As a result, AAF has formed a fully-fledged Internal Audit department, which monitors the internal operations of the Company and maintains higher standards to safeguard the interest of our valued customers and shareholders.

Operational Improvements

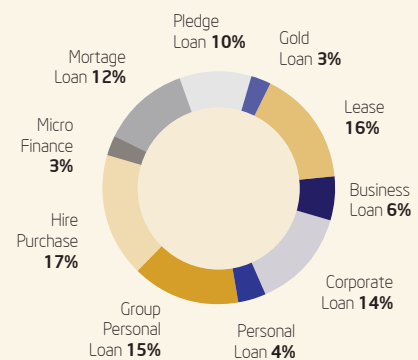
AAF further launched a fully operational call center with state-of-the-art technology to improve the quality of customer care and delivery.

Furthermore, the Company invested in resource development mainly on the analytical and recovery related aspects. The management is of the strong view that 'prevention is better

Product Mix at 31 March 2016



Product Mix at 31 March 2015



“AAF expects to increase the number of branches in the current financial year, with the sole focus of mitigating the geographical risk of operations, which will allow AAF to focus on Gold Loan and Micro Finance..”



than cure, hence, all steps are taken to mitigate any risks, which could harm the Company. Therefore, regular forecasting models are created and monitoring mechanism are implemented to address concerns prior to escalating.

AAF continues to invest in technological development and understands the high dependency on IT Systems to be in place for sustainability of operations. Hence, the management continues to invest in the development and improvement of the systems in place. The Board has appointed a committee to overlook the IT Systems which has given added confidence to the management to improve the overall reliability of the systems.

Human resource management armed with adequate resources for running a successful business operation, our people continue to be our biggest asset. During the year, staff strength increased from 235 to 358, with the majority of the recruitments focused on Micro Finance, Gold loan, Recoveries and Internal Controls. The retention ratio of the management staff has been admirable at 95%, whilst the overall retention ratio is maintained at 85%.

Branch Expansion

The Company during the year opened only one location in Colombo as a city office and launched Gold loans in over 90% of the branches. The management took a prudent decision to consolidate operations and to maximize returns using the existing locations available, mainly due to the prevailing uncertainties in the economy. This strategy has allowed the Company to generate optimum returns with limited capital expenditure.

Way Forward

The future looks equally challenging in the short term, with uncertainties looming in the policies and direction of the economy. The volatility in the global markets will further compound the already uncertain market conditions.

However, AAF remains focused to meet the challenges and to leverage on them for the advantage of strengthening the Company further. Gold loans will be a key focus for the coming year, with the Commodity prices on the rise, and we expect Micro Finance loans to contribute further to the growing portfolio. The Company expects the grassroots operations to improve, in return contributing to the overall economy.

AAF expects to invest in a Business Intelligence system to improve the quality of information and the efficiency of receiving information. Furthermore, considering the considerable increase in the number of clients, the management will invest in a handheld receiving machines (POS), to allow real time transactions on the field and minimize the risk of operations.

Finally, AAF expects to increase the number of branches in the current financial year, with the sole focus of mitigating the geographical risk of operations, which will allow AAF to focus on Gold Loan and Micro Finance, which are products that require a vast reach to mitigate the concentration risk of the portfolio.

Appreciation

All achievements in 2015/16 were the result of a perfectly executed business plan and excellent teamwork. These achievements were possible because of a well-balanced and carefully planned business plan provided to the management and staff by our distinguished board of Directors. Thereafter, the business plan was executed exceptionally well by my staff members, who worked tirelessly and efficiently to deliver the objectives and goals.

Chief Executive Officer's Message

Hence, I thank the Chairman and the Board of Directors for the continued support and the confidence they have placed in us. My gratitude to our customers for the patience and confidence shown in us and for selecting AAF as their preferred financial services partner. We assure you that we will work tirelessly to safeguard your investments.

We also would wish to thank our shareholders, who had confidence in us to invest in Asia Asset Finance PLC. We assure you that your confidence in us will be rewarded as the Company moves to greater Heights.

Finally, we wish to thank Muthoot Finance for the support extended

to us throughout the year. We are honored and privileged to be a part of conglomerate which takes pride in providing a world-class service to its customers whilst maintaining highly ethical business practices. Asia Asset Finance PLC will continue to follow in the steps of Muthoot to become a Company, which our stakeholders can be proud to associate with. Let us make 2016/17 a better financial year by working in harmony.



Rajiv Gunawardena
Director/ Chief Executive Officer

26th August 2016

**“Leadership is the capacity to
translate vision into reality.”**

- Warren G. Bennis

Board of Directors



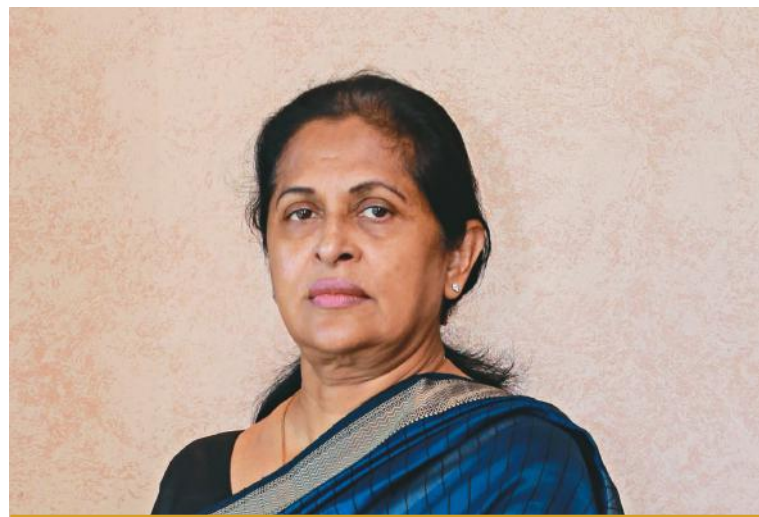
Manohan Nanayakkara
Chairman



Rajiv Gunawardena
(Director / Chief Executive Officer)



Thusitha Perera
Independent Non-Executive Director



Dayangani Priyanthi Pieris
Non-Executive Director



K R Bijimon
Non-Executive Director



George Alexander
Non-Executive Director



C. Ramachandra
Senior Independent Non-Executive Director



Mayura Fernando
Independent Non-Executive Director

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 also sat on the Board of all Associate Companies of Asia Capital PLC until his retirement from the Group in September 2013. He was the former Chief Operating Officer / Director of Asian Hotels and Properties Limited, previously known as Crescat, and the former General Manager of the Bureau for Infrastructure Investment (BII). He also acted as 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 professor at the Postgraduate Institute of Management (PIM) and taught a well received course on Business Strategy for the MBA Programme. He holds the following academic qualifications and experience:

- 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 Securities and Exchange Commission of Sri Lanka (SEC), and the development of the Colombo Stock Exchange (CSE).

- Fellow Member of the Institute of Chartered Management Accountants (FCMA)
- Master of Science in Accounting (MSA) from James Madison University of Virginia, USA
- Masters of Applied Finance (MAF) and Masters of Business Administration (MBA) from Queensland University of Technology, Queensland, Australia as a Project Specialist, of US AID Colombo.

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.

K R Bijimon

Non-Executive Director

K R Bijimon started his career as a Senior Manager (Finance) with Muthoot Bankers in the year 1996. During 19 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 in 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 a Chief General Manager, he is also responsible for driving growth across the diversified business portfolios of the Group such as International Remittance & Foreign Exchange 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. Bijimon also assumes the role of Chief Operating Officer and manages the Global Operations Division of the Muthoot Group. Presently, he also holds Directorship in companies like Muthoot Forex Ltd, Muthoot Securities Ltd, Muthoot Commodities Ltd, Muthoot Homefin Ltd (India) and Asia Asset Finance PLC (Sri Lanka).

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 (CAIB) and a Fellow Member of Certified Management Accountants (FCMA), Institute of Sri Lanka.

George Alexander (Jr.)
Non-Executive Director

George Alexander has done his Master's in Business Administration from University of North Carolina's – Kenan & Flagler Business School and Bachelor's in Mechanical Engineering from University of Kerala TKM College of Engineering. He currently works as Senior Vice President of Muthoot Finance taking care of operations in the State of Karnataka & Goa. He also has the additional responsibility monitoring of Global Operations of The Muthoot Group in U.S.A. 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. 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 an active member of Confederation of Indian Industries – Young Indians Bangalore Chapter and is the Chair for this Chapter. George was one among the ten Indians chosen to represent India for AIYD (Australia India Youth Dialogue) at Sydney and Melbourne in 2013.

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 21 years of experience in finance and auditing, both locally and internationally.

Dayangani Priyanthi Pieris
Non-Executive Director

Mrs. Priyanthi Pieris is an Attorney-at-Law of the Supreme Court of Sri Lanka and has over 35 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., 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.

Board of Directors

C. Ramachandra Senior Independent 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 one 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.

Mayura Fernando Independent Non-Executive Director

Mr. Mayura Fernando started his professional career at KPMG Ford Rhodes Thornton & Company and was a Partner of the firm. He has extensive experience in financial services, holding many senior positions at Vanik and Forbes Ceylon Group. Mr. Fernando also functioned as the Group Finance Director of Confifi Group and then joined Virtusa (An Information Technology Company based in Boston USA) as its Director Finance, Asian Region. He was responsible for the finance function of the subsidiaries in India and Sri Lanka. Subsequently in 2005 Mr. Fernando joined Capital Reach Group and functioned as the

Managing Director of the holding Company and was the Chairman of the three subsidiaries. In August 2010, activities of former Capital Reach Group were consolidated under one Company, Softlogic Finance PLC and Mr. Fernando was the Director/Chief Executive Officer of Softlogic Finance PLC. He joined Laugfs Capital Ltd as its Director/ Chief Executive Officer in January 2013. Mr. Fernando is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Chartered Institute of Management Accountants of UK. He holds a Bachelor of Science (Applied Science) Degree from University of Sri Jayewardenepura.

“The strength of the group is in the will of the leader, and the will is character in action.”

- Vince Lombardi

Senior Management





3



4



5



8



9



10

1. **Rajiv Gunawardena**
Director- Chief Executive Officer
2. **Roshan De Silva Gunasekera**
General Manager
3. **Thiruneelakandan**
Deputy General Manager
4. **Mahesh Kumara**
Assistant General Manager - Credit

5. **Jayantha Weerapullige**
Assistant General Manager - Marketing
6. **Samira Weveldeniya**
Assistant General Manager - Marketing
7. **Geethika Elwalage**
Assistant General Manager - Finance & IT
8. **Deshapriya Liyanage**
Assistant General Manager - Recoveries

9. **Hantley Babapulle**
Chief Manager - Investments & Administrations
10. **Sajith Atapattu**
Senior Manager - Credit & Operations
11. **Chaminda Perera**
Senior Manager - Micro Finance
12. **Janith Amarakoon**
Senior Manager - IT

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 General Manager

Mr. Gunasekera joined Asia Asset Finance PLC in April 2010. Mr. Gunasekera carries more than 21, 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.

Thiruneelakandan Deputy General Manager

Mr. Thiruneelakandan brings a wealth of experience gained in this field for more than three decades. He joined AAF 12 years ago and his teamwork extensively plays a leading role in implementing the organization's financial management while making customer relationships successful. 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 so far. "I am pleased to have been appointed and have already encountered some challenges. I do not imagine it is going to get any easier, but I hope it is going to be fun."

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 16 years.

Jayantha Weerapullige Assistant General Manager - Marketing

Jayantha joined Asia Asset Finance PLC in 2008. Currently he serves as the AGM – Marketing and he served as Senior Manager Lending for 2 years prior to being promoted as AGM.

Mr. Jayantha Weerapullige holds a B.Com (special) degree and MBA from University of Colombo. He counts over 15 years of working experience in Marketing, Credit & Accounts of which 13 years were spent in Finance sector. He holds more than 7 years of

experience in the top management of Asia Asset Finance PLC.

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

Samira Weveldeniya
Assistant General Manager -
Marketing)

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 14 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
& IT

Ms. Geethika Elwalage graduated from the University of Sri Jayewardenepura in 2005 with Bachelor of Science (Business Administration) specialized in Finance and holds a Master's Specialized in Finance from the University of Sri Jayewardenepura. She is also an Associate Member of the Institute of Chartered Accountants of Sri Lanka.

Ms. Elwalage currently holds the Assistant General Manager (Finance and Information Management) position at Asia Asset Finance PLC. Her current portfolio includes financial accounting, internal and external audit function handling, budget, strategic planning, MIS, CBSL reporting, treasury, tax and central cash management. Ms. Elwalage counts over 14 years of experience in banking and financial services specializing in the areas of treasury, international operations and

investment banking. She has been managing assets and liabilities, fund raising activities, securities trading, risk management in relation to treasury and cross border funding.

Deshapriya Liyanage
Assistant General Manager - Recoveries

Mr. Deshapriya K. H. Liyanage joined AAF in November' 2010 as the Chief Manager Operations and is also the Head of Recoveries since the 1st of January 2013. He is responsible for implementing recovery systems & procedures while maintaining a health recovery portfolio. Mr. Liyanage brings a wealth of experience in Finance and Merchant Banking and in Islamic Finance gained from his experience of over 30 years in the 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. Further, he holds a Diploma in Credit Management from the Institute of Bankers of Sri Lanka.

Senior Management

Hantley Babapulle

Chief Manager - Investments & Administrations

Mr. Hantley Babapulle has a career spanning 43 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

(Senior Manager - Credit & Operations)

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

Chaminda Perera

Senior Manager - Micro Finance

Joined AAF in June 2011 and currently holds the Senior Manager – Micro Finance position. He has over 15 years of experience in product development experience in agriculture and business Development sector including more than 10 years' experience in developing Agriculture and SME finance. Started his professional carrier as a Group Management trainee at Abans group of companies. Prior to join with Asia asset finance PLC he has served as the Business and Agricultural Development Advisor for two USA based organizations from 2006 to 2011.

Mr. Perera is a B.Sc. Agriculture, graduate specialized in Plantation Management from University of Waymaba, also holding a Masters in Regional Development and Planning, specialized in Entrepreneurship and Innovation management from the University of Colombo. Also an achiever of certificate in Global perspectives on Democracy, from University of Virginia, USA. Holder of Certificate in Making Service Markets Work for Enterprise Competitiveness, offered by Springfield Training Centre (UK), and International Certificate holder in Networking in Support of Rural Development, offered by UN-FAO and University Philippines. He also completed Certificate in Conflict Management skills, at United State Institute of Peace (USIP), at Washington-DC and certified trainer on "Development of Finance products" trained by CGAP international.

Also he had represented the country for several international events such as; represented Business development sector for the Professional Exchange Program held USA, Organized by Department of State (USA) , and Regional Agriculture/ Economic development Summit, "Organize Agricultural and Economic Sector Approach in South Asia" in Bankok, Thailand (2008).

Janith Amarakoon

Senior Manager - IT

Mr. Janith Amarakoon received his BSc (Special) degree and MSc in Information Technology from the Sri Lanka Institute of Information Technology (SLIIT). He joined Asia Asset Finance PLC in 2006 as an Assistant Manager and was subsequently promoted to the grades of Manager and Senior Manager respectively. Presently he functions as Senior Manager IT and is in charge of the Information Technology Department in the Company.

Consultants



Shiranthi Gunawardena
(Legal Consultant)

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

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



Miriam Weerasooriya
(Consultant)

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

Our values are reflected by the trust and confidence placed by all our stakeholders.

Management
Discussion and
Analysis



Management Discussion & Analysis

Operational Review

Our company has a rich history of serving clients and customers with integrity and establishing relationships based on trust. It is our responsibility to preserve and build upon the solid values on which this company was founded, supported strongly by the synergies of Muthoot Finance, revered for its over a century -old legacy. The joint synergies have helped the Company emerge triumphant despite challenging macro-economic conditions prevailing through the year.

Macroeconomic Environment

Global Economy

Global economic activity remained subdued in the year 2015 as growth in emerging market and developing economies declined for the fifth consecutive year. Modest recovery continued in advanced economies. Overall, financial conditions within advanced economies remain very accommodative. Prospects of a gradual increase in policy interest rates in the United States as well as doubts of financial volatility amid concerns about emerging market growth prospects have contributed to tighter external financial conditions, declining capital flows, and further currency depreciations in many emerging market economies. The impact from slower economic growth in key emerging economies and the eventual outcome of UK's decision to exit the EU will pose a burden till the economic implications become clearer.

Sri Lanka Economy 2015

The economy grew by 4.8 per cent during 2015 compared to 4.9 per cent in 2014. The growth was largely consumption-led, although the Services sector, which account for 56.6 per cent of GDP, grew by 5.3 per cent. Industry activities, which account for 26.2 per cent of GDP, grew by 3.0 per cent, mainly supported by the growth in manufacturing activities while Agriculture activities, which account for 7.9 per cent of GDP, expanded by 5.5 per cent.

Public sector consumption expenditure grew at a high rate, mainly reflecting the increase in salaries and wages of public sector employees in 2015. private consumption expenditure also grew during the year, mainly due to the low interest rate environment and increased real wages. However, investment activities, as measured by gross capital formation, decelerated during 2015. Inflation remained below mid-single digit levels, supported by the downward adjustment of prices of several key consumer items, favorable supply side developments in the domestic and international markets, and well-contained inflation expectations. In response to the continued relaxed monetary policy stance, credit extended to the private sector by the banking system expanded at a high rate. Market interest rates remained low during 2015 although some upward movement was observed during the latter part of the year.

Non Banking Financial Sector

In 2015, the financial sector demonstrated its resilience to volatile market conditions emanating from domestic and global uncertain conditions. The performance of the Licensed Finance Companies/ Specialized Licensed Companies (LFC/ SLC) sector remained robust during 2015 in terms of the expansion of both business volume and outreach, reflecting the extended economic activities, appropriateness of policy initiatives and supportive regulatory and supervisory measures in place. During 2015, the LFC/SLC sector recorded a profit after tax of Rs. 15.2 billion compared to Rs. 14.8 billion in 2014. Despite the improvements of core business operations, sharp increase of operational costs mainly contributed to moderation in profits.

The LFC/SLC sector continued to experience a minimal market risk due to the lower exposure to trading portfolio and foreign currency transactions. Also, interest rate risk decreased mainly due to low interest rate environment that prevailed during the year. Asset quality of LFC/SLC sector improved in 2015 compared to 2014 as evident by improved NPLs and provision coverage ratios. Gross and net NPLs ratios decreased to 5.7 per cent and 1.6 per cent respectively in 2015, from 6.9 per cent and 2.3 per cent, respectively in 2014, mainly due to higher growth of loan portfolio.

Product Performance

Microfinance

The Company embarked on microfinance as a sustainable product that would uplift the lives of economically lesser privileged at the grassroots levels by providing them with financial services that were not available through the traditional financial system. By extending financial inclusion to these marginalized communities, the Company aims to support them to increase and diversify their economic activities. Having access to finance boosts self-confidence among small entrepreneurs who can translate their dreams for their families into action, by setting up small scale businesses.

Today, the microfinance business is the largest contributor to the Company's profitability, recording 39% Annual Equivalent Rate (AER) for 18 months or more. The Company's microfinance portfolio has grown to Rs. 1 Billion (758Mn as at 31st March 2016) within a short span of 4 years, while its customer base counts approximately 25,000 spread across 1,000 villages. The microfinance product was first introduced in Galle before expanding further across other districts. Currently AAF offers microfinance across its branch network including 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, which is further segmented into smaller teams of 5 members each. Loans are granted on the recommendation of a large team consisting of minimum 15 villagers.

Recovery is also achieved through this same mechanism and overseen by the team leader. If the borrower is absent, other team members have to cover the arrears.

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 realize gains from harvest seasons. Natural disasters such as floods have also played havoc with businesses of some clients, who suffered heavy losses.

Another challenge that remains is recruiting teams to sell this product in rural areas. The Company has adopted a stringent recruitment process to assess credentials of employees and is stepping up recruitment efforts to attract fresh recruits.

The Company perceives strong prospects for the Microfinance product in the future and will continue to expand its footprint island-wide whilst at the same time, helping its customers to upgrade to the next level.

Empowering Young Students

In a unique initiative, the Company has widened its social impact by involving the children of its micro finance village team in its operation. Inspired by the commitment to have a beneficial impact on its stakeholders, the Company embarked on a unique drive to recruit students who are on the verge of completing their Advanced Level education. These students are recruited by the Company's respective branches and have been trained in micro finance

operations and equipped with motor cycles and mobile devices. As a result of this one-of-a-kind initiative in the industry, these youngsters are now earning a steady salary without leaving their villages in search of work and have successfully upgraded their lifestyles. One of the recruits has now evolved into a team leader and manages the entire 5-member micro finance staff at a branch. He joined just after his A/Ls and right now is started his college degree on his confirmation, to further improve his career prospects. It gives the Company great satisfaction to inspire young minds through its unique initiative. This sustainable initiative has driven greater loyalty for the Company which has helped customer retention levels. Uptil now, the Company has recruited 5 children of its micro finance village team members.

Gold Loans

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 benefitted by way of technical inputs in gold loan financing products and a strong risk management framework, which secures the Company.

Asia Asset Finance placed emphasis on this product during the year under review to enhance the secured advances portfolio that helps to increase the capital adequacy requirement of the Company too while contributing a great deal to the Company profit. Under the scheme, loans are granted on the security of gold jewelry as well as raw gold as

Management Discussion & Analysis

pledge.

The Company grants the maximum amount per sovereign among all finance companies and charges comparatively low interest rates which has 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 1%. Excess after recovering dues is being repaid to borrowers.

The Gold Loans scheme was launched in Moratuwa and Negombo as a pilot project. A month later, it was expanded to Jaffna and Kurunegala and then gradually to Kilinochchi, Chavakachchery, Point Pedro, Batticaloa and Colombo City Branch within 2015.

Within a mere 18 months of operations of the Gold Loans product, the Company is poised to stake claim as market leader in this category amongst 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 Loans 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. High volatility of world gold prices remains a constant worry and we mitigate its effects as much as possible by keeping a close watch of the market behaviour and we have been successful in maintaining a satisfactory Loan To Value ratio.

Fixed Deposits

We recorded a stronger growth of 31% in the year under review as compared to the previous year. This helped us to increase our base from Rs. 3.6 Billion to Rs. 4.7 Billion. Asia Asset Finance has always been a trusted investment partner for our valued clients over the years. Speedy, and accurate service provided by our excellent staff has further helped us to further strengthen the trust of the Company.

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.

Going ahead, we intend to streamline systems and processes in this product category such that customers can avail of their Fixed Deposit certificate within one hour subject to certain conditions.

As an agile and responsive company, we understand the value of leveraging on 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. We are also in the process of interlinking all our branches in a manner that will enable us to reduce the time taken by customers in effecting their transactions.

Business Loans & Corporate Loans

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) along with 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.

The products were designed and developed to cater to the Capital Expenditure and Trade 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.

Every branch has designated marketers who focus solely on Corporate and Business loans. A special recovery unit is in place as part of the recovery strategy. They monitor and call the clients to keep Non Performing Loans well below the industry numbers. The branches have recovery officers reporting to the main recovery unit. This has enabled the recovery unit to access all clients island-wide within a few hours' notice on recovery and collection procedures.

Based on the relationships and service quality provided by the branches, the clients continue the relationships due to the convenience of working with Asia Asset Finance.

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. AAF strive 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 & Hire Purchase

Lease is a contract between the lessor, the owner of the asset and the lessee, the user of the asset wherein the owner gives the right to use the asset to the borrower over an agreed period of time for a consideration called the lease rental. At the end of the contract, the lessee is given the option to buy or revoke the contract. As at March 2016 the Leasing and Hire Purchase portfolios stood at 1,872 Mn and 557 Mn respectively.

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 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 direct to the Factor) AAF also could obtain post-dated cheques from the clients' debtors to secure the transaction.

Cheque Discounting:

In a Cheque discounting transaction the customer sells goods on credit and immediately obtains a post 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 offer 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 relatively new products in the product portfolio of AAF. We are developing these products with stringent credit criteria and close monitoring.

Management Discussion & Analysis

Marketing Promotions

The Marketing department plays a proactive role in supporting the lending and deposit mobilization activities of the Company. Marketing activities are carried out in both a centralized manner as well as in a decentralized manner at every branch. During the year under review, the Marketing department placed strong emphasis on marketing the Gold Loans product through innovative means of interactions with customers. Mediums such as leaflets, street promotions, weekly promotions were leveraged upon to reach the widest audience possible. When it comes to business loans, a more personalized approach is adopted. The Marketing department was also successful in cross selling its lines of businesses to benefit customers.

Customer Care

In a decisive step towards demonstrating its commitment to customer service, the Company set up a call centre for the convenience of fixed deposit and lending customers. After monitoring the payback record of new customers for a period of 6 months and affirming it positively, the contact is passed on to the Marketing department, to cross sell other products of the Company. We are continually looking for ways to improve, be more efficient and serve our clients better. Today's customers expect to be able to transact with us whenever and wherever they choose, and we will offer ease of access to the Company at all times.

Branch Network

The Company is committed to enhancing its branch network in order to expand customer reach. In addition, we will continue to innovate in 2016 by improving branch automation and efficiency.

Future Plans

We continue to execute our disciplined, long-term growth plan, which is designed to add new, high-quality clients and deepen those relationships over time. We are growing our customer base by selectively expanding our geographic footprint and focusing on key growth industries. The Company will continue to safeguard our clients and our business by maintaining our fortress controls. This means understanding all risks in our business and investing in process improvements as needed. Our success would not be possible without continued reinvestment in the business – both to expand our offering and to maintain a strong control and risk environment. We have addressed new challenges by applying lessons learned more effectively, and we are able to respond more quickly owing to the talent of our people and our investments in infrastructure and controls. We continue to strengthen our client focus and customer-centered culture and set high standards for performance as we invest in targeted growth opportunities and first-rate systems and operations, simplifying our businesses and stepping up cost management efforts.

Financial Review

AAF recorded a successful FY2015/16 by achieving Rs 175Mn profit during the year under assessment, which reflects a growth of 75% over the previous year. The Company's profitability was mainly derived from the exceptional performance of its Micro Finance and Gold Loan products.

Earnings per share

The robust profitability of the Company during the year under review resulted in a profit of 0.21 being declared for shareholders in comparison to 0.15 in the preceding year. Meanwhile, shareholder wealth grew by 40%.

Return on Assets/Return on Equity

As an impact of strong profitability growth during the year, investors' wealth increased by 13%, which reflects the Company's focus on ensuring continuous growth and wealth maximization for its shareholders.

Capital Adequacy Ratio

The Company maintained a capital adequacy ratio of 22% that is well above well above the minimum requirement of 5% Central Bank Of Sri Lanka.

Revenue Growth

Aggressive business growth of Lease, Micro Finance and Gold Loan products has positively contributed to the revenue growth factor, recording 48% growth for the financial year ended

31st March 2016. Gross income rose to reach Rs 1.2Bn in comparison to Gross income of Rs. 850 Mn in the previous year.

Net Interest Income

The Company's margins grew significantly during the year under review from 43% in the previous year to record 53% net interest margin for the period under consideration.

Profit Before Tax

Operational profit increased to Rs 209Mn compared to the previous year's profit of Rs102. The Micro finance and Gold Loan products were the main contributors of the Company's profitability.

AAF succeed in achieving Rs209Mn Profit before Tax which is double the amount of Rs 100Mn that was reported as the profit of the last year.

Profit After Tax

The Company posted a profit after tax of Rs. 175 Mn during the year under review.

Interest Expenses

As a result of the increase in the deposit base of the Company and the inclusion of new funding lines, interest expenses increased by 23% even though a decline in interest rates was witnessed during the same period. The Company has accorded its customer base the maximum advantage by extending the highest interest rates in compliance with Central Bank of Sri Lanka rates.

Operating Expenses/Income

The operating expenses of the Company rose due to costs incurred to streamline the business channels of the Company, including the setting up of new branches as well as renovation of existing ones.

Total Assets

The Asset base expanded as a result of both internal as well as external financing. During the year, the Company made a clear shift to new funding lines which offer low interest rates, thereby lowering cost to the Company.

Lending

The Company witnessed a strong growth in its lending portfolio. A major contributor to the growth in lending came from Microfinance as well as the expansion in Leasing, , Corporate Loans and Gold Loan portfolios.

Deposits

As a result of prudent financial management, the Company offered maximum benefits to its customers by awarding of the highest interest rates possible within the framework of CBSL guidelines. As a result of this, the Company not only succeeded in retaining its existing customer base, but also attracted new business, which resulted in a growth of 30% in deposits over the previous year.

Management Discussion & Analysis

Credit Review

During the financial year under review, the composition of the lending portfolio changed with a stronger emphasis on Microfinance. The Company's lending portfolio witnessed accelerated growth, expanding by as much as 38% over the previous year, to reach a value of LKR 8 billion. In order to maintain a healthy balance in the portfolio, the Company extended small personal loans and gold loans supported by the knowhow and financial strength of Muthoot Finance. The Gold Loans portfolio was expanded during the year and Group Personal and Business Loans further included to the portfolio.

The Gold Loans product performed successful in the north and east, since traditionally the people in these areas retain their assets in the form of jewellery. Business Loans also performed well in alignment with the national objective to support SMEs which form the backbone of the economy. The Company strongly marketed Business Loans products to areas still rebounding from the crippling effects of war and many small entities availed of these resources to either commence or further develop their small scale business.

During the year, the balance sheet was strengthened due to synergies from Muthoot Finance.

The Company set up a watertight recovery infrastructure for Group Personal and Business Loans to record low NPLs through these high yield products. In the ensuing year, we hope to grow these products further by widening our geographic presence around the country and expanding the branch network. We are confident that we can sustain the growth momentum experienced during the year under review well into the future.

Our client base doubled during the year as monthly disbursements also doubled. In response to market needs, the Company revamped lending policies to suit customer requirements and to improve efficiency while maintaining proper controls. Policies were also adjusted to enhance credit quality.

Asia Asset Finance's A+ CRIB rating has boosted the Company's credit position. The Microfinance product performed well as we tightened its mechanism to gain for better control and improve credit quality. The Credit Committee consists of 5 members who act as a controlling and balancing factor.

Although the entire credit control is centralized, we have decentralized certain aspects for customer convenience and efficiency. It is the practice of Asia Asset Finance to regularly review the Credit Policy based on market developments. In this process the Company has adopted several quantitative measures such as Credit risk stress testing, Credit scoring

models and qualitative measures such as adhering to Credit policies, processes, defined approval hierarchies and nurturing Credit risk within the Company. The Central Approving Authority overlooks the Company's credit operations.

During the year we extended insurance cover to customers to safeguard them from natural disasters and to mitigate risk from other unforeseen circumstances, which also ensures business continuity for the Company. The close monitoring of credit quality by the Company succeeded in maintaining the Non Performing Accommodation (NPA) ratio at the lowest level in contrast with industry standards.

Human Resources Review

The Company's long-term success depends on the talents of our employees and we continue to strengthen systems and processes to ensure that we attract and retain our talented resources. Our corporate culture is one of meritocracy and promotes ethical business as a key endeavour for every employee. We value soft skills as much as we do technical knowledge and expertise. We have a comprehensive recruiting and training system to deliver best results. We invest a significant amount of time and money to ensure that all of our employees are properly compensated.

Talent Recruitment

The Company added 180 employees to the Company during the year under review. Although the Company maintains a lean structure, when needed the HR Department advertises internally and then externally for applications to vacancies through the online and print media. A strict recruitment process follows thereafter where prospective candidates are screened for the right attitude along with required qualifications.

Induction programme

Once a month, the HR department arranges an induction programme for new staff members, during which they are familiarized with the main departments and how they function. The Company's vision, mission and objectives are also explained during the session.

Training and Development

Asia Asset Finance promotes a learning culture and to grow its knowledge base, conducts extensive training and development of staff as per requirements. Both internal and external training is provided to employees, along with overseas exposure. 10 employees were sent to Muthoot Finance office in India to train. In the Company's effort to encourage career advancement for its employees, senior management is offered the opportunity to undergo MBA programmes as per Board approval.

Staff composition

Gender

Gender	Year 2014/2015	Year 2015/2016
Male	156	237
Female	79	121

Age

Age group	
Above 60	7
51-60	8
41-50	13
31-40	69
21-30	213
Below 21	48
Total Staff	358

Cadre

	Mar-16	Mar-15
Senior Management	12	10
Managers	10	8
Assistant Managers	16	12
Branch Managers	9	8
Assistant Branch Managers	3	3
Senior Executives	25	23
Executives	56	29
Junior Executives	71	49
Junior Officers	97	62
Trainees	59	31
Total Employees	358	235

Performance appraisals

Performance appraisal is treated holistically on an annual basis to discuss performance and development of employees, as well as the support they need in their role. The process is carried out sensitively and forms an important component of identifying employee strengths and weaknesses, their performance and future roadmap to success. Recommendations come through immediate superior, respective Senior Manager and HR.



Management Discussion & Analysis

Grievance Support

The Company encourages employees to air their grievances so that solutions can be found to redress valid grievances. Staff members can talk to their superiors or directly to the HR Department about their grievances and can be rest assured that their side will be heard in detail and appropriate solutions found by a committee specially appointed for the purpose. The Company values its human resources and ensures a stress-free workplace by offering conducive working conditions and adequate reward and remuneration.

Staff Welfare

Insurance policy

After the confirmation of employment, staff members are entitled for insurance. We have in-house insurance scheme only for hospitalization which also covers full payment for maternity expenses.

Awards & Accolades

The Company conducts the HR awards ceremony annually to coincide with the Sinhala and Tamil New Year day,

when all the employees get together to celebrate the beginning of a new year while reveling in the awards ceremony.

The following awards were distributed during the financial year under review:

Name of the Awards
Best Branch
Best Branch Internal Control
Best Branch Legal, Credit and Operations
Best Product Manager
Best Branch Recovery Team
Most Popular Staff member
Most Improved Staff member – Senior
Most Improved Staff member – Junior
Most Punctually/ Disciplinary Staff member
Most Improved Marketing Officer – Senior
Most Improved Marketing Officer – Junior
Most supportive Staff member
CEO Award Senior
CEO Award Junior
Letters of Recognition – Finance, Recovery, Operations, Credit and Legal

Staff Recreation

The Company promotes an ideal work-life balance, by providing opportunities

for employees to bond outside of the workplace. The Sinhala and Tamil new year festival is celebrated amidst much gaiety every year.

The annual staff outing was held at **'Ananthaya'** during the year, where a fun time was had by all amidst games, dance, song and laughter.

The annual christmas party was held at the **'Club House – Uswetakeiyawa'** to ring in the festive season.

Asia Asset Finance PLC emerged as champions of G-Division League Tournament 2015 which was organized by Mercantile Cricket Association while achieving the awards of Man of the Final and Man of tournament.

Further AAF became Runners Up of "Hayles Fiber Challenge Trophy of T20 2015 tournament organized by Mercantile Cricket Association.



IT Review

The Information & Technology (IT) function at Asia Asset Finance is a key enabler and a strategic necessity, which supports and leads many initiatives of the Company. The Company's innovative technology backed solutions have played a pivotal role in improving staff productivity, streamlining business processes within the Company whilst gaining accessibility of a wider customer base enhancing customer convenience and satisfaction .

The department's efforts to automate systems and processes continue and the state of art technology will equip the Company field staff to offer mobile receipts during collection out in the field. Enabled by a POS device, this technology will go a long way in offering customer care at the doorstep of customers, helping strengthen the bond between customer and company. Meanwhile , IT team has been focussing on customer service enhancement projects aligned to key business strategies encompassing Savings account holder automation and enhancing customer touch points via mobile devices /web based solutions and AAF Debit card. Further the team is in the process of evaluating functionality of Forex software solution to add to our IT solution portfolio in order to facilitate company's operations to cater to the growing customer needs in niche markets .

Whilst our IT systems become an integral part of our business processes and customer service we strive to minimise exposure to IT Risks . Our Risk management team together with IT department have carefully inventorised risks , assessed them and DR strategies/ processes are being further strengthened to minimise business interruptions due to systems downtime.

As part of its ongoing effort, the IT department motivates staff to be proactive participants in the Go Green concept, thereby reducing paper usage by greater digitization and printing only when absolutely necessary. By constantly raising awareness about the Go Green initiative, the IT department has played a big role in driving responsible use of paper and energy in the organization.

The IT team is also working on a Business intelligence tool in order to facilitate decision making at all levels of management by providing solution interface to ascertain key business insights thro data mining of business transactions and customer interactions .. This will enhance informed decision-making at the required levels and offer enhanced customer care.

Management Discussion & Analysis

Corporate Social Responsibility

Sustainability is at the core of the Company's operations, as it practices financial inclusion through its microfinance products, touching thousands of lives across the country. The Company is closely engaged with the local community and is always prepared to address community needs.



Blood Donation

During the period under review, the Company embarked on a major blood donation drive to commemorate five years of operations of its Kurunegala Branch. The drive was coordinated with the Kurunegala Regional Hospital Blood Bank and was conducted successfully. The Company donated 75 pints of blood to the hospital.





Carnival for Under-privileged Children

On 14th November AAF planned a mini kids' carnival for 150 under privileged kids from Vajira Nivasaya and Sri Jinanandha Childrens Home. It was a blissful to see the smiles on their faces as AAF had organized games, pony rides, bouncers, pop corn, candy floss and Ice cream. All children were given unlimited snacks and sweets and at the end of day, each child was handed a gift along with a photograph to cherish.

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

Finance Companies (Corporate Governance) Direction, No. 03 of 2008 and No. 06 of 2013 amendment issued by the central Bank of Sri Lanka.

Company's compliance with code of Best Practice on Corporate Governance issued jointly of chartered Accountant of Sri Lanka (ICASL) and the securities and Exchange Commission (SEC)

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 seven members including the Chairman. The day-to-day monitoring of operations of the Company has been delegated to the CEO and the Executive Committee governed by policies, procedures, and authority by the Board of Directors. They bring a wide range of business, financial, legal, engineering, and entrepreneurial knowledge, skills and experiences.
Board Meetings				
Frequency of Board meetings	A.1.1		Compliant	Board meetings were held twelve (12) times during a year to review financial performance and consider other matters such as strategic and operational plans, to review and evaluate the performance of the Company. The individual attendance by each member of the Board is presented on page 95 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	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. The senior management / Management Committee consist of competent members who have skills, knowledge and experience and qualifications to carry out their respective functions effectively. The profiles of the senior management and the Management Committee are presented on pages 28 to 33 of this Annual Report.
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 116 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.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Dedication of adequate time and effort to matters of the Board and the Company	A.1.6		Compliant	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 95 of this Annual Report.
Training for Directors	A.1.7		Compliant	The Chairman is responsible to ensure that the Directors possess sound knowledge to carry out their duties in an effective manner.
Division of responsibilities between the Chairman and CEO	A. 2		Compliant	The roles of Chairman and Chief Executive Officer are separated, and are not performed by the one and the same person.
Chairman's Role	A.3 & A.3.1		Compliant	The Chairman is responsible for the leadership of the Board, managing Board meetings and the business undertaken thereat. The Chairman together with the Company Secretary is responsible to ensure all relevant issues are on the Board Agenda and Directors receive all appropriate information and documentation in a timely manner, thus facilitating the Directors to contribute at the deliberations.

Financial Acumen

Availability of sufficient financial acumen and knowledge	A.4		Compliant	<p>AAF Director Board is equipped with qualified Directors in the field of Finance and Accountancy and possesses the necessary financial wisdom. AAF is fortunate to have highly-qualified Directors to advise the Board on financial matters.</p> <p>The Assistant General Manager - Finance possesses vast experience in financial management together with necessary qualifications in finance being an Associate Member of The Institute of Chartered Accountants of Sri Lanka, 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 22 to 26 of this Annual Report and provide the Company with the necessary financial guidance in conducting its business.</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
Board Balance				
Composition of the Board	A.5 & A.5.1	7.10.1	Compliant	The Board of Directors of the Company comprises of seven Non-Executive Directors and one Executive Director.
Independent Directors	A.5.2	7.10.2 & 7.10.3(c)	Compliant	There are three Independent Non-Executive Directors and they are free of any business or other relationship with the Company.
Criteria for evaluating Independence of Non-Executive Directors	A.5.3	7.10.2	Compliant	Independent Non-Executive Directors remained distant from management and free from any other business relationships that could impair independency in decision making. The Independent Non – Executive Directors complied with independency criteria stipulated by the CBSL, SEC and ICASL guidelines during financial year 2014/2015.
Signed independence declaration by the Non-Executive Directors	A.5.4		Compliant	Each Non-Executive Director is responsible to submit assigned and dated declaration on an annual basis of his/her independency/non-independency. At present, three Director of the Company are Independent and the other five Directors are Non-Independent.
Determination of independence of Non-Executive Directors	A.5.5		Compliant	Based on the written submissions made by the following Non-Executive Directors and taking into account the criteria specified in Section 4.4 of the Corporate Governance Direction issued by CBSL, the Board deems them as "Independent".
Requirement to appoint a Senior Independent Director	A.5.6		Compliant	One Director is a senior Independent Director as at 31st of March 2015.
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 briefs the Board on the functional areas of Credit, Finance and Recoveries that they oversee. The Board on other functional matters deals with the Managing Director or the heads of those respective departments when necessary. The Directors have free and open contact with management of all levels.</p>
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 01 appointment to the Board during the year under review. A brief profile of each Director is presented on pages 22 - 26 and the Company is forthwith disclosing to shareholders.
Resignation of a Director			Compliant	There are no any resignations of Directors during the financial year. It is stated on page 101 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. 1. Profiles of Directors - Page 22 2. Corporate Governance Report – Page 48 3. Details of Related Party Transactions - Pages 164 to 166. Details of Directors including names, transactions with a finance Company. 4. Board Meeting Attendance - Page 95 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.
--	------	------------	-----------	--

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 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 108 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.

Corporate Governance

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

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
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 107 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 116 of this Annual Report.
Management Discussion and Analysis	D.1.4		Compliant	"Management discussion and analysis" discussing the above issues; Industry structure and development, risk and concerns, financial performance and prospects of the future are presented on pages 34 -113 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 101 of the Annual Report.
Maintain a sound system of Internal Controls	D.2		Compliant	A Risk Management Report is presented on page 96 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.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
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 109 on the Annual Report.
Internal Audit function	D.2.2		Compliant	AAF has entrusted its separate Internal Audit Division, with 03 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; Audit Committee Integrated Risk Management Committee Remuneration Committee Credit Committee Related Party Transactions Review 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.
Sub Committees				
Audit Committee	D.3	7.10.6 (a), (b) & (c)	Compliant	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 102 of the Annual Report. The Committees met 5 times during the year.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Remuneration Committee		7.10.5.	Compliant	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 102 of this Annual Report.
Integrated Risk Management Committee			Compliant	The Committee consists of three members. The Committee periodically reviews the adequacy and the effectiveness of the risk management decisions taken by the Management.
Independence and objectivity of the Auditors			Compliant	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. 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. The duties of the Audit Committees are given in the Audit committee's report which is set out on page 109 of this Annual Report.
Adoption of a Code of Business Conduct	D.4		Compliant	The Company adopts a code of business conduct and ethics for Directors and members of the senior management team.
Confidential Information	D.4.1		Compliant	If the Company has a Code of Business conduct & ethics for directors and members of the senior management team, make affirmative declaration in the annual report that all directors and members of the senior management team have complied with such code. If unable to make that declaration state why you are unable to do so.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
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 103 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.

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.

Corporate Governance

AAF's compliance status to Finance Companies (Corporate Governance) Direction, N0.03 of 2008 and 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. 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>
<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>

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
				<p>Salient features of the policy document include,</p> <ul style="list-style-type: none"> - Separation of the duties in relation to risk management for various levels of the hierarchy. - Aligning corporate plan strategic business objectives with risks objectives. - Accountability of staff for the identification, assessing and managing of risks within, their scope of assigned responsibilities/ job functions. - The Boards role in the management of risks and corporate management duties towards risk management.
<p>c. identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;</p>	√			<p>Risk Management</p> <p>In keeping with the approved risk policy, each division is entrusted with assessing risk related to their work functions and to apply systems and controls to manage risks.</p> <p>Already a formal risk management document has been developed which would demarcate as to who would handle what in terms of managing risk, to counter key risks. The risk function is responsible for reporting to the Board in relation to the Company's IRM framework via the risk committee, including risk appetite and strategy, policies, methodologies and risk reporting.</p> <p>It is an independent, objective oversight and challenge activity designed to add value and improve the operations of the Company.</p>
<p>d. approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;</p>	√			<p>Communication policy document</p> <p>A Board approved communication policy 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>

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
				<p>The AGM is used as the main communication method to interact with AAF shareholders, to obtain their views and pass down important aspects related to the Company. Other communication methods are specified to deal with AAF's broad based stakeholder list that includes its customers, suppliers, borrowers and society.</p>
<p>e. reviewing the adequacy and integrity of the finance company's internal control systems and management information systems;</p>	√			<p>Internal Control system 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 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 Assistant Internal Auditor randomly selected four branches to review the internal control for quarter. 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>

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
	√			<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 July 2015.</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 was not carried out and as a result, an assessment on the integrity of info system of the AAF has not been covered.</p>
<p>f. identifying and designating key management personnel, who are in a position to:</p> <p>i) significantly influence policy;</p> <p>ii) direct activities; and</p> <p>iii) exercise control over business activities, operations and risk management;</p>	√			<p>High profile Board</p> <p>The Board of AAF comprises highly qualified individuals who possess vast experience, qualifications and knowledge to effectively direct company's affairs in a prudent manner.</p> <p>The Company has designated members to the Board of Directors including CEO as the Company's key management personnel.</p> <p>Identification, Recruitment and Retention of Officers in Key Positions</p> <p>Recruitment or promotion to next grade, for top corporate positions is decided after careful scrutiny of individuals' capabilities against the job role at hand. Selecting only high caliber individuals for these key roles with experience in the relevant field is considered a vital requirement for top positions.</p> <p>AAF's organizational which chart clearly specifies the top positions and reporting structure gives an indication of career path and future succession planned for top officers' grades. There are clear job roles and tasks specified for all top positions.</p>

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
<p>g. defining the areas of authority and key responsibilities for the Board and for the key management personnel;</p>	√			<p>Boards responsibility document The Boards responsibilities have been defined through a formal “Boards Responsibility” document which specifies job responsibilities of the Managing Director, Chairman, Executive Directors as well as the role of Non- Executive Directors.</p> <p>Role of key management 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>
<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 Affairs of AAF are closely reviewed by the Directors through Board meeting 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 Managing Director, other members of the corporate management and their subordinates on an ongoing basis.</p>
				<p>Laying down Clear “Procedures and Processors” 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>

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
				<p>Managing Employees 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>
<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 Manager Risk and Compliance and Company Secretary, an assessment is carried out as per CBSL format on corporate governance requirements, and a final submission is made through the Managing Director.</p> <p>The Company since 2013 has restructured the Board itself and its sub-committees to set the best governance standards to comply with prevailing regulations.</p> <p>Mr. C. Ramachandra has appointed and to be the senior independent director & Mr. P. M. B. Fernando has been appointed as the independent Director on 5th May 2015.</p> <p>Some of the mentionable changes are; Appointment of a Non-Executive Chairman, 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>

Corporate Governance

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 meetings 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 invite for board meetings in order to communicate policies and decisions and monitor progress towards corporate objectives</p> <p>Corporate management together with the Executive Directors 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 Credit and Marketing (Non- Board) with all Credit and Marketing staff on a monthly basis to review credit related aspects. Recovery Division meetings are also held on a monthly basis headed by Executive Director and all recoveries staff to discuss recovery progress covering recovery targets, formulating strategies to maintain lower NPL levels and taking decisions on recovery related processes.</p>

Direction Requirement (with section number of the Direction)	Complied	Not 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>Manager Compliance and Risk being the compliance officer follows up on adherence to regulations related to money laundering and updates the Board of Directors monthly through the CFO 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 into 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 Managing Director'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 Managing Director on the other hand being an Executive Director is responsible for effective running of day- to- day operations of the Company.</p>

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
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.	√			The Board has obtained independent professional advice where required.
2.4 A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has substantial interest, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	√			In accordance with Articles Sec 111, directors abstain from voting in respect of any contract or arrangement in which he or any of his relatives or a concern, in which he has substantial interest, is interested or for the purpose of any resolution regarding the same shall not be counted in the quorum present at the meeting. (However no such a matter has arisen during the year)
2.5 The Board shall have a formal schedule of matters specifically reserved to it for decisions to ensure that the direction and control of the finance company are firmly under its authority.	√			The Board has adopted a formal schedule of matters specifically reserved for the Board as indicated in Section B of the Terms of Reference of Board of Directors to fulfill its responsibilities and stewardship of the Company.
2.6 The Board shall, if it considers that the finance company is, or is likely to be unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.			√	Not required as company fulfilled its obligations to its depositors and creditors. The Board is aware of the need to inform Director of the Department of Supervision of Non-Bank Financial Institutions and no such situations have arisen during the year. The Company is solvent and is a going concern as declared in the "Annual Report of the Board of Directors" on page 88 & 106 of the 2014/2015 annual report.

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
<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 50 on the 2014/2015 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 2015/2016.</p>
<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 2015/2016.</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 Compliance officer under the consent and guidance of the CEO and board. However, the Company is in the process of drawing up an established procedure.</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>

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
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.	√			All Directors have participated over the minimum participation requirement of at least attending two-thirds of the meetings held in financial year 2015/2016. All Directors have attended two-thirds of the meeting during period.
3.5 The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	√			P.R. Secretary has been 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.
3.6 Check whether the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting.	√			Schedule of items and matters to be discussed in the Board Meeting are included in the agenda prepared by the Compliance Officer under the consent and guidance of the CEO and board. However, the Company is in the process of drawing up an established procedure.
3.7 All directors shall have access to advice and services of the Company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	√			All Directors have access to the advice and services of the Company Secretaries. However, an established procedure is in the process of implementation. The secretaries ensure that board procedures are followed and the provisions of the Companies Act No. 07 of 2007 and other applicable rules and regulations are complied with.
3.8 The Company Secretary shall maintain the Minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time, on a reasonable notice by any director.	√			P.R. Secretary has been appointed on 19th August 2004 as the Company Secretary in line with the stipulated requirements. The Company Secretary is responsible for preparing the agenda for Board meetings, maintaining minutes of the board meetings and ensuring that the proceedings at the board meetings are recorded in sufficient details. The Minutes of the previous board meetings are adopted in the ensuing board meeting. Directors can inspect the Board Minutes as and when required.

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption																											
3.9 Minutes of board meetings shall be recorded in sufficient details.	√			All board meeting minutes are duly recorded in sufficient details and retained by the Company Secretary under the supervision of the Chairman.																											
4 Composition of the Board																															
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.	√			AAF Board comprised eight 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.																											
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.	√			In keeping with section, no Non-Executive Director holds his/her position exceeding nine years as given below ; <table border="1" data-bbox="943 1070 1465 2022"> <thead> <tr> <th>Name of Director</th> <th>Directorship status</th> <th>Number of years in position as at 31st March 2016</th> </tr> </thead> <tbody> <tr> <td>Mr. H. L. L. M. Nanayakkara</td> <td>Chairman (Non-Independent Non-Executive Director)</td> <td>07 years</td> </tr> <tr> <td>Mr. Rajiv Gunawardena</td> <td>Non-Independent Executive Director</td> <td>06 years and 03 months</td> </tr> <tr> <td>Mr. C. Ramachandra</td> <td>Independent Non-Executive Director</td> <td>04 years and 09 Months</td> </tr> <tr> <td>Mr. Thusitha Perera</td> <td>Independent Non-Executive Director</td> <td>02 year and 03 months</td> </tr> <tr> <td>Mrs. Dayangani Priyanthi Pieris</td> <td>Non Independent Non-Executive Director</td> <td>04 years and 02 months</td> </tr> <tr> <td>Mr. K.R.Bijimon</td> <td>Non Independent Non-Executive Director</td> <td>01 year and 01 month</td> </tr> <tr> <td>Mr. George M. Alexander</td> <td>Non Independent Non-Executive Director</td> <td>01 year and 01 month</td> </tr> <tr> <td>Mr. P. M. B Fernando</td> <td>Independent Non-Executive Director</td> <td>11 Months</td> </tr> </tbody> </table>	Name of Director	Directorship status	Number of years in position as at 31st March 2016	Mr. H. L. L. M. Nanayakkara	Chairman (Non-Independent Non-Executive Director)	07 years	Mr. Rajiv Gunawardena	Non-Independent Executive Director	06 years and 03 months	Mr. C. Ramachandra	Independent Non-Executive Director	04 years and 09 Months	Mr. Thusitha Perera	Independent Non-Executive Director	02 year and 03 months	Mrs. Dayangani Priyanthi Pieris	Non Independent Non-Executive Director	04 years and 02 months	Mr. K.R.Bijimon	Non Independent Non-Executive Director	01 year and 01 month	Mr. George M. Alexander	Non Independent Non-Executive Director	01 year and 01 month	Mr. P. M. B Fernando	Independent Non-Executive Director	11 Months
Name of Director	Directorship status	Number of years in position as at 31st March 2016																													
Mr. H. L. L. M. Nanayakkara	Chairman (Non-Independent Non-Executive Director)	07 years																													
Mr. Rajiv Gunawardena	Non-Independent Executive Director	06 years and 03 months																													
Mr. C. Ramachandra	Independent Non-Executive Director	04 years and 09 Months																													
Mr. Thusitha Perera	Independent Non-Executive Director	02 year and 03 months																													
Mrs. Dayangani Priyanthi Pieris	Non Independent Non-Executive Director	04 years and 02 months																													
Mr. K.R.Bijimon	Non Independent Non-Executive Director	01 year and 01 month																													
Mr. George M. Alexander	Non Independent Non-Executive Director	01 year and 01 month																													
Mr. P. M. B Fernando	Independent Non-Executive Director	11 Months																													

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
4.3 Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the executive directors shall be the Chief Executive Officer of the Company.	√			There is equal 90% representation by Non-Executive Directors (seven Directors) and Executive Director (one Director) and is within the provisions of this section.
4.4 With effect from 01.01.2009 for three years, the number of Independent Non-Executive Directors of the board shall be at least one fourth of the total number of directors.	√			Mr. C. Ramachandra, Mr. Thusitha Perera and Mr. P. M. B. Fernando hold the directorship as Independent Non-Executive director. Refer 4.2 for further information. Three directors and independent and Non-Executive out of total of eight Directors.
4.5 In the event of an Alternative Director being appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.			√	Not applicable since no alternative Director appointments were necessitated during this period.
4.6 Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	√			Non-Executive Directors have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.
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 are Non-Executive Directors.	√			Required quorum has been complied with at all board meetings.

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 62.</p> <p>Following disclosures cover requirements of this section;</p> <ul style="list-style-type: none"> • Composition of the Board of Directors • 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 2015.</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>There were no Directors resign or remove from the board during the period.</p>

Corporate Governance

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 2016.
<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 31.03.2016</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>

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>Subject to the approval of Central Bank, Mr. C Ramachandra had been appointed as the Senior Independent Director on 7th November 2013.</p> <p>The designation of the Senior Director has disclosed in the page no.89 and he has signed as Senior Director in page no.91 of Annual Report of 2014/15.</p>

Corporate Governance

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 name of the Chairman and the Chief Executive Officer and the nature of any relationship has properly disclosed in page 67 in the annual report for the year ended 2014/15.</p> <p>The disclosure related for the year 2015/16 as follows,</p> <table border="1"> <tbody> <tr> <td>Mr. H. L. L. M. Nanayakkara</td> <td>Related to CEO (son of cousin) and Mrs. Peris (sister)</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. K.R. Bijjimon</td> <td>No any Relationship with CEO and Chairman but Mr. George who is his Colleague from Muthoot Finance.</td> </tr> <tr> <td>Mr. George M. Alexander</td> <td>No any Relationship with CEO and Chairman but Mr. Bijjimon who is his Colleague from Muthoot Finance.</td> </tr> <tr> <td>Mr. P. M. B Fernando</td> <td>No any Relationship</td> </tr> </tbody> </table>	Mr. H. L. L. M. Nanayakkara	Related to CEO (son of cousin) and Mrs. Peris (sister)	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. K.R. Bijjimon	No any Relationship with CEO and Chairman but Mr. George who is his Colleague from Muthoot Finance.	Mr. George M. Alexander	No any Relationship with CEO and Chairman but Mr. Bijjimon who is his Colleague from Muthoot Finance.	Mr. P. M. B Fernando	No any Relationship
Mr. H. L. L. M. Nanayakkara	Related to CEO (son of cousin) and Mrs. Peris (sister)																			
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. K.R. Bijjimon	No any Relationship with CEO and Chairman but Mr. George who is his Colleague from Muthoot Finance.																			
Mr. George M. Alexander	No any Relationship with CEO and Chairman but Mr. Bijjimon who is his Colleague from Muthoot Finance.																			
Mr. P. M. B Fernando	No any Relationship																			

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
<p>6.4 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>	√			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>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 Compliance officer prepares the formal agenda which is then circulated by the Secretary prior to the Board Meeting. This agenda is approved by the CEO and 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>

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
				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.
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.	√			The Chairman being non Independent Non-Executive does involve himself with direct supervision of key management personnel or handles executive duties. The duties of the Chairman have been defined and approved by the Board. This does not involve executive duties whatsoever.
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.	√			At Annual General Meetings, shareholders are given the opportunity to express views so that they can take up their concerns and make recommendations. All matters deemed material raised at the AGM are taken up subsequently and followed up by the Board. A Board approved communication policy is in place which specifies AAF's policy of communication with key stakeholders of the Company.
7.11 The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.	√			The Chief Executive Officer functions as the apex executive-in-charge of the day to day- management of the Company's operations and business.

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 2014/2015 annual report as follows,</p> <table border="1"> <thead> <tr> <th>Name of the Committees</th> <th>Reference page</th> </tr> </thead> <tbody> <tr> <td>Integrated Risk Management Committees Report</td> <td>89</td> </tr> <tr> <td>Remuneration Committees' Report</td> <td>89</td> </tr> <tr> <td>Audit Committees' Report</td> <td>89</td> </tr> </tbody> </table>	Name of the Committees	Reference page	Integrated Risk Management Committees Report	89	Remuneration Committees' Report	89	Audit Committees' Report	89
Name of the Committees	Reference page											
Integrated Risk Management Committees Report	89											
Remuneration Committees' Report	89											
Audit Committees' Report	89											
<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. C. Ramachandra, Chairman of the Audit committees, is a qualified Chartered Accountant and an Independent Non-Executive Director of the Company. While possessing two accounting qualifications and counts over forty one years of experience in the fields of auditing, Tea exports, Financial Services and Packaging, he has a wealth of experience in the field of audit, and financial reporting. He is presently the Executive Director/ Chief financial Officer of Uni Walker Packaging Ltd, Lipton Ceylon Ltd in 1978 -1992 as assistant Financial Accountant and from 1992-1995, he served as the General Manager of the Commercial Bank of Ceylon's Fund Management company and also 1995-2004, he was the Financial Manager/ Company Secretary of Varna Ltd.</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 Committee are Non-Executive Directors.</p>								

Corporate Governance

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> <p>(i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes.</p> <p>(ii) The implementation of the Central Bank guidelines issued to auditors from time to time</p> <p>(iii) The application of the relevant accounting standards.</p> <p>(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.</p>	√			Summary of the functions has been disclosed in the Audit Committee report on page 95 of the 2014/2015 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.
<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 <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>

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
8.2.f The committees shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit.	√			The nature and scope of the audit have been discussed and finalized, with the external auditors in accordance with Sri Lanka Auditing Standard.
8.2.g The committees shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein.	√			The committees reviewed the financial statements and the Annual report to ascertain the quality and integrity of the information contained therein. 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.
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.	√			The committees met the previous external Auditors this financial period without the presence of the corporate management to discuss matters arising from the management letter. Further, committees have met with the 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.
8.2.i The committees shall review the external auditor's management letter and the management's response thereto.	√			The external auditor's management letter and the management response have been reviewed by the Board of Audit Committee.
8.2.j The committees shall take the following steps on an internal audit:				
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;	√			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.

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
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>The Audit Committees were submitted separate Audit Programs by Internal Audit division of the Company for the financial year 2015/2016 which was affirmed by the Committees.</p> <p>Board of Audit Committee reviewed the Internal audit reports and made recommendation on therein.</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. There were no changes to partner in charge during this period.</p>
IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;			√	<p>There are no any appointment or outsource service during the period.</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>There were no changes/resignations of senior officers handling AAF's internal audit function from AAF's own the internal audit division.</p>
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 Manager Internal Audit – Mr. K. M. K. Sanjeewa Kumara (Part qualified Chartered Accountant)</p>

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
<p>8.2.k The committees shall consider the major findings of internal investigations and management's responses thereto;</p>	√			<p>There were no special investigations carried out by Internal audit or any other party in 2015/2016 period.</p> <p>However, Board of Audit Committee has considered the findings of internal investigations and management's response thereto at the meeting.</p>
<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>	√			<p>The Assistant General Finance or General Manager 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 once 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>
<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.

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
				<ul style="list-style-type: none"> 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.
8.2.n The committees shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	√			<p>The Committees has met six times during the 2015/2016 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 95 of the 2014/2015 Annual Report provides specific details on meetings held, matters discussed and how the Committee record its decisions.</p>
<p>8.2.o The Board shall, in the Annual Report, disclose in an informative way,</p> <p>(i) details of the activities of The audit committees</p> <p>(ii) The number of audit committees meetings held in the year</p> <p>(iii) Details of attendance of each individual member at such meetings.</p>	√			<p>Details of activities carried out by the Audit Committees and meetings held this period with the participation status have been disclosed on page 95 of the 2014/2015 annual report.</p>
8.2.p The secretary to the committees (who may be the Company secretary or the head of the internal audit function) shall record and keep detailed Minutes of the committee meetings.	√			<p>The Company Secretary, P R Secretary acts as the secretary to the audit committees keeping record of meeting proceedings.</p> <p>Please refer 8. 2 (n) above for further information on keeping Minutes.</p>

Direction Requirement (with section number of the Direction)	Complied	Not 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 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 Managing Director 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 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 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) 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 and GM where the CEO attend by invitation.</p>

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
<p>8.3.a The committees shall consist of at least one Non-Executive Director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committees shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committees.</p>	√			<p>The Committees met four times during the 2015/2016 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 Company's 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.

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
				<ul style="list-style-type: none"> ▪ 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.
<p>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>	√			<p>In accordance with the terms and reference, the IRMC Committee 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>
<p>8.3.c The committees shall review the adequacy and effectiveness of all management level committees such as the credit committees and the asset-liability committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committees.</p>	√			<p>The Committees reviewed the effectiveness of the Management Committees, studying management information presented at weekly forums.</p> <p>Next period, the Committees plan to review the effectiveness of the Assets and Liabilities Management Committees and the Credit Committees.</p>
<p>8.3.d The committees shall take prompt corrective action to mitigate the effects of specific risks in case, such risks are at levels beyond the prudent levels decided by the committees on the basis of the finance company's policies and regulatory and supervisory requirements.</p>			√	<p>The Board reviews the areas of risk limits for management level committees.</p> <p>The Committees did not come across risks that went beyond the prudent levels of risks. However, immediate action was specified whenever risk material in nature was brought to committees' attention.</p>

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
8.3.e The committees shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	√			The Committees only met four times on a quarterly basis during this financial year. Section 8.3 (a) provides key risk management aspects overseen by the Committees.
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.			√	The Committee is in the process of drawing up a formal disciplinary action procedure for the IRMC.
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.	√			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.
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.	√			A dedicated compliance officer at senior level oversees compliance function of the Company. He 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 Finance Director for the information and necessary attention of the Committees. The compliance with prudential requirements, regulations and laws is disclosed in the "Annual Report of the Board of Directors" on page no.87 of the 2014/2015 annual report.
9 Related Party Transactions				
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.	√			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. No lending's have been made to Directors of the Company/ to its holding company/ as per above Direction.

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
<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 139 of the 2014/2015 annual report.</p> <p>Further, all directors have made directors' interest declaration for the financial year 2015/2016.</p> <p>Further, AAF has disclosed related party transactions under the notes to the financial statements on pages 137 of the 2014/2015 annual report</p>

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
<p>9.3 The transactions with a related party that are covered in this Direction shall be the following:</p> <p>a) Granting accommodation,</p> <p>b) Creating liabilities to the finance company in the form of deposits, borrowings and investments,</p> <p>c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company,</p> <p>d) Creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.</p>	√			<p>Necessary disclosures in relation to all related party transactions entered into by AAF have been disclosed on pages 137 of the 2014/2015 annual report under notes to the financial statements. Disclosures pertaining to Directors' interest in contracts are given from page 139 of the 2014/2015 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>
<p>10 Disclosures</p> <p>10.1 The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that</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 2015 have been published in following news papers,</p> <p>Sinhala - Lankadeepa on 25th November 2015 English - Daily FT on 25th November 2015 Tamil - Virakesari on 25th November 2015</p>

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
<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>	√			The Directors' Responsibility Statement given on page 92 of the 2014/2015 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>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>	√			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 93 in the 2014/2015 annual report, provides required disclosure to comply with this section.
<p>c) The external auditor's certification on the effectiveness of the internal control mechanism referred to in subparagraph (2) (b) above, in respect of any statements prepared or published from the date of this Direction.</p>	√			The External Auditors certification on the effectiveness of the internal control mechanism over financial reporting was obtained for the financial period 2014/2015.
<p>d) Details of Directors, including names, transactions with the finance company.</p>	√			Directors' information including their names and other details are provided on page 88 to 90 of the 2014/2015 annual report while their transaction details are disclosed under the "Directors' Interest In Contracts" on page 90 of the 2014/2015 annual report and in the "related party disclosure" note in the financial statements on page 137 of the 2014/2015 annual report.
<p>e) Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010</p>	√			Details of Directors' remuneration in aggregate are disclosed on page 138 to 139 of the 2014/2015 annual report in notes to the financial statements.

Corporate Governance

Direction Requirement (with section number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption
f) Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	√			<p>Total accommodation to related parties of AAF has been disclosed on Page 138 to 139 in the notes to the financial statements of 2014/2015 annual report.</p> <p>There have not been related party transactions exceeding 10% of the equity during the 2015/2016 financial year.</p>
g) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	√			<p>Aggregate values of remuneration paid and transaction carried out by Key Management personnel are disclosed under "Directors' interest in contracts" on page 139 and in the "related party disclosure" in the notes to the financial statements on page 137 of the 2014/2015 annual report. As per the Company's classification, Directors solely come under the definition of Key Management Personnel for the provisions of this section.</p>
h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	√			<p>A compliance checklist on AAF's adherence status to CBSL regulations is given on page 96 of the 2014/2015 annual report.</p> <p>"The Annual Report of the Board of Directors" signed by the Directors given on page 87 of the 2014/2015 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 92 of the 2014/2015 annual report confirms AAF's compliance to regulations on financial reporting.</p>

Risk Management Review

Organization of Risk Management

Risk Management at Asia Asset Finance 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 bi-monthly to assess short term liquidity and other risks.

Operational Risk : Managing operational risk is the prime 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 manual

is 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:

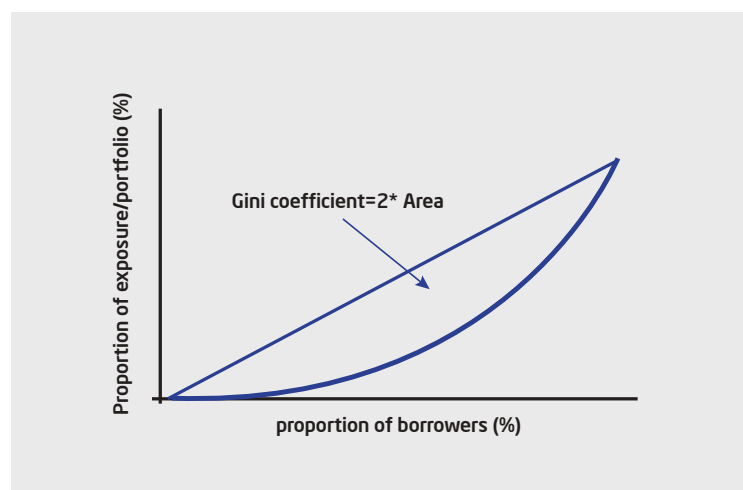
- a) Concentration Risks - The top ten single clients determine the concentration risks based on the size of the loan.
- b) In addition to the above the Risk Management Committee reviews each the exposure of the top ten to single clients in terms of rank order. The top ten in size represent 6.2% of the total accommodations, which in turn forms 21% of the shareholders equity.

While the top ten accounts for the 6.2% of the total accommodations, the other measures of risks attempts to assess the remaining 94%,

Gini Coefficient

In October 2014 the ratio was 1.36. The ratio trended upwards till 2015 May, till it touched 1.62. However, since that date the ratio has dropped to 1.34 by 2016 May, and continues to trend downwards. The Gini Coefficient is compiled in the following manner:

- It is a concentration index
- It is a measure of deviation of a distribution of exposure amounts from an even distribution
- GC close to zero signifies homogeneous (highly diversified) portfolio
- GC close to one indicates highly concentrated portfolio

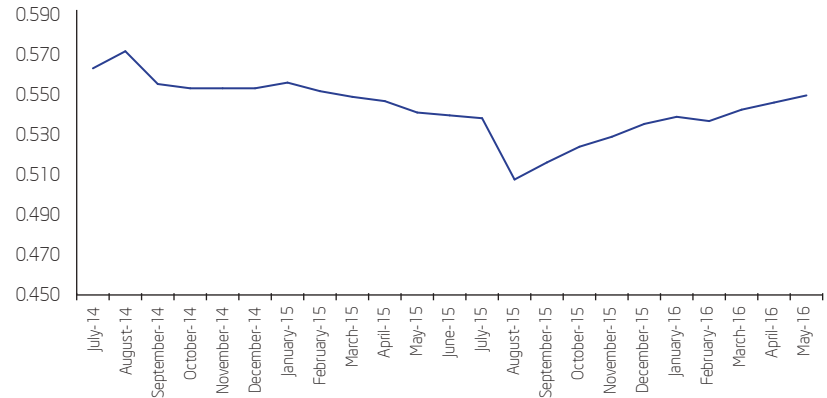


Month	Ratio
July -14	0.559
August -14	0.571
September -14	0.548
October -14	0.545
November -14	0.545
December -14	0.545
January -15	0.549
February -15	0.543
March -15	0.539
April -15	0.536
May -15	0.528
June -15	0.526
July -15	0.524
August -15	0.481
September -15	0.493
October -15	0.504
November -15	0.511
December -15	0.520
January -16	0.525
February -16	0.522
March -16	0.530
April -16	0.535
May -16	0.540

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

Another measure of diversification being contemplated right now is to track the Portfolio by exposure to the industry. Unfortunately our system does not have the capacity to do this at the current time and the Management is in the process of refining the system to track each loan industry wise. Such analysis, we believe is important in the volatile economic climate of the day, as these economic factors impact different segments of the industry and future collectively of the loans differently.

Geographical distribution of Portfolio is important to avoid risks associated in locational concentrations of accommodation. The purpose is to avoid having excessive concentration of risks in a concentrated 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 Eastern Province affected by potential floods.

AAF can have a large loss despite the loans being distributed in small quantities among a large number despite the Portfolio consisting of agglomeration of small loans among a large number of people.

Another measure of this diversification of the product wise distribution of the Portfolio is presented below. The degree of diversification is important as for example a particular single product group may be impacted differentially due to economic conditions. A measure of which indicates project dispersion indicating very low risks to the Portfolio by a single default.

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 such that hereon in case of emergency it can approach banks directly. Earlier, the Company depended more on customer deposits. However by opening channels with the banks and other institutions, it is in a better position. As a result, the Company's gap between assets and liabilities have reduced.

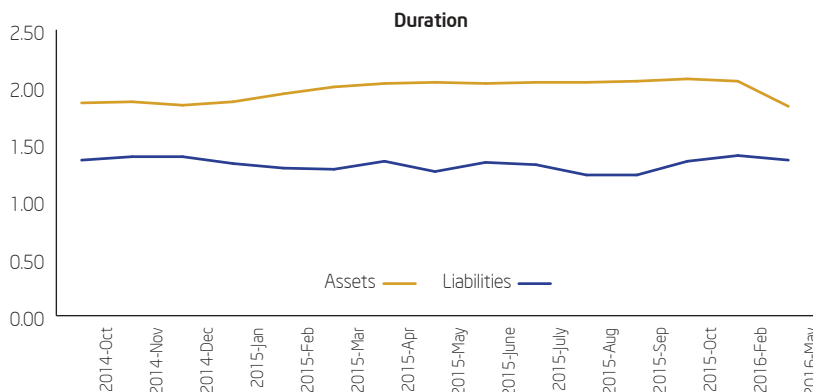
Being the tenor of Gold Loans are short term, the company is in a position to absorb the short term fund mobilization which would enable to reduce the monetary mismatch of assets and liabilities of the Company.

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

Risk Management Review

Month	Duration		
	Assets	Liabilities	Ratio
2014-Oct	1.86	1.36	1.36
2014-Nov	1.87	1.39	1.35
2014-Dec	1.84	1.39	1.33
2015-Jan	1.87	1.33	1.41
2015-Feb	1.94	1.29	1.50
2015-Mar	2.00	1.28	1.56
2015-Apr	2.03	1.35	1.50
2015-May	2.04	1.26	1.62
2015-June	2.03	1.34	1.52
2015-July	2.04	1.32	1.55
2015-Aug	2.04	1.23	1.66
2015-Sep	2.05	1.23	1.66
2015-Oct	2.07	1.35	1.54
2016-Feb	2.05	1.40	1.47
2016-May	1.83	1.36	1.34



Management Committee. The goal is to reach a statistic, of 1.1 at an acceptable cost. By March 2016 the ratio of assets and liabilities was 1.34. The directors are comfortable that the Company is unlikely to be insolvent in the medium term.

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

Macaulay duration is defined as:^{(1)(2)(3) (4)}

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

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.

Further with the plan debenture later the calendar year and the continued maturity mismatch focus on relatively short term lending such as Gold Loans and Micro Finance together with gold lending of the Portfolio, we believe that the goal of 1.1 may be achieved by the end of the next financial year.

In addition to the above, a Committee also considered environmental shocks due to economic or other changes in the environment, e.g. issues relating to other changes in the environment, weather conditions, such as drought or flooding.

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, 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; on site 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 2016, 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.

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 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

Gold Loans carry two principle risks:

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. However, to rely on insurance exclusively to manage risks would be very expensive.

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. Are proposals can be used to mitigate both the

above risks. Unfortunately to utilize such hedging requires Central Bank permission.

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 the experience of our parent company also. We hope to expedite getting approval for the more innovative mechanisms. 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 22%, 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 growth and continue to exploit its lending opportunities and improve its rate to the shareholders in the future.

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 2016.

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, indemnify, 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 consider and if thought fit to pass the following resolution as a Special Resolution it being noted that the Controller of Exchange has granted the necessary permit;

“Resolved that the Articles of Association of the Company be amended by the inclusion of paragraph (15) in Article 3 immediately after (14) of the same Article as follows;

- xiv) 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 10 to 15 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 34 to 113 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 117 to 170.

Auditors Report

The Auditor’s Report on the Financial Statements is given in page 116.

Accounting Policies

The accounting policies adopted in the preparation of financial statements are given in pages 122 to 170.

Financial Results

Description	2016 Rs.	2015 Rs.
Total Income	1,383,809,503	947,958,774
Net Interest Income	672,312,949	369,449,935
Profit before Taxation	209,232,522	102,762,459
Income Tax Reversal/(expense)	(34,014,398)	(1,576,655)
Profit after Taxation	175,218,124	101,185,804
Loans and Advances	4,825,421,160	2,887,370,640
Lease Rentals Receivable and Hire purchase	1,702,419,253	1,250,527,130
Total Assets	8,115,400,702	5,344,407,597
Deposits from Customers	4,796,299,899	3,672,180,230
Total Equity	1,461,531,436	1,285,710,424

Dividends

No dividends have been declared by the Company.

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 149.

Stated Capital

The stated capital of the Company as at 31st March 2016 was Rs.1,388,935,273/-

Donations

The Company has made donations of Rs.435,100/- during the financial year under review.

Capital Commitments

Capital commitment is zero for software as at 31st March 2016.

Provisions

Impairment provision is Rs 326,186,165 and provision for Depreciation is Rs 60,604,017/- and amortization is Rs 9,434,193/- as at 31st March 2016.

Provision for the Taxation

The provision for Taxation is Rs. 37,078,730/-.

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 2016 are set out in Notes 33 and on page 138 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. Bijjimon
 Mr. P. M. B. Fernando

Appointments During the Year

Mr. P. M. B. Fernando

Resignations During the Year

Nil

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

Appointments After the Conclusion of the Year

Mr. R. A. B. Basnayake – Independent Non Executive Director

Mr. K. G. K. Pillai – Non Independent Non Executive Director

Resignations After the Conclusion of the Year

Mr. P. M. B. Fernando

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. Bijimon

Mr. P. M. B. Fernando

of the 8 Directors, Mr. C. Ramachandra is non-executive, independent Director and is the Senior Director of the Board.

Directors Retiring (at the Annual General Meeting)

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

Corporate Governance

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

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

Audit Committee as at 31st March 2016

Mr. C. Ramachandra (Senior Independent Non-Executive Director)

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

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

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

Mr. P. M. B. Fernando (Independent Non-Executive Director)

Integrated Risk Management Committee as at 31st March 2016

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

Mr. C. Ramachandra (Senior Independent Non-Executive Director)

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

Related Party Transaction Review Committee as at 31st March 2016

Mr. C. Ramachandra (Senior Independent Non-Executive Director)

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

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

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

Remuneration Committee as at 31st March 2016

Mr. C. Ramachandra (Independent Non-Executive Director)

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

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

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

Directors' Interest Register

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

Directors Remuneration and Other Benefits of Directors

Directors remuneration and other benefits of directors are stated in the Note 40 on page 165 of the Financial Statements.

Directors' Interest In Shares

Name	No. of Shares as at 31st March 2016	%	No. of Shares as at 1st March 2015	%
Pan Asia Banking Corporation PLC/ Mr. H. L. L. M. Nanayakkara	30,481,763	3.632%	41,963,680	5.000%
Mr. R. J. A. Gunawardena	NIL	NIL	NIL	NIL
Ms. D. P. Pieris	600,000	0.071%	NIL	NIL
Mr. R. A. T. P. Perera	NIL	NIL	NIL	NIL
Mr. C. Ramachandra	800,000	0.095%	NIL	NIL
Mr. G. M. Alexander	NIL	NIL	NIL	NIL
Mr. K. R. Bjjimon	NIL	NIL	NIL	NIL
Mr. P. M. B. Fernando	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 165 of the Financial Statements.

Shareholders Information

The distribution and analysis of shareholdings were as follows;

	As at 31st of March 2016			As at 31st of March 2015		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1- 1,000	855	337,741	0.04	805	317,240	0.04
1,001 -10,000	832	3,889,928	0.46	844	3,957,107	0.47
10,001-100,000	675	27,591,142	3.29	652	25,420,610	3.03
100,001-1,000,000	242	79,590,138	9.48	266	85,529,555	10.19
1,000,001 & over	37	727,798,884	86.73	36	723,983,321	86.27
Total	2641	839,207,833	100	2603	839,207,833	100

	As at 31st March 2016			As at 31st March 2015		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	2625	328,911,217	39.19	2589	405,134,587	48.28
Non-Resident	16	510,296,616	60.81	14	434,073,246	51.72
Total	2641	839,207,833	100	2603	839,207,833	100

	As at 31st March 2016			As at 31st March 2015		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	2545	181,337,802	21.61	2515	155,132,658	18.48
Institutional	96	657,870,031	78.39	88	684,075,175	81.52
Total	2641	839,207,833	100	2603	839,207,833	100

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

20 Major Shareholders of the Company

	Name	As at 31st March 2016		As at 31st March 2015	
		No of Shares	(%)	No of Shares	(%)
1	Muthoot Finance Limited	501,031,126	59.703	428,011,711	51.002
2	Asia Capital PLC	73,976,285	8.815	79,731,395	9.501
3	Pan Asia Banking Corporation PLC/ Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara	30,481,763	3.632	41,963,680	5.000
4	Mr. S. D. R. Arudpragasam	11,801,534	1.406	-	-
5	Mrs. G. I. Vasunthara	11,659,307	1.389	3,700,000	0.441
6	Mr. P. A. D. R. U. Pushpakumara	8,920,000	1.063	5,220,301	0.622
7	People's Leasing & Finance PLC/ Mr. W. K. R. Jayakody	8,150,000	0.971	-	-
8	Mr. K. L. S. Sahabandu	8,000,000	0.953	-	-
9	Seylan Bank PLC/Thirugnanasambandar Senthilveri	7,364,300	0.878	-	-
10	Mr. K. M. S. M. Razeek , Mr K. S. M. Rajubdeen & Mr. S. M. R. Mohamed	6,400,000	0.763	6,400,000	0.763
11	J. B. Cocoshell (Pvt) Ltd	6,000,000	0.715	-	-
12	Mr. D Kotthoff	5,800,000	0.691	5,000,000	0.596
13	Code-Gen International Pvt Ltd	4,241,188	0.505	4,241,188	0.505
14	Ceylon Biscuits Limited	3,750,000	0.447	3,750,000	0.447
15	Mr. H. A. Van Starrex	3,523,064	0.420	3,448,129	0.411
16	Mr. P. P. Subasinghe	3,303,984	0.394	-	-
17	Mr. C. W. Gunasekara	2,750,000	0.328	-	-
18	Merchant Bank Of Sri Lanka Ltd A/C No 1	2,500,000	0.298	-	-
19	Mr. K. S. D. Senaweera	2,400,000	0.286	-	-
20	Mr. S. Abishek	2,133,997	0.254	2,133,997	0.254
		704,186,548	83.911	583,600,401	69.542
	Others	135,021,285	16.089	255,607,432	30.458
	Total	839,207,833	100	839,207,833	100

Share Prices for the Year

Name	As at 31/03/2016	As at 31/03/2015
Market price per share		
Highest during the year	Rs. 2.00 (15-05-15)	Rs. 2.10 (12-01-15)
Lowest during the year	Rs.1.20 (10-03-16)	Rs.1.60 (31-03-15)
As at end of the year	Rs.1.30	Rs.1.60

Public Shareholding

Public Holding Percentage as at 31st March 2016 being 27.39% comprising of 2.636 shareholders

Annual General Meeting

The notice of the Annual General Meeting is on page 178.

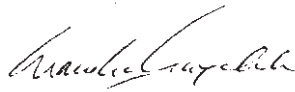
Auditors

The Financial Statements for the year ended 31st March 2016 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.1,210,000/- 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
Senior Director



P. R. Secretarial Service (Private) Limited
Secretaries

26th August 2016

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 116. 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 2016 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 Director 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 Group'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 Group, 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 Balance Sheet date have been either duly paid or have been appropriately provided for in the Financial Statements.

On behalf of the Board of Directors;



Mr. Rajiv Gunawardena
Director /CEO



Mr. C. Ramachandra
Senior Director

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.

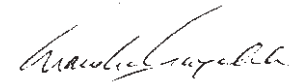
Confirmation

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 2016 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



Manohan Nanayakkara
Chairman



Rajiv Gunawardena
Director/Chief Executive Officer



C. Ramachandra
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 (w.e.f 28th July 2015)

The Chairman of the Committee, Mr. C. Ramachandra, is a Non-Executive Independent Director.

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, Executive 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, Executive Directors and the members of the Senior Management.

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 Meeting

A formal meeting of the Committee takes place whenever necessary. During the financial year 2015/16, the Committee met on 3 occasions to review and recommend the annual increments and the bonus for staff.



C. Ramachandra

Chairman
Remuneration Committee

26th August 2016

Audit Committee Report

Membership and Appointments

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. C. Ramachandra (Chairman)
- Mr. H. L. L. M. Nanayakkara
- Mr. R. A. T. P. Perera
- Mr. K. R. Bijimon (wef 28th July 2015)
- Mr. P. M. B. Fernando (wef 28th July 2015)

The Committee is appointed by and responsible to the Board of Directors. Mr. C. Ramachandra and Mr. P. M. B. Fernando are independent Non-Executive Directors. The biographic details of all the members is provided on pages 22 to 26 of the annual report.

Role of the Audit Committee

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 financial and other connected affairs of the Company while monitoring all Internal and External Audit inspection programmes. The Committee also has a responsibility to review Internal and External Audit Reports and follow up on recommendations, review the efficiency of internal control systems and procedures in place and to review the quality of Accounting Policies

and their adherence to statutory and regulatory compliance. Amongst other responsibilities, the Committee also ensures 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. Further, it has to monitor that 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.

Meetings

The Director/CEO is invited to attend all meetings, while Senior Management staff also attend meetings as and when required. The proceedings of the Audit Committee meetings are regularly reported to the Board of Directors. The Committee held six meetings during the year under review.

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.

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 Company has engaged the services of a permanent Internal Auditor. His reports are periodically reviewed and follow-up action is monitored by the Committee. The Internal Audit Division was expanded during the year and a further expansion is planned for 2016/17, taking into consideration the increased volume of business and new products.

Internal Controls

The effectiveness of the internal control procedures in place for selected procedures was carefully evaluated and action was taken to strengthen internal controls where necessary.



C. Ramachandra
Chairman
Audit Committee

26th August 2016

Related Party Transaction Review Committee Report

Composition of the Committee.

The Board established the Related Party Transactions Review Committee with effect from 15th February 2016 in terms of the Code of Best practice on related party transactions issued by the Securities and Exchange Commission of Sri Lanka and Section 9 of the Listing Rules of the Colombo Stock Exchange.

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.

Duties of the Committee

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 held one meeting during the year.



C. Ramachandra

Chairman

Related Party Transactions Review Committee

26th August 2016

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 Department of PLC is an integral part of its internal control structure whose tasks, inter alia, include;

- 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.

Questions & Answers



Mr. Roshan De Silva
Gunasekera - GM

Q Can you describe how AAF contributed to change the social fabric of Sri Lanka over the years ?

A AAF is not only engaged in the business of collecting and disseminating funds. In a broader sense we are engaged in the business of empowering people and transforming lives. In this regard we have introduced two products namely; Micro Finance and Business Loans which are granted to the poorest of the society.

In a country where over 30% of the population is living below the international poverty line of USD 2 per day; our financing has definitely helped to improve the lively hoods of many Sri Lankans across the country, cultures and social backgrounds.

Our aim is to see the Micro Businesses going through the cycle of Micro, SME and Corporate level over the years. This process will certainly change the social fabric of Sri Lanka in the long term. Even though it will be a long and painful exercise we will continue to grow with our customers and will take the pride of being partners of their growth in there long journey to success.



Mr. J Weerappulige -
AGM Marketing

Q Can you describe how geographical risk will help your company to mitigate risk an improve profitability and NPLS ?

A Geographical penetration and expansion of finance company reduces the risk of its lending activities as well as it can be used to diversify the sourced of the FD portfolio. When the Company adds more assets whose returns are directly correlated with the existing assets and also expansion will result in company being cost efficient which enhances the stability & the profitability of the Company. AAF has been penetrating its products to various business segments and some of the products are predominantly based in specific area in view of the nature of the product and demography (eg: AAF Gold Loan base) which has reduced risk relating to credit, operational, marketing & recoveries over the years.



Mr. S Wewaldeniya
- AGM Marketing

Q Describe your achievements on product mix of the Company and how it has contributed to the overall resources of the Company

A We have been focusing on achieving the product mix during the last few years and specially during the last financial year with the newly stipulated regulations on the leasing products. We

have about 15 products in our product portfolio in order to cater for the lower end to the upper end of the society. Taking the risk factor into consideration, these products have been priced and we could maintain a balance between the high yield and low yield products. Hence, apart from achieving volume and profit targets, we were able to maintain a healthy product mix which mitigate the risk and maintaining required weighted average return on the portfolio.



Mr. Sajith Atapattu -
Senior Manager Credit
and Operations

Q What are the measures that you have taken to improve operational efficiency in order to improve the competitive advantage of AAF ?

A At AAF we have high standards in the operational procedures implemented in order to provide the best to our customers while having the necessary controls and strike a balance to safe guard our other stakeholders. AAF has been able to implement the necessary operational procedures which enables AAF to be placed in unique position to have better competencies in serving the customers which in turn create an competitive advantage for AAF. This has been evident in the immediate success AAF have when launching a product or when moving to a new demographic area. Operational policies are reviewed on a timely basis to ensure that the procedures in place is efficient and effective thus creating ease for the customer when dealing with AAF.

වාර්ෂික වාර්තා සාරාංශය

ඒෂියා ඇසෙට් ෆිනෑන්ස් පී.එල්.සී. සමාගම ශ්‍රී ලංකාවේ මූල්‍ය සමාගම් අතරින් ඉතා කෙටි කාලයක් තුළ සීඝ්‍ර දියුණුවක් අත්පත් කරගත් මූල්‍ය සමාගමකි.

මෙම සමාගම ශ්‍රී ලංකා මහ බැංකුවේ ලියාපදිංචි බලපත්‍රලාභී මූල්‍ය සමාගමක් වන අතර ශ්‍රී ලංකා කොටස් වෙළෙඳපොළෙහි ද ලැයිස්තුගත සමාගමකි. සමාගම සතු වූ ප්‍රාග්ධනීකරණය වර්තමානයේ රුපියල් බිලියනයකට ආසන්න අගයක් ගනී.

සමාගමේ වත්කම් සම්බන්ධයෙන් ඇතිවූ සීඝ්‍ර දියුණුව ගෙවුණු වසරට සාපේක්ෂව 52% අගයක් ගනු ලබන අතර මෑත කාලීන ඉතිහාසය, එනම් 2014-2015 වසර හා සසඳන විට සමාගම සතු වත්කම් ප්‍රමාණයේ වැඩිවීම බිලියන 2.7 පමණ වූ අති විශාල අගයකින් ඉහළ ගොස් ඇත.

තවද සමාගම තැන්පතු ප්‍රමාණයේ ප්‍රසාරණය ගෙවුණු වසර තුළ ධනාත්මක ලෙස වර්ධනය වී ඇති අතර, එය 2015 පෙර වසර හා සසඳන විට 31% ක අගයකින් ඉහළ ගොස් ඇත.

තම කොටස් හිමියන් කෙරෙහි වැඩි අවධානයක් දක්වනු ලබන සමාගම ගෙවුණු වසරේ කොටස් හිමි අරමුදල පෙර වසරට සාපේක්ෂව 13.7% කින් ඉහළ නංවාගෙන ඇත.

එමෙන්ම සමාගම සතු පාරිභෝගික ණය ප්‍රමාණයේ වැඩි වීම පැහැදිලි ලෙස දැකිය හැකි අතර එය පෙර වසර හා සසඳන විට 57.8% වර්ධනය අගයක් ගෙන ඇත.

ශ්‍රී ලංකාවේ මූල්‍ය සමාගම් අතර ඇති දැඩි තරගකාරීත්වය හා අභියෝග සියල්ල හමුවේ වුව ද, ඒෂියා ඇසෙට් ෆිනෑන්ස් පී එල් සී සමාගම ගෙවුණු වසර තුළ රුපියල් මිලියන 175.8 ක ලාභයක් උපයා ගැනීමට සමත් වී ඇත.

Customers truly experience a discernable difference in our differentiated services to serve the evolving needs of the market

Financial Information



Independent Auditor's Report



Tel : +94-11-2421878-79-70
 +94-11-2387002-03
 Fax : +94-11-2336064
 E-mail : bdopartners@bdo.lk
 Website : www.bdo.lk

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, 2016 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 122 to 170.

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, 2016 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

03rd May, 2016

TS/cc

Statement of Profit or Loss and other Comprehensive Income

For the Year Ended 31st March, 2016

	Note	2015/2016 Rs.	2014/2015 Rs.
Interest income	5	1,265,001,829	850,447,095
Less: Interest expenses	6	(592,688,880)	(480,997,160)
Net Interest income		672,312,949	369,449,935
Net Trading gain/(loss) on held for trading securities		(7,947,048)	24,610,913
Other operating income	7	126,754,722	72,900,766
Less: Operating expenses			
Personnel expenses		(249,869,486)	(178,237,431)
Provision for staff retirement benefits		(3,123,711)	(2,630,870)
General and administration expenses		(197,588,640)	(137,297,937)
Impairment charge for lease rentals receivable, hire purchase, loans and advances	8	(83,947,606)	(24,748,372)
Operating profit before value added tax on financial services		256,591,180	124,047,004
Value added tax on financial services		(47,358,658)	(21,284,545)
Operating profit before income tax	9	209,232,522	102,762,459
Income tax expense	10	(34,014,398)	(1,576,655)
Profit for the year		175,218,124	101,185,804
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)			
Actuarial gain/(loss) on retirement benefit liability		837,345	(1,049,754)
Deferred tax effect on components of other comprehensive income		(234,457)	293,931
Other comprehensive income for the year net of tax		602,888	(755,823)
Total comprehensive income for the year		175,821,012	100,429,981
Earnings per share - basic	32	0.21	0.15

Figures in brackets indicate deductions.

The accounting policies and notes on pages 122 to 170 form an integral part of these financial statements.

Colombo

03rd May, 2016

Statement of Financial Position

As at 31st March, 2016

	Note	31.03.2016 Rs.	31.03.2015 Rs.
Assets			
Cash and cash equivalents	12	690,797,870	446,524,236
Investment in reverse repurchase agreements against treasury bills and bonds	13	328,866,266	259,698,505
Other financial assets	14	8,817,330	9,254,835
Financial assets - Held for trading	15	48,244,689	69,263,955
Loans and advances	16	4,825,421,160	2,887,370,640
Lease rentals receivable and hire purchase	17	1,702,419,253	1,250,527,130
Vehicle stock		-	46,797,426
Real estate inventories		34,468,475	41,698,793
Other assets	18	14,958,827	23,966,862
Income tax receivable		-	3,472,184
Advances, deposits and prepayments	19	60,178,750	47,261,648
Financial assets - available for sale	20	506,659	578,617
Property, plant and equipment	21	145,026,853	67,526,350
Investment property	22	143,706,564	80,842,794
Deferred tax assets		100,402,344	97,845,584
Intangible assets	23	11,585,662	11,778,038
Total assets		8,115,400,702	5,344,407,597
Liabilities			
Due to banks	24	166,925,303	62,326
Other liabilities	25	40,410,784	31,553,729
Current tax liabilities	26	28,044,517	-
Other borrowed funds	27	1,609,833,175	344,516,666
Due to customers	28	4,796,299,899	3,672,180,230
Retirement benefit obligation	29	12,355,588	10,384,222
Total liabilities		6,653,869,266	4,058,697,173
Equity			
Stated capital	30	1,388,935,273	1,388,935,273
Retained earnings		27,016,515	(140,013,446)
Statutory reserve fund and other reserves	31	45,579,648	36,788,597
Total equity		1,461,531,436	1,285,710,424
Total equity and liabilities		8,115,400,702	5,344,407,597
Contingent liabilities and commitments	33	210,794,538	24,439,125
Net assets value per share		1.74	1.53

Figures in brackets indicate deductions.

The accounting policies and notes on pages 122 to 170 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 & IT

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 Office



C. Ramachandra

Director

Statement of Changes in Equity

For the Year Ended 31st March, 2016

	Stated Capital Rs.	General Reserve Rs.	Statutory Reserve Fund Rs.	Investment Fund Reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 31st March, 2014	945,130,285	3,000,000	28,767,098	23,198,186	(258,620,113)	741,475,455
Total comprehensive income for the year						
Profit for the year	-	-	-	-	101,185,804	101,185,804
Other comprehensive income (net of tax)	-	-	-	-	(755,823)	(755,823)
Total comprehensive income for the year	-	-	-	-	100,429,981	100,429,981
Transaction with equity holders recognized directly in equity						
Right issue of shares	447,577,513	-	-	-	-	447,577,513
Direct costs relating to right issue	(3,772,525)	-	-	-	-	(3,772,525)
Transfers from reserves to retained earnings	-	-	-	(23,198,186)	23,198,186	-
Transfers to reserves	-	-	5,021,499	-	(5,021,499)	-
Total transactions with equity holders	443,804,988	-	5,021,499	(23,198,186)	18,176,687	443,804,988
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

Figures in brackets indicate deductions.

The accounting policies and notes on pages 122 to 170 form an integral part of these financial statements.

Colombo
03rd May, 2016

Statement of Cash Flows

For the Year Ended 31st March, 2016

		2015/2016	2014/2015
	Note	Rs.	Rs.
Cash flows from operating activities			
Profit before income tax		209,232,522	102,762,459
Adjustments for			
Depreciation and amortization	21 & 23	24,225,092	15,859,929
Impairment of lease hire purchase, loans and advances	8	83,947,606	24,748,372
Write off of assets held for sale		71,958	-
Profit on sale of held for trading securities		(54,379)	(18,496,113)
Gain/loss on fair valuation of held for trading securities		8,001,428	(6,114,800)
Gains from sale of property, plant and equipment, investment property and real estate inventories		(18,365,918)	(16,796,604)
Gain from disposal of vehicle stock		(744,665)	-
Provision for retirement benefit liability	29	3,123,711	3,680,624
Interest expense on other borrowings		98,247,817	39,677,991
Cash generated from operations before working capital changes		407,685,172	145,321,858
(Increase)/decrease in vehicle stock		-	(37,868,855)
(Increase)/decrease in real estate inventories		-	(41,698,793)
(Increase)/decrease in lease rentals receivable and hire purchase		(614,351,617)	(345,152,256)
(Increase)/decrease in loans and advances		(1,938,050,520)	(728,587,274)
(Increase)/decrease in other receivables		9,008,035	12,789,233
(Increase)/decrease in deposits and prepayments		(12,917,102)	233,591
(Increase)/decrease in financial assets - loans and receivables		437,505	102,804,850
Increase in deposits from customers		1,124,119,669	638,438,725
Increase/(decrease) in commercial papers		-	(33,225,077)
Increase/(decrease) in other liabilities		(8,857,055)	16,005,533
Net cash used in operating activities before income tax payments		(1,032,925,913)	(270,938,465)
Taxes paid		(4,820,000)	(1,693,753)
Gratuity paid		(315,000)	-
Net cash used in operating activities		(1,038,060,913)	(272,632,218)
Cash flows from / (used in) investing activities			
Acquisition of property, plant and equipment	20	(115,217,843)	(40,754,325)
Acquisition of intangible assets		(2,340,648)	(3,612,664)
Acquisition of investment property	21	(2,000,000)	(55,590,000)
Proceeds from sale of investment property		18,494,290	-
Proceeds from sale of real estate inventories		16,680,000	-
Proceeds from sale of vehicle inventories		47,964,091	-
Purchases of held for trading securities		(128,796)	(93,397,897)
Proceeds from sales of held for trading securities		13,350,540	145,925,496
Proceeds from sales of property, plant and equipment		38,805,173	3,800,000
Net cash used in investing activities		15,606,807	(43,629,390)

		2015/2016	2014/2015
	Note	Rs.	Rs.
Cash flows from / (used in) financing activities			
Repayment of other borrowed funds	27	(342,122,895)	(157,541,333)
Proceeds from other borrowed funds	27	1,511,155,419	400,861,533
Proceeds from the right issue of shares		-	447,577,512
Direct costs relating to issue of shares		-	(3,772,524)
Net cash generated from financing activities		1,169,032,524	687,125,188
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	A	706,160,415	335,296,835
Cash and cash equivalents at the end of the year	B	852,738,833	706,160,415
At the beginning of the Year			
			Note A
Cash and cash equivalents		446,524,236	229,616,166
Investment in reverse repurchase agreements against treasury bills and bonds		259,698,505	184,467,915
Bank overdraft		(62,326)	(78,787,246)
		706,160,415	335,296,835
At the end of the year			
			Note B
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

Figures in brackets indicate deductions.

The accounting policies and notes on pages 122 to 170 form an integral part of these financial statements.

Colombo

03rd May, 2016

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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, 2016. Muthoot Finance Limited which incorporated in India.

1.4 Number of employees

The staff strength of the Company as at 31st March 2016 is 358 (235 as at 31st March 2015).

2. BASIS OF PREPERATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

This section provides additional information about the overall basis of preparation 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 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, 2016 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 statement of 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, 2016 (including comparatives) were approved and authorized for issue on 03rd May, 2016 in accordance with a resolution of the Board of Directors on 03rd May, 2016.

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'.

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 judgments, 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.

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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 required to determine the total provision for current, deferred and other taxes. Uncertainties exist, 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.

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 determine 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.

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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 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 recognised is recognised 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 recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on 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

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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

3.2.7. 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 recognised 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.

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 recognised 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.

3.5. Provisions

Provisions are recognised 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 recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. 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 commencing on or after of 01st January, 2016.

SLFRS 9 - Financial instruments: classification and measurement

SLFRS 9, as issued, reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities as defined in LKAS 39.

SLFRS 09 was issued in 2012 and this standard will become effective on 1st January 2018. The impact on the implementation of the above standard has not been quantified yet.

SLFRS 14 - Regulatory deferral accounts

The scope of this standard is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

SLFRS 14 will become effective on 1st January 2016. The impact on the implementation of the above standard has not been quantified yet.

SLFRS 15 - Revenue from contracts with customers

The objective of this standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 will become effective on 01st January, 2017. The impact on the implementation of the above standard has not been quantified yet.

IFRS 16 - Leases

IFRS 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 IAS 17.

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

4.1. Income

Income is recognised 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

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

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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 recognised 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 recognised 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 & equipment, hiring income, rent income, dividend income and capital gains/ (Losses).

4.1.3.1. Dividend income

Dividend income is recognised 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 recognised 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 recognised 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) contribution 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 recognised 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.

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 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 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'.

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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 recognised 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 recognised 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 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 financial asset or group of financial assets that can be reliably estimated.

4.10.7. Loans and receivables

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

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

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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. Vehicle stock

Vehicle stocks represent unsold vehicles at the reporting date, which are valued at lower of cost and net realizable value after making due allowances for obsolete and slow moving items. Net realizable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost necessary to make the sale.

4.12. 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.

4.13. 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.

4.14. 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 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.

4.15. 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 Group 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'.

4.15.1. 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 recognised in the Statement of Profit or Loss, the impairment loss is reversed through the Statement of Profit or Loss.

4.16. 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.

4.16.1. 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.

4.16.2. 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.

4.16.3. 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.

Notes to the Financial Statements

For the Year Ended 31st March, 2016

4.16.4. De-recognition

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

4.16.5. Depreciation

Depreciation is recognised 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 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.

4.17. Intangible assets

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

4.17.1. 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.

4.17.2. 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.

4.17.3. 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

4.17.4. 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.

4.18. 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.

4.18.1. 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.

4.18.2. 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.

4.19. 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.

4.20. 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 recognised in the statement of profit or loss when the liabilities are derecognise as well as through the EIR amortisation process.

4.21. 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.

Notes to the Financial Statements

For the Year Ended 31st March, 2016

Value added tax (VAT) on financial services

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

4.22. 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 recognised in the Statement of profit or loss over the period of the loan using effective interest rate method.

4.23. 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 recognised in the statement of profit or loss when the liabilities are derecognise as well as through the EIR amortisation process.

4.24. 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'.

4.24.1 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.

4.24.2 Funding arrangements

The gratuity liability is not externally funded.

4.24.3 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.

4.25. 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 recognised 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.

4.26. 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 recognised. Cash and cash equivalents mainly comprise of cash in hand, balances at banks and bank overdrafts.

4.27. 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.

Notes to the Financial Statements

For the Year Ended 31st March, 2016

	2015/2016	2014/2015
	Rs.	Rs.
5. INTEREST INCOME		
Interest on leases	243,917,442	77,464,733
Interest on hire purchase	88,494,113	128,594,708
Interest on loans	771,002,678	542,255,744
Overdue interest	38,883,339	36,298,285
Interest on treasury bills in revenue repurchase agreements	21,297,513	22,408,317
Interest on bank deposits	32,350,952	32,548,876
Interest on commercial papers	-	7,447,717
Interest on debentures	675,018	1,501,310
Interest on gold loans	67,826,015	1,360,318
Interest on refinancing loan	554,759	567,087
	1,265,001,829	850,447,095

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 period, has been grossed up in the financial statements by the resulting notional tax credit amounts to Rs.2,129,751/- (2015 - Rs.2,240,832/-).

	2015/2016	2014/2015
	Rs.	Rs.
6. INTEREST EXPENSES		
Interest on Fixed Deposits	494,441,063	441,319,169
Interest on Other Borrowings	98,247,817	39,677,991
	592,688,880	480,997,160
7. OTHER OPERATING INCOME		
Documentation charges and service charges	27,532,689	22,676,463
Gains from disposal of property, plant and equipment, investment property and real estate inventories	18,365,918	16,796,604
Profit on settled contracts	61,556,068	18,957,272
Dividend income	1,707,000	2,085,384
Operating lease income	3,420,414	2,969,922
Rent income	226,000	257,000
Insurance commission income	4,008,111	1,919,356
Sundry income	7,587,204	2,868,560
Cheque discounting administration income	2,330,687	4,362,215
Money gram income	20,631	7,990
	126,754,722	72,900,766

	2015/2016	2014/2015
	Rs.	Rs.
8. IMPAIRMENT CHARGE FOR LEASE RENTALS RECEIVABLE, HIRE PURCHASE LOANS AND ADVANCES		
Lease rentals receivable and hire purchase	28,613,263	16,870,107
Loans and advances	55,334,343	7,878,265
	83,947,606	24,748,372
9. OPERATING PROFIT BEFORE INCOME TAX		
Stated after charging all expenses including the followings :		
Included in personnel cost,		
Directors remuneration	25,219,176	20,415,241
Salaries and bonus	101,666,640	74,253,223
Defined contribution plan costs - EPF and ETF	13,448,021	9,603,684
Other staff related allowances	109,535,649	73,965,283
Included in general and administration expenses,		
Depreciation and amortization	24,225,092	15,859,929
Auditors' remuneration - external audit current year	1,210,000	1,100,000
- Non audit	350,000	297,507
Advertising and business promotion	11,117,697	6,488,027
Professional and legal fees	11,558,299	5,338,826
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	37,078,730	10,728,147
Under/(over) provision of current taxes in respect of prior years	(742,029)	(226,806)
Deferred tax		
Deferred taxation	(2,322,303)	(8,924,686)
Income tax expense reported in the profit and loss	34,014,398	1,576,655
Statement of other comprehensive income		
Deferred tax		
Deferred taxation reversal/(expense)	(234,457)	(293,931)
Income tax expenses reported in the other comprehensive income	(234,457)	(293,931)

Notes to the Financial Statements

For the Year Ended 31st March, 2016

10. INCOME TAX EXPENSES (CONTD.)

	2015/2016	2014/2015
	Rs.	Rs.
10.1 Reconciliation of accounting profit and taxable income		
Accounting profit (profit before income tax)	209,232,522	102,762,459
Add: Disallowable expenses	560,912,763	283,853,675
Less: Allowable expenses	(588,263,626)	(349,385,301)
Less: Exempt income	(73,681,938)	(43,610,379)
Add: Adjusted business loss from leasing business	95,529,566	65,325,411
Statutory income	203,729,287	58,945,865
Tax loss brought forward and utilized (35% of statutory income)	(71,305,250)	(20,631,054)
Taxable income	132,424,037	38,314,811
Income tax @ 28%	37,078,730	10,728,147
Effective Income Tax Rate	18%	13%

10.2 Deferred tax assets, liabilities and income tax relates to the followings:

	Statement of Financial Position		Statement of Comprehensive Income	
	2015/2016	2014/2015	2015/2016	2014/2015
	Rs.	Rs.	Rs.	Rs.
Deferred tax liability				
Lease rental receivable	1,858,402	28,645,689	(26,787,287)	22,256,074
Property, plant and equipment	17,185,877	9,579,963	7,605,914	2,639,561
	19,044,279	38,225,652	(19,181,373)	24,895,635
Deferred tax assets				
Retirement benefit obligation	3,459,565	2,907,582	551,983	1,030,575
Tax loss *	91,005,380	104,395,702	(13,390,322)	29,869,922
Specific provisions for doubtful debts (LLP)	24,981,678	28,767,952	(3,786,274)	3,213,755
	119,446,623	136,071,236	(16,624,613)	34,114,252
Deferred tax reversal			(2,556,760)	(9,218,617)
Net deferred tax asset	100,402,344	97,845,584		

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

* As of 31 March 2016, the Company has a tax loss amounting to Rs.629,314,206/- (2015 - Rs.560,085,603/-) 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 recognised upto tax loss of Rs.325,019,215/- (2015 - Rs.372,841,794/-) which has arisen from Non Finance Leasing Business. However, deferred tax assets have not been recognised for the tax losses amounting to Rs.304,294,991/- arising from the Finance Leasing Business as at 31 March, 2016.

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

11. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

	AFS	FVTPL	L & R	Total
	Rs.	Rs.	Rs.	Rs.
11.1 As at 31st March, 2016				
Assets				
Cash and cash equivalents	-	-	690,797,870	690,797,870
Investment in reverse 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

	Financial Liabilities at Amortized Cost	Total
	Rs.	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

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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

	AFS	FVTPL	L & R	Total
	Rs.	Rs.	Rs.	Rs.
11.2 As at 31st March, 2015				
Assets				
Cash and cash equivalents	-	-	446,524,236	446,524,236
Investment in repurchase agreements against treasury bills and bonds	-	-	259,698,505	259,698,505
Other financial assets	-	-	9,254,835	9,254,835
Financial assets - held For trading	-	69,263,955	-	69,263,955
Loans and advances	-	-	2,887,370,640	2,887,370,640
Lease rentals receivable and hire purchase	-	-	1,250,527,130	1,250,527,130
Financial assets - available for sale	578,617	-	-	578,617
Total financial assets	578,617	69,263,955	4,853,375,346	4,923,217,918

	Financial Liabilities at Amortized Cost	Total
	Rs.	Rs.
Liabilities		
Due to customers	3,672,180,230	3,672,180,230
Due to banks	62,326	62,326
Other borrowed funds	344,516,666	344,516,666
Total financial liabilities	4,016,759,222	4,016,759,222

AFS - Available for sale

FVTPL - Fair value through profit or loss

L & R - Loan and receivables

	31.03.2016	31.03.2015
	Rs.	Rs.
12. CASH AND CASH EQUIVALENTS		
Cash in hand	5,587,187	8,814,532
Cash at banks	685,210,683	437,709,704
	690,797,870	446,524,236

13. INVESTMENT IN REVERSE REPURCHASE AGREEMENTS AGAINST TREASURY BILLS AND BONDS

Reverse repurchase agreements against treasury bills and bonds	328,866,266	259,698,505
	328,866,266	259,698,505

14. OTHER FINANCIAL ASSETS

Fixed deposits	-	23,320
Debentures	8,817,330	9,231,515
	8,817,330	9,254,835

15. FINANCIAL ASSETS-HELD FOR TRADING

	31.03.2016		31.03.2015	
	Number of Shares	Market Value Rs.	Number of Shares	Market Value Rs.
Quoted equity securities				
Bank finance and insurance				
Asia Capital PLC	116,400	675,120	116,400	1,012,680
Commercial Bank of Ceylon PLC (Voting)	48,756	6,118,878	48,273	7,984,354
Commercial Bank of Ceylon PLC (Non Voting)	36,985	4,179,305	36,513	4,790,506
Overseas Realty (Ceylon) PLC	88,609	2,073,451	88,609	2,082,312
Chilaw Finance PLC	50	840	-	-
National Development Bank PLC	40,000	6,752,000	40,000	9,920,000
Sampath Bank PLC	61,573	13,915,498	60,000	15,126,000
Abans Finance PLC	50	1,910	-	-
Alliance Finance Company PLC	50	37,000	-	-
Associated Motor Finance Company PLC	50	19,670	-	-
Arpico Finance Company PLC	50	9,000	-	-
Bimpuh Finance PLC	100	6,230	-	-
Capital Alliance Finance PLC	50	505	-	-
Citizens Development Business Finance PLC	50	3,750	-	-
Central Finance Company PLC	50	10,500	-	-
Central Investments and Finance PLC	50	25	-	-
Commercial Leasing & Finance PLC	50	190	-	-
Commercial Credit & Finance PLC	50	2,125	-	-
Softlogic Finance PLC	50	1,915	-	-
Nation Lanka Finance PLC	50	50	-	-
George Stuart Finance PLC	50	930	-	-
LB Finance PLC	100	10,610	-	-
Lanka Orix Leasing Company PLC	50	140	-	-
Merchant Bank Of Sri Lanka & Finance PLC	50	510	-	-
Multi Finance PLC	50	570	-	-
Peoples Leasing Company PLC	50	800	-	-
People's Merchant Finance PLC	50	600	-	-
Singer Finance Lanka PLC	50	905	-	-
Sinhaputhra Finance PLC	50	835	-	-
Swarnamahar Financial PLC	50	55	-	-
The Finance Company PLC	50	400	-	-
Vallibel Finance PLC	50	2,685	-	-
	393,723	33,827,002	389,795	40,915,852
Diversified holdings				
John Keells Holding PLC	49,960	7,394,080	43,715	8,716,771
Manufacturing				
Tokyo Cement Company (Lanka) PLC	-	-	13,970	766,953
Health care				
Asiri Hospital Holdings PLC	-	-	400,000	10,155,106
Power and energy				
Lanka IOC PLC	216,111	7,023,607	216,111	8,709,273
Total	659,794	48,244,689	1,063,591	69,263,955

Notes to the Financial Statements

For the Year Ended 31st March, 2016

	31.03.2016	31.03.2015
	Rs.	Rs.
16. LOANS AND ADVANCES		
Mortgage loans	556,733,047	483,909,105
Pledge loans	329,214,112	398,801,042
Personal and corporate loans	1,637,545,052	974,580,271
Consumer loans	9,390,414	10,300,544
Group personal loans	827,683,416	608,232,350
Cheque and invoice discounting	60,229,464	140,621,657
Micro finance loans	757,648,012	138,758,000
Sale and lease back loans	1,000,001	34,855,311
Project financing loan	92,876,932	48,158,767
Gold loan	694,875,023	85,026,476
Refinancing loan	-	50,567,087
	4,967,195,473	2,973,810,610
Less: Allowance for impairment losses (note 16.1)	(141,774,313)	(86,439,970)
	4,825,421,160	2,887,370,640
16.1 Impairment allowance for loans and advances to customers		
As at the beginning of the year	86,439,970	78,561,705
Net charge/(reversal) for the year	55,334,343	7,878,265
As at the end of the year	141,774,313	86,439,970
Individual impairment	20,604,672	8,247,974
Collective impairment	121,169,641	78,191,996
Total impairment	141,774,313	86,439,970

		31.03.2016	31.03.2015
		Rs.	Rs.
17.	LEASE RENTALS RECEIVABLE AND HIRE PURCHASE		
	Lease rentals receivables (note 17.1)	1,317,971,719	594,866,084
	Hire purchases (note 17.2)	384,447,534	655,661,046
		1,702,419,253	1,250,527,130
17.1	Lease rentals receivables		
	Gross rentals receivable	1,872,200,246	905,772,723
	Less: Unearned income	(465,765,349)	(241,291,665)
	Allowance for impairment losses 17.3.1	(88,463,178)	(69,614,974)
		1,317,971,719	594,866,084
17.2	Hire purchases		
	Gross rentals receivable	556,577,909	945,129,860
	Less: Unearned income	(66,527,744)	(172,521,113)
	Pre-paid rentals	(9,653,957)	(30,764,086)
	Allowance for impairment losses 17.3.2	(95,948,674)	(86,183,615)
		384,447,534	655,661,046
17.3	Allowance for impairment losses		
17.3.1	Lease rentals receivable		
	As at the beginning of the year	69,614,974	63,154,923
	Net charge/(reversal) for the year	18,848,204	6,460,051
	As at the end of the year	88,463,178	69,614,974
	Individual impairment	3,173,990	-
	Collective impairment	85,289,188	69,614,974
	Total allowance for impairment losses	88,463,178	69,614,974
17.3.2	Hire purchase		
	As at the beginning of the year	86,183,615	75,773,519
	Net charge/(reversal) for the year	9,765,059	10,410,096
	As at the end of the year	95,948,674	86,183,615
	Individual impairment	-	-
	Collective impairment	95,948,674	86,183,615
	Total allowance for impairment losses	95,948,674	86,183,615

Notes to the Financial Statements

For the Year Ended 31st March, 2016

	31.03.2016	31.03.2015
	Rs.	Rs.
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	596,606,844	309,387,503
Less: Unearned income	(149,591,105)	(5,696,453)
Pre-paid rentals	(6,525,000)	(23,033,910)
Allowance for impairment losses	(139,112,790)	(126,926,838)
	301,377,949	153,730,302
17.4.2 Lease and hire purchase receivable later than 1 year and not later than 5 years		
Gross rentals receivable	1,832,171,311	1,541,515,080
Less: Unearned income	(382,701,988)	(408,116,325)
Pre-paid rentals	(3,128,957)	(7,730,176)
Allowance for impairment losses	(45,299,062)	(28,871,750)
	1,401,041,304	1,096,796,829
18. OTHER ASSETS		
Other receivables	14,958,827	23,966,862
	14,958,827	23,966,862
19. ADVANCES, DEPOSITS AND PREPAYMENTS		
Advances, deposits and prepayments	60,178,750	47,261,648

	31.03.2016		31.03.2015	
	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	2,000	28,000
Pure Beverages Company Limited	709	43,958	709	43,958
Less : Write off during the year		(71,958)		-
		-		71,958
Finance Houses Consortium Private Limited	20,000	200,000	20,000	200,000
Credit Information Bureau of SL (CRIB)	67	306,659	67	306,659
	20,067	506,659	22,776	578,617

*The Directors' valuation of non quoted securities based on cost of investment less impairment amounts to Rs.506,659/- (2015 - Rs.578,617/-).

21. PROPERTY, PLANT AND EQUIPMENT

21.1 Gross carrying amounts

	Balance as at 01.04.2015		Disposals/ Transfers	Balance as at 31.03.2016
	Rs.	Additions Rs.		Rs.
Freehold assets				
Cost				
Plant	-	25,930,613	-	25,930,613
Building	-	20,160,000	-	20,160,000
Motor vehicle	48,119,511	24,207,779	(27,234,084)	45,093,206
Office equipment	41,368,676	33,062,537	-	74,431,213
Computers	15,793,244	7,330,837	-	23,124,081
Furniture and fittings	12,365,680	4,526,077	-	16,891,757
	117,647,111	115,217,843	(27,234,084)	205,630,870

Notes to the Financial Statements

For the Year Ended 31st March, 2016

21. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

21.1 Accumulated Depreciation

	Balance as at 01.04.2015	Charge for the Year	Disposals/ Transfers	Balance as at 31.03.2016
	Rs.	Rs.	Rs.	Rs.
Plant	-	1,080,442	-	1,080,442
Building	-	1,470,000	-	1,470,000
Motor vehicle	23,983,041	8,452,759	(11,208,813)	21,226,987
Office equipment	12,423,659	7,238,319	-	19,661,978
Computers	7,974,154	1,852,111	-	9,826,265
Furniture and fittings	5,739,908	1,598,437	-	7,338,345
	50,120,762	21,692,068	(11,208,813)	60,604,017

	31.03.2016	31.03.2015
	Rs.	Rs.
Net Book Value		
Plant	24,850,171	-
Building	18,690,000	-
Motor vehicle	23,866,219	24,136,470
Office equipment	54,769,235	28,945,017
Computers	13,297,816	7,819,090
Furniture and fittings	9,553,412	6,625,773
	145,026,853	67,526,350

- 21.2** During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs.115,217,843/- (2015 - Rs.40,754,325/-). Cash payments amounting to Rs.95,057,843/- (2015 - Rs.40,754,325/-) was paid during the year for purchases of property, plant and equipment.
- 21.3** Property, plant and equipment includes fully depreciated assets having a gross carrying amount of Rs.19,246,129/- (2014/15 - Rs.14,849,839/-).
- 21.4 Temporarily idle property, plant and equipment**
There were no property, plant and equipment idle as at 31st March, 2016 and 31st March, 2015.
- 21.5 Title restriction on property, plant and equipment**
There were no resolution on the title of property, plant and equipment as at 31st March, 2016 and 31st March, 2015.
- 21.6 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, 2016 and 31st March, 2015.

	31.03.2016	31.03.2015
	Rs.	Rs.
22. INVESTMENT PROPERTY		
Balance at the beginning of the year	80,842,794	98,352,117
Acquisitions during the Year	78,612,570	42,590,677
Expenses capitalized during the Year	-	2,699,000
Disposals during the Year	(15,748,800)	(21,100,207)
Transferred to real estate inventories	-	(41,698,793)
Balance at the end of the year	143,706,564	80,842,794

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)	637,100	512,445
	637,100	512,445

Notes to the Financial Statements

For the Year Ended 31st March, 2016

22.2 Investment Property (CONTD..)

Location of the land	Valuers name and report date	31.03.2016		31.03.2015	
		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	9,650,000	1,250,000	9,650,000	1,250,000
Kekunegawatte Land, Wattegedara Road, Maharagama.	D. Jayawardene (Incorporated Valuer) - valuation report dated 28th March, 2014	-	-	22,700,000	15,748,800
Delgahawaththa Land, Walpitamulla, Dewalapola, Naiwala, Gampaha	D. Jayawardene (Incorporated Valuer) - valuation report dated 28th March, 2014	1,750,000	500,000	1,750,000	500,000
No 25/20, Kalyani Mawatha, Mabola, Wattala.	D. Jayawardene (Incorporated Valuer) - valuation report dated 29th March, 2014	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	3,000,000	1,800,000	3,000,000	1,800,000
Lot no. 01 at Andiambalama, Kimbulpitiya.	D. Jayawardene (Incorporated Valuer) - valuation report dated 05th December, 2012	4,030,000	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	4,000,000	3,160,226	4,000,000	3,160,226
Athurgiriya Land (No861/5 Athurgiriya Road, Hokanadara North, Athurgiriya)	D. Jayawardene (Incorporated Valuer) - valuation report dated 28th May, 2014	20,000,000	9,730,451	20,000,000	9,730,451
Lot 08 Kosgahawatta Land (Pinkellawatta Road, Hirana, Panadura)	D. Jayawardene (Incorporated Valuer) - valuation report dated 03rd March, 2014	1,340,000	1,200,000	1,340,000	1,200,000
Gonapola Land (No358, Horana Colombo Road, Kumbuka Gonapola)	D. Jayawardene (Incorporated Valuer) - valuation report dated 15th August, 2014	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	10,000,000	9,000,000	10,000,000	9,000,000
No;21, 14th Lane, Jothipala Mawatha, Malabe	D. Jayawardene (Incorporated Valuer) - valuation report dated 20th Feb 2015	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	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	33,000,000	16,644,799	-	-
Oslo furnitures Industries (Pvt) Ltd Welagane, Maspotha, Kurunegala	D. Jayawardene (Incorporated Valuer) - valuation report dated 05th October, 2015	59,000,000	34,137,684	-	-
		215,020,000	143,706,564	114,520,000	80,842,794

23. INTANGIBLE ASSETS**23.1 Gross carrying amounts**

	Balance as at 01.04.2015	Additions	Disposals/ Transfers	Balance as at 31.03.2016
	Rs.	Rs.	Rs.	Rs.
Cost				
Intangible asset	18,679,207	2,340,648	-	21,019,855
	18,679,207	2,340,648	-	21,019,855

23.2 Amortization

	Balance as at 01.04.2015	Charge for the Year	Disposals/ Transfers	Balance as at 31.03.2016
	Rs.	Rs.	Rs.	Rs.
Intangible asset	6,901,169	2,533,024	-	9,434,193
	6,901,169	2,533,024	-	9,434,193

	31.03.2016	31.03.2015
	Rs.	Rs.
Net book value		
Intangible asset	11,585,662	11,778,038
	11,585,662	11,778,038
24. DUE TO BANKS		
Due to banks- bank overdrafts	166,925,303	62,326
	166,925,303	62,326

Notes to the Financial Statements

For the Year Ended 31st March, 2016

25. OTHER LIABILITIES

	31.03.2016	31.03.2015
	Rs.	Rs.
Other payables -related party (25.1)	23,595	567,051
Accrued expenses and other payables	40,387,189	30,986,678
	40,410,784	31,553,729
25.1 Other payables - related party		
Asia Capital PLC	23,595	567,051
	23,595	567,051

26. CURRENT TAX LIABILITIES

Balance at the beginning of the year	(3,472,184)	(3,870,578)
Income tax expense for the year	37,078,730	10,728,147
Under/over provision of previous year	(742,029)	(226,806)
	32,864,517	6,630,763
Less: Tax credits		
WHT and notional tax	(4,820,000)	(10,102,947)
Balance at the end of the year	28,044,517	(3,472,184)

27. OTHER BORROWED FUNDS

Bank loans (note 27.1)	1,609,833,175	344,516,666
	1,609,833,175	344,516,666

27.1 Bank loans

	As at 01.04.2015	Loans obtained	Interest for the period	Repayments	As at 31.03.2016
	Rs.	Rs.	Rs.	Rs.	Rs.
DFCC Vardhana Bank	13,740,812	-	602,461	(14,343,273)	-
Sampath Bank Loan	-	200,000,000	3,278,465	(11,241,163)	192,037,302
Securitization Loan 1	330,775,854	-	32,141,587	(164,999,997)	197,917,444
Securitization Loan 2	-	199,874,187	12,961,011	(81,538,462)	131,296,736
Securitization Loan 3	-	500,000,000	35,825,597	(70,000,000)	465,825,597
Securitization Loan 4	-	200,000,000	9,604,101	-	209,604,101
Securitization Loan 5	-	211,281,232	1,805,602	-	213,086,834
DFCC Vardhana Bank	-	200,000,000	65,161	-	200,065,161
	344,516,666	1,511,155,419	96,283,985	(342,122,895)	1,609,833,175

27.1.1 Loan details

Bank	Approved facility Rs.	Purpose	Term of the loan	Security	Security amount Rs.
DFCC Vardhana Bank	40 Mn	Working capital requirements	36 monthly instalments	Corporate guarantee of Asia Capital PLC	40 MN
Sampath Bank PLC	200 Mn	Working capital requirements	48 monthly instalments	Loan agreement for Rs.200 Mn.	N/A
BOC - Securitization Loan 1	400 Mn	Working capital requirements	37 Monthly instalments	Lease and hire purchase of Asia Asset Finance PLC	200 Mn
BOC - Securitization Loan 2	199.8 Mn	Working capital requirements	18 Monthly instalments	Fixed deposit pledged loan and micro finance receivables of Asia Asset Finance PLC	199 Mn
BOC - Securitization Loan 3	500 Mn	Working capital requirements	36 Monthly instalments	Vehicle mortgage and group personal loan receivable of Asia Asset Finance PLC	500 Mn
BOC - Securitization Loan 4	200 Mn	Working capital requirements	30 Monthly instalments	Lease and hire purchase and vehicle mortgage of Asia Asset Finance PLC	200 Mn
BOC - Securitization Loan 5	211 Mn	Working capital requirements	48 Monthly instalments	Lease and Hire Purchase and vehicle mortgage of Asia Asset Finance PLC	200 Mn
DFCC Bank PLC	200 Mn	Working capital requirements	48 Monthly instalments	Promissory note for Rs.200 Mn.	200 Mn

Notes to the Financial Statements

For the Year Ended 31st March, 2016

	31.03.2016	31.03.2015
	Rs.	Rs.
28. DUE TO CUSTOMERS		
Fixed deposits	4,796,299,899	3,672,180,230
	4,796,299,899	3,672,180,230
29. RETIREMENT BENEFIT OBLIGATION		
Retirement benefit obligations - gratuity		
Balance at the beginning of the year	10,384,222	6,703,598
Amount charged/(reversed) for the year	2,286,366	3,680,624
Payments made during the year	(315,000)	-
Balance at the end of the year	12,355,588	10,384,222
29.1 Amount recognized in statement of profit or loss		
Current Service cost for the year	2,085,289	1,893,474
Interest cost for the year	1,038,422	737,396
	3,123,711	2,630,870
29.2 Amount Recognised in Other Comprehensive Income		
Actuarial gain/loss for the year	(837,345)	1,049,754
	(837,345)	1,049,754

- 29.3 Messrs. Actuarial and Management Consultants (Pvt) Ltd, Actuaries, carried out an actuarial valuation for Asia Asset Finance PLC of the retirement benefit obligation as at 31st March, 2016. 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:

	31.03.2016	31.03.2015
	Rs.	Rs.
Actuarial Assumptions		
Discount rate	13%	10%
Salary increment rate	10%	8.3%
Staff turnover	15%	12.5%
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:

	31.03.2016	31.03.2015
	Rs.	Rs.
Discount rate		
Effect on retirement benefit obligation due to 1% increase	11,763,812	9,855,575
Effect on retirement benefit obligation due to 1% decrease	12,821,037	10,974,126
Salary increment rate		
Effect on retirement benefit obligation due to 1% increase	12,766,595	11,012,339
Effect on retirement benefit obligation due to 1% decrease	11,806,126	9,812,689

30. STATED CAPITAL

	31.03.2016		31.03.2015	
	Number	Rs.	Number	Rs.
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	559,471,889	945,130,285
Rights issue of shares	-	-	279,735,944	447,577,513
Direct costs relating to issue of shares	-	-	-	(3,772,525)
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. STATUTORY RESERVE FUND OTHER RESERVES

	31.03.2016	31.03.2015
	Rs.	Rs.
Statutory reserve fund	42,579,648	33,788,597
General reserve	3,000,000	3,000,000
	45,579,648	36,788,597

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.

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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.

	31.03.2016	31.03.2015
	Rs.	Rs.
Amounts used as the numerators:		
Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	175,218,124	101,185,804
	31.03.2016	31.03.2015
	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	683,199,480
Basic earnings per share	0.21	0.15

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.

33.1 Commitments

	31.03.2016	31.03.2015
	Rs.	Rs.
Promissory note to DFCC Bank PLC	200,000,000	-
Undrawn commitments 33.1.1	10,794,538	5,743,458
Commitments for software	-	18,695,667
	210,794,538	24,439,125

33.1.1 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
		31.03.2016	31.03.2015	
		Rs.	Rs.	
Lease and hire purchase	BOC - securitization loan 1	197,917,444	494,000,000	Lease rentals receivables and hire purchase
Fixed deposits pledged loans and micro finance	BOC - securitization loan 2	131,296,736	-	Loans and advances
Vehicle mortgaged loans and group personnel loans	BOC - securitization loan 3	465,825,597	-	Loans and advances
Hire purchase and lease	BOC - securitization loan 4	209,604,101	-	Lease rentals receivables and hire purchase
Hire purchase and vehcoile mortgaged loans	BOC - securitization loan 5	213,086,834	-	Loans and advances and lease rentals receivables and hire purchase

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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	690,797,870	-	-	-	690,797,870
Investment in reverse repurchase agreements against treasury bills and bonds	328,866,266	-	-	-	328,866,266
Other financial assets	8817,330	-	-	-	8817,330
Financial assets - held for trading	48,244,689	-	-	-	48,244,689
Loans and advances	1,515,437,304	1,639,225,166	1,381,888,873	290,021,443	4,825,421,160
Lease rentals receivable and hire purchase	684,021,539	609,968,418	401,892,058	6,537,237	1,702,419,253
Real estate inventories	34,468,475	-	-	-	34,468,475
Other assets	14,958,827	-	-	-	14,958,827
Deposits and prepayments	2,172,627	7,017,023	26,097,732	24,891,368	60,178,750
Financial assets - available for sale	-	-	-	506,659	506,659
Property, plant and equipment	-	-	-	145,026,853	145,026,853
Investment property	-	-	-	143,706,564	143,706,564
Deferred tax asset	-	-	100,402,344	-	100,402,344
Intangible assets	-	-	-	11,585,662	11,585,662
As at 31.03.2016	3,327,784,927	2,256,210,607	1,910,281,007	622,275,786	8,115,400,702
As at 31.03.2015	1,988,508,912	1,332,772,599	1,402,788,972	656,492,094	5,344,407,597
Liabilities					
Due to banks	166,925,303	-	-	-	166,925,303
Other liabilities	40,410,784	-	-	-	40,410,784
Current tax liabilities	28,044,517	-	-	-	28,044,517
Other borrowed funds	46,683,025	99,916,201	197,917,441	1,265,316,509	1,609,833,175
Due to customers	616,820,408	2,202,675,684	1,864,905,283	111,898,525	4,796,299,899
Retirement benefit obligation	-	-	-	12,355,588	12,355,588
As at 31.03.2016	898,884,037	2,302,591,885	2,062,822,724	1,389,570,622	6,653,869,266
As at 31.03.2015	695,119,488	2,178,634,658	1,062,822,724	122,120,305	4,058,697,173
Net amount					
As at 31.03.2016	2,428,900,890	(46,381,278)	(152,541,717)	(767,294,836)	1,461,531,436
As at 31.03.2015	1,293,389,424	(845,862,059)	339,966,248	534,371,789	1,285,710,424

36. CURRENT / NON CURRENT ANALYSIS

	31.03.2016			31.03.2015		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	690,797,870	-	690,797,870	446,524,236	-	446,524,236
Investment in reverse repurchase agreements against treasury bills and bonds	328,866,266	-	328,866,266	259,698,505	-	259,698,505
Other financial assets	8,817,330	-	8,817,330	9,254,835	-	9,254,835
Financial assets - held for trading	48,244,689	-	48,244,689	69,263,955	-	69,263,955
Loans and advances	3,153,510,844	1,671,910,316	4,825,421,160	1,729,354,285	1,158,016,355	2,887,370,640
Lease rentals receivable and hire purchase	1,293,989,958	408,429,295	1,702,419,253	654,597,821	595,929,309	1,250,527,130
Vehicle stock	-	-	-	46,797,426	-	46,797,426
Real estate inventories	34,468,475	-	34,468,475	41,698,793	-	41,698,793
Other assets	14,958,827	-	14,958,827	23,966,862	-	23,966,862
Income tax receivable	-	-	-	3,472,184	-	3,472,184
Advances, deposits and prepayments	9,189,650	50,989,100	60,178,750	36,667,842	10,593,806	47,261,648
Financial assets - available for sale	-	506,659	506,659	-	578,617	578,617
Property, plant and equipment	-	145,026,853	145,026,853	-	67,526,350	67,526,350
Investment property	-	143,706,564	143,706,564	-	80,842,794	80,842,794
Deferred tax asset	-	100,402,344	100,402,344	-	97,845,584	97,845,584
Intangible assets	-	11,585,662	11,585,662	-	11,778,038	11,778,038
Total assets	5,582,843,909	2,532,556,793	8,115,400,702	3,321,296,744	2,023,110,853	5,344,407,597
Liabilities	-	-	-	-	-	-
Due to banks	166,925,303	-	166,925,303	62,326	-	62,326
Other liabilities	40,410,784	-	40,410,784	31,553,729	-	31,553,729
Current tax liabilities	28,044,517	-	28,044,517	-	-	-
Other borrowed funds	146,599,225	1,463,233,950	1,609,833,175	146,599,226	197,917,440	344,516,666
Due to customers	2,819,496,092	1,976,803,807	4,796,299,899	2,695,538,865	976,641,365	3,672,180,230
Retirement benefit liability	-	12,355,588	12,355,588	-	10,384,222	10,384,222
Total liabilities	3,201,475,921	3,452,393,345	6,653,869,266	2,873,754,146	1,184,943,027	4,058,697,173
	-	-	-	-	-	-
Net balance	2,381,367,989	(919,836,553)	1,461,531,436	447,542,598	838,167,826	1,285,710,425

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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 2016 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 that have a significant effect on the recorded fair value that 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

	31.03.2016			
		Level 1	Level 2	Level 3
	Rs.	Rs.	Rs.	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

	31.03.2015			
		Level 1	Level 2	Level 3
	Rs.	Rs.	Rs.	Rs.
Financial assets - held for trading	69,263,955	69,263,955	-	-
Financial assets - available for sale	578,617	-	-	578,617
Total assets at fair value	69,842,572	69,263,955	-	578,617

38. FINANCIAL REPORTING BY SEGMENT

	Finance lease		Hire purchase		Loans and advances		Investment		Other		Total	
	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015	31.03.2016	31.03.2015
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest income	243,917,442	77,464,733	88,494,113	128,594,708	878,266,791	580,481,435	54,323,483	63,906,219	-	-	1,265,001,829	850,447,095
Other income	18,368,400	27,492,607	5,647,874	3,428,871	70,889,699	1,547,8054	(2,277,421)	1,704,006	26,179,122	22,731,698	118,807,674	70,835,236
Total revenue	262,285,842	104,957,340	94,141,987	132,023,580	949,156,490	595,959,489	52,046,062	65,610,225	26,179,122	22,731,698	1,383,809,503	921,282,331
Segmental result	48,649,404	35,384,009	17,388,532	17,987,448	175,396,670	80,154,754	10,330,059	8,824,377	4,826,51500	(18,303,583)	256,591,180	124,047,005
Value added tax on financial services											47,358,658	21,284,545
Profits from operations											209,232,522	102,762,460
Income tax charge/reversal for the year											(34,014,398)	(1,576,656)
Net profit for the year											175,218,124	101,185,804
Segment assets	1,317,971,719	594,866,084	384,447,534	655,661,047	4,825,421,160	2,887,370,640	365,928,285	338,217,295	-	-	6,913,768,698	4,476,115,066
Unallocated assets	-	-	-	-	-	-	-	-	1,201,632,004	868,292,530	1,201,632,004	868,292,530
Total assets	1,317,971,719	594,866,084	384,447,534	655,661,047	4,825,421,160	2,887,370,640	365,928,285	338,217,295	1,201,632,004	868,292,530	8,115,400,702	5,344,407,596
Segment liabilities	1,220,997,759	408,759,176	356,160,584	450,534,122	4,471,442,346	1,984,041,912	357,532,384	232,404,278	-	596,440,742	6,406,133,074	3,672,180,230
Unallocated liabilities											247,736,192	386,516,943
Total liabilities	1,220,997,759	408,759,176	356,160,584	450,534,122	4,471,442,346	1,984,041,912	357,532,384	232,404,278	247,736,192	982,957,685	6,653,869,266	4,058,697,173

In determining segment results, expenses have been allocated proportionately based 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.

Notes to the Financial Statements

For the Year Ended 31st March, 2016

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 2016 is Muthoot Finance Limited.

40.2 Transactions with related entities

40.2.1 Muthoot Finance Limited

Relationship - Ultimate parent

	31.03.2016	31.03.2015
	Rs.	Rs.
Transactions during the year		
Expenses incurred for Muthoot Finance Limited	722,597	-
Cash received from right issue	-	342,409,369

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

	31.03.2016	31.03.2015
	Rs.	Rs.
Transactions during the year		
Receipt of operating lease rentals	543,456	991,283
Cash received from right issue - before 30th October 2014	-	63,785,116
Expenses incurred	-	717,923
Withdrawals of investment in reverse repurchase agreements against treasury bills and bonds	-	107,492,585
Income statement items	-	1,012,680
Other income		
Operating lease rental income		
For the year ended 31st March, 2016	1,086,912	-
Till 30th October 2014	-	731,136
From 30th October 2014 to 31st March, 2015	-	363,936
Items in statement of financial position		
Financial assets - held for trading	675,120	1,012,680

40.2.3 Fellow subsidiaries of Asia Capital PLC

The fellow subsidiaries includes Asia Securities (Private) Limited, Asia Fort Sri Lanka Direct Investment Fund (Private) Limited, Asia Tea Packaging (Private) Limited, Asia Leisure Holding (Private) Limited, Lanka Fortune Residencies (Private) Limited and Asia Wealth Management Company (Private) Limited. Those fellow subsidiaries are the subsidiaries of the Former Ultimate Parent Asia Capital PLC.

Transactions during the year

	31.03.2016	31.03.2015
	Rs.	Rs.
Rent income received - Asia Securities (Private) Limited	-	1,203,015
Purchase of quoted shares on behalf of the Company- Asia Securities (Private) Limited	-	22,160,873
Sale of quoted shares on behalf of the Company - Asia Securities (Private) Limited	-	160,597,827
Conversion of commercial papers to a loan - Asia Fort Sri Lanka Direct Investment Fund (Private) Limited	-	23,605,160
Expenses incurred - Asia Securities (Private) Limited	-	528,000
Settlement of loan - Lanka Fortune Residencies (Private) Limited	-	35,683,267

Statement of profit or loss and other comprehensive income items

Rent income - Asia Securities (Private) Limited	-	32,000
Interest income on Commercial Papers - Asia Fort Sri Lanka Direct Investment Fund (Private) Limited	-	1,988,550
	-	
Interest Income	-	
Asia Leisure Holding (Private) Ltd	-	3,850,002
Lanka Fortune Residencies (Private) Limited	-	6,950,946
Asia Wealth Management Company (Private) Limited	-	1,871,258
Asia Tea Packaging (Private) Limited	-	680,984

Items in statement of financial position

	31.03.2016	31.03.2015
	Rs.	Rs.
Loans and advances		
Asia Leisure Holding (Private) Ltd	-	48,377,870
Asia Wealth Management Company (Private) Limited	-	17,590,824

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.

Notes to the Financial Statements

For the Year Ended 31st March, 2016

40. RELATED PARTY DISCLOSURES (CONTD.)

		31.03.2016	31.03.2015
		Rs.	Rs.
40.3.1	Key management personnel compensation		
	Short term employment benefits paid	25,219,176	20,415,241
40.3.2	Other transactions with key management personnel		
	Fixed deposits held	9,326,687	26,915,387
	Upliftment of fixed deposits	3,116,687	11,250,137
	Interest expenses	110,141	1,660,308
40.3.3	Share transactions with key management personnel		
	No. of ordinary shares held at the year end	38,363,680	41,963,680

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 general manager, the deputy general manager, the assistant general manager finance, the chief manager investment, the manager treasury & special projects, the assistant general manager-marketing and the analyst. The committee meeting is held once a month to monitor and manage the assets and liabilities of the Company and also overall liquidity position to keep the Company's liquidity at healthy levels whilst satisfying regulatory requirements.

41.1.2 Integrated risk management committee (IRM)

The IRM committee, which has the responsibility to monitor the overall risk process with in the Company. The IRM committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The IRM committee is responsible for managing risk decisions and monitoring risk levels and reports on periodical basis to the board.

41.2 Credit risk

Credit risk is the likelihood that a borrower or counterparty will not honor its obligations in accordance with the terms of agreement. i.e the risk of default which is one of the most vulnerable risk faced by any financial institution. Credit risk is inherent to all financial institutions where the main business is lending. The main aim of the "credit risk management" is to minimize the risk and to maximize the risk adjusted rate of return of the financial institution.

41.2.1 Impairment assessment

For accounting purposes, the Company uses a collective and individual model for the recognition of losses on impaired financial assets.

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant leases, hire purchase and loan on an individual basis, including any overdue payments of interests or credit rating downgrades. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty projected receipts and the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date.

Collectively assessed allowances

Allowances are assessed collectively for losses on leases, hire purchase and 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, AAF 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.

Notes to the Financial Statements

For the Year Ended 31st March, 2016

41. RISK MANAGEMENT (CONTD.)

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.

41.2.3 Credit quality by class of financial assets

	Neither past due nor impaired Rs.	Past due and impaired Rs.	Individually impaired Rs.	31/03/2016 Total Rs.
Cash and cash equivalents	690,797,870	-	-	690,797,870
Investment in reverse 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
	1,076,726,155	-	-	1,076,726,155
Loans and advances				
Gross loans and advances	2,087,766,771	2,858,824,030	20,604,672	4,967,195,473
Less - impairment charge	(51,419,639)	(69,750,003)	(20,604,672)	(141,774,313)
	2,036,347,133	2,789,074,027	-	4,825,421,160
Lease rentals receivable and hire purchase				
Gross lease rentals receivable and hire purchase	1,197,295,289	686,361,826	3,173,990	1,886,831,105
Less - impairment charge	(117,019,187)	(64,218,675)	(3,173,990)	(184,411,852)
	1,080,276,102	622,143,151	-	1,702,419,253
Financial assets - available for sale				
Financial assets - available for sale	578,617	-	-	7,078,617
Less - Impairment charge	(71,958)	-	-	(6,571,958)
	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,

	31.03.2016	31.03.2015
	Rs.	Rs.
Textile and wearing apparel	47,967,783	55,100,831
Manufacturing	657,645,537	194,287,591
Metals, chemicals and engineering	74,766,304	4,197,824
Transport	404,592,289	326,682,070
Services	1,127,798,640	821,646,494
Agro-business and fisheries	330,697,191	329,370,441
Construction	199,668,484	157,769,224
Commercial trading	190,906,485	91,277,798
Others	3,819,983,865	2,399,804,056
Total lending portfolio as at 31 st March	6,854,026,578	4,380,136,329
Total receivable		
Loans and advances	4,967,195,473	2,973,810,610
Lease	1,406,434,897	664,481,058
Hire purchase	480,396,208	741,844,661
	6,854,026,578	4,380,136,328

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 net interest margin will reduce.

Please refer note 35 to the financial statements for the maturity analysis.

Re-Investment risk

These are uncertainties with regard to interest rate at which the future cash flows could be re-invested. On an increasing trend, this would be beneficial for Asia Asset Finance PLC.

Notes to the Financial Statements

For the Year Ended 31st March, 2016

41. RISK MANAGEMENT (CONTD.)

Net interest position

When the market rates 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 & 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 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

	2015/2016	%	2014/2015	%
Income	1,265,001,829		850,447,095	
Other Income	118,807,674		97,511,679	
Cost of borrowing and services	(766,052,428)		(602,435,168)	
Provisions	(83,947,606)		(24,748,372)	
Value Added Tax	(47,358,658)		(21,284,545)	
	486,450,811		299,490,689	
Distribution Value Added				
To employees				
Remuneration and other benefits	252,993,197	52	180,868,301	60
To Government				
Taxes	33,411,510	7	2,332,478	1
To Expansion and Growth				
Retained Profit	175,821,012	36	100,429,981	34
Depreciation and Amortization	24,225,092	5	15,859,929	5
	486,450,811	100	299,490,689	100

Peer Group Ratio Analysis

Ratios	Asia Asset Finance PLC as at 31/03/2015	Asia Asset Finance PLC as at 31/12/2015	Average of Peer Group lower companies' Ratios as at 31st March 2016	Asia Asset Finance PLC as at 31/03/2016	Average of Peer Group higher companies' Ratios as at 31st March 2016	Average of Peer Group Ratios as at 31st March 2016	Overall Sector
Cost to Income Ratio	0.72	0.66	0.56	0.64	0.62	0.59	0.808
PE Ratio	9.33	7.37	8.19	7.62	5.41	5.82	
ROA	1.9%	1.7%	4.1%	2.2%	2.7%	3.0%	3.5%
ROE	7.9%	8.6%	21.7%	12.0%	18.9%	19.0%	17%
Net Profit Ratio	11%	14%	19.6%	13%	16%	17%	
Debt to Equity	316%	410%	551%	454%	650%	611%	
Total Asset	5,344,407,597	7,165,468,391	4,739,515,520	8,115,400,702	13,611,674,397	9,175,594,959	

Segmental Profit

	Lease	Hire Purchase	Pledge	Personal Loan	Consumer Loan	
Total Income	252,259,236	95,543,742	57,383,120	304,275,598	11,797	
Expenses	109,256,815	64,482,648	38,408,423	137,809,790	1,038,850	
Segment Results	143,002,421	31,061,094	18,974,696	166,465,808	(1,027,053)	
Average Base	1,035,457,978	611,120,435	364,007,577	1,306,062,662	9,845,479	

	Mortgage	Micro Finance	Group Personal Loan Interest	Sale & Buy back Interest Incom	Cheque Discounting Interest Income	Gold loans	Refinancing loan
	104,162,703	131,385,552	186,178,346	3,496,614	9,931,551	67,826,015	554,759
	54,901,913	47,292,342	75,755,649	1,891,645	10,596,448	41,145,829	10,108,527
	49,260,790	84,093,210	110,422,697	1,604,969	(664,898)	26,680,186	(9,553,768)
	520,321,076	448,203,006	717,957,883	17,927,656	170,943,410	389,950,750	25,283,544

Ten Year Summary

Statement of Financial Position

As at 31st March	31.03.2007	31.03.2008	31.03.2009	31.03.2010
	Rs.	Rs.	Rs.	Rs.
ASSETS				
Cash & Cash Equivalents	14,704,163	10,454,901	12,445,218	130,989,399
Investment in Reverse Repurchase Agreements against Treasury Bills	30,678,034	36,024,690	23,398,661	139,298,185
Other Financial Assets	71,211,429	106,465,836	78,042,308	-
Financial Asset -Held for Trading				38,972,796
Loans & Advances Including Lease Rentals Receivables and Hirepurchase	510,398,974	708,388,115	738,765,295	648,266,160
Financial Asset-Available for Sale				-
Vehicle Stock			-	8,670,650
Real Estate Inventories				-
Other Debtors, Deposits & Prepayments	6,300,129	26,279,598	74,108,599	59,963,734
Income Tax Receivable				-
Property, Plant & Equipment	6,680,027	6,808,772	9,563,490	9,818,532
Investment Property	13,437,754	12,730,504	12,023,254	27,039,000
Deffered Tax Asset				-
	653,410,510	907,152,416	948,346,825	1,063,018,456
LIABILITIES & EQUITY				
Liabilities				
Customer Deposits	482,906,199	786,896,173	999,860,605	1,032,293,705
Bank Overdraft	13,343,730	14,240	11,104,498	-
Borrowings	24,928,800	14,617,800	13,442,800	-
Creditors & Accruals	39,944,774	64,148,625	67,567,009	48,425,024
Retirement Benefits Obligation	2,364,000	1,364,250	1,849,625	1,813,375
	563,487,503	867,041,088	1,093,824,537	1,082,532,104
Shareholders' Funds				
Stated Capital	195,342,860	195,342,860	195,342,860	395,342,860
Reserves	(105,419,853)	(155,231,532)	(330,820,572)	(414,856,508)
Total Equity	89,923,007	40,111,328	(135,477,712)	(19,513,648)
Total Equity and Liability	653,410,510	907,152,416	958,346,825	1,063,018,456
Contingent Liabilities and commitments				
Net Assets per Share	5.31	2.05	(6.94)	(0.37)

Figures in brackets indicate deductions

Certification

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

	31.03.2011	31.03.2012	31.03.2013	31.03.2014	31.03.2015	31.03.2016
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	31,979,594	66,804,910	193,568,463	229,616,166	446,524,236	690,797,870
	94,592,860	88,255,490	129,938,359	184,467,915	259,698,505	328,866,266
	40,863,010	204,666,796	242,652,390	112,059,685	9,254,835	8,817,330
	56,210,473	23,323,863	6,775,855	81,008,250	69,263,955	48,244,689
	1,153,795,633	2,002,530,734	2,501,348,943	2,994,869,411	4,137,897,770	6,527,840,413
	7,949,894	7,771,958	578,617	578,617	578,617	506,659
	33,118,250	22,935,143	8,755,453	8,928,571	46,797,426	-
	-	-	-	-	41,698,793	34,468,475
	84,428,291	108,035,936	92,641,825	84,251,334	71,228,510	75,137,577
	9,175,825	6,759,699	6,252,769	3,870,578	3,472,184	-
	28,264,509	50,676,540	57,152,755	53,733,373	79,304,388	156,612,515
	32,934,517	42,934,517	32,934,517	98,352,117	80,842,794	143,706,564
	13,887,934	53,786,050	77,714,479	88,626,969	97,845,584	100,402,344
	1,587,200,790	2,678,481,636	3,350,314,425	3,940,362,986	5,344,407,597	8,115,400,702
	1,351,662,050	1,921,449,893	2,591,165,554	3,033,741,505	3,672,180,230	4,796,299,899
	-	20,231,345	1,950	78,787,246	62,326	166,925,303
	-	76,551,117	48,544,214	64,106,983	344,516,666	1,609,833,175
	15,424,726	27,067,942	14,201,207	15,548,199	31,553,729	68,455,301
	2,754,750	3,244,037	4,802,457	6,703,598	10,384,222	12,355,588
	1,369,841,526	2,048,544,334	2,658,715,382	3,198,887,531	4,058,697,173	6,653,869,266
	580,538,748	945,130,285	945,130,285	945,130,285	1,388,935,273	1,388,935,273
	(363,179,484)	(315,192,983)	(253,531,242)	(203,654,830)	(103,224,849)	72,596,163
	217,359,264	629,937,302	691,599,043	741,475,455	1,285,710,424	1,461,531,436
	1,587,200,790	2,678,481,636	3,350,314,425	3,940,362,986	5,344,407,597	8,115,400,702
					24,439,125	210,794,538
	0.54	1.13	1.24	1.33	1.53	1.74

Ten Year Summary

Statement of Profit or Loss & Other Comprehensive Income

Year ended 31 March	2007	2008	2009	2010
	Rs.	Rs.	Rs.	Rs.
Income	89,919,342	162,624,899	219,513,548	188,651,062
Interest Income	55,621,249	136,284,393	190,844,876	137,860,664
Interest Expenses	(52,607,204)	(120,555,044)	(203,910,764)	(186,250,897)
Net Interest Income	3,014,045	15,729,349	(13,065,888)	(48,390,233)
Net Trading Loss on Equity Securities	2,529,693	(5,451,560)	(14,058,572)	-
Other Income	34,298,093	26,340,506	28,668,672	50,790,398
Net Operating Income	39,841,831	36,618,295	1,544,212	2,400,165
Less: Operating Expenses				
Personnel Costs	(11,539,739)	(14,858,868)	(25,012,211)	(25,318,637)
Provision for Staff Retirement Benefits Cost	(580,875)	(360,000)	(606,875)	(428,750)
Other General & Administrative Expenses	(30,407,100)	(42,563,971)	(52,540,336)	(48,188,614)
Reversal / (Provision) of Losses on Loans and Advances	16,361,602	(28,647,135)	(98,958,943)	(12,500,099)
Net Profit / (Loss) Before Income Tax Expenses	13,675,719	(49,811,679)	(175,574,153)	(84,035,935)
Income Tax (Charge)/Reversal			-	-
Net Profit / (Loss) after Taxation	13,675,719	(49,811,679)	(175,574,153)	(84,035,935)
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	13,675,719	(49,811,679)	(175,574,153)	(84,035,935)
Earnings per Share	0.81	(2.55)	(8.99)	(1.58)

	2011	2012	2013	2014	2015	2016
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	327,593,843	435,341,934	626,800,329	768,716,521	923,347,861	1,383,809,503
	206,628,351	378,483,748	589,316,038	732,367,042	850,447,095	1,265,001,829
	(147,370,897)	(207,019,231)	(336,876,108)	(437,557,304)	(480,997,160)	(592,688,880)
	59,257,454	171,464,517	252,439,930	294,809,738	369,449,935	672,312,949
	-	(24,957,371)	(2,679,882)	5,684,335	24,610,913	(7,947,048)
	120,965,492	56,858,186	37,484,291	36,349,479	72,900,766	126,754,722
	180,222,946	203,365,332	287,244,339	336,843,552	466,961,614	791,120,623
	(32,329,757)	(76,401,233)	(118,289,225)	(123,044,068)	(178,237,431)	(249,869,486)
	(981,375)	(489,287)	(1,516,681)	(1,947,985)	(2,630,870)	(3,123,711)
	(77,453,688)	(88,292,343)	(96,156,535)	(138,765,746)	(158,582,482)	(244,947,298)
	(2,826,184)	(21,624,545)	(25,973,097)	(29,886,795)	(24,748,372)	(83,947,606)
	66,631,942	16,557,924	45,308,801	43,198,958	102,762,459	209,232,522
	5,363,331	31,428,577	16,382,992	3,318,687	(1,576,656)	(34,014,398)
	71,995,273	47,986,501	61,691,793	46,517,645	101,185,803	175,218,124
			(41,739)	(196,156)	(1,049,754)	837,345
			11,687	54,924	293,931	(234,457)
	-	-	(30,052)	(141,232)	(755,823)	602,888
	71,995,273	47,986,501	61,661,741	46,376,413	100,429,980	175,821,012
	0.28	0.10	0.11	0.08	0.15	0.21

Notice of Annual General Meeting

of Asia Asset Finance PLC for the year ended 31st March 2015/2016

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Asia Asset Finance PLC will be held on 26th of September 2016 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 2016 and the report of the auditors thereon.
- 2) Mr. C. Ramachandra 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) Ms. D. P. Pieris retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers herself for re-election in terms of Article 88 of the Articles of Association.
- 4) Mr. K. G. K. Pillai who was appointed to office on 12th August 2016 will cease to be a Director and will be eligible for re-election under Article 94 of the Articles of Association of the Company.
- 5) Mr. R. A. B. Basnayake who was appointed to office on 12th August 2016 will cease to be a Director and will be eligible for re-election under Article 94 of the Articles of Association of the Company.
- 6) To consider and if thought fit to pass the following resolution as a Special Resolution it being noted that the Controller of Exchange has granted the necessary permit;

"Resolved that the Articles of Association of the Company be amended by the inclusion of paragraph (15) in Article 3 immediately after (14) of the same Article as follows;

(15). 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"

- 7) 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.
- 8) To transact any other business of which due notice has been given.

By Order of The Board



Director/Secretaries

Colombo, 25th August 2016.

Notes:

- A member is entitled to appoint a Proxy to attend and vote at this meeting on his/her 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 appointof.....failing him/her.

- | | | | | | |
|-----|-----------------------------|----------------|-----|------------------------|----------------|
| (1) | Mr. H. L. L. M. Nanayakkara | or failing him | (5) | Mr. R. A.T . P Perera | or failing him |
| (2) | Mr. R. J. A. Gunawardena | or failing him | (6) | Mr. G. Alexander | or failing him |
| (3) | Mrs. D. P. Pieris | or failing her | (7) | Mr. K. R. Bjjimon | or failing him |
| (4) | Mr. C. Ramachandra | or failing him | (8) | Mr. K. G. K. Pillai | or failing him |
| | | | (9) | Mr. R. A. B. Basnayake | or failing him |

as my/our* proxy to represent me/ us* and speak and vote for me/us* on my/our* behalf at the Annual General Meeting of the Company to be held on the 26th of September 2016 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.

	Against	For
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 2016 and the report of the auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Mr. C. Ramachandra 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. Ms. D. P. Pieris retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers herself for re-election in terms of Article 88 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
4. Mr. K. G. K. Pillai who was appointed to office on 12th August 2016 will cease to be a Director and will be eligible for re-election under Article 94 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
5. Mr. R. A. B. Basnayake who was appointed to office on 12th August 2016 will cease to be a Director and will be eligible for re-election under Article 94 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To consider and if thought fit to pass the following resolution as a Special Resolution it being noted that the Controller of Exchange has granted the necessary permit; "Resolved that the Articles of Association of the Company be amended by the inclusion of paragraph (15) in Article 3 immediately after (14) of the same Article as follows; (15). 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"	<input type="checkbox"/>	<input type="checkbox"/>
7. 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 thisday of.....2016.

Signature of shareholder..... N.I.C.No.....

- Note:**
1. A proxy need not be a member of the Company.
 2. Instructions as to completion appear overleaf

Instructions as to completion

1. Kindly perfect the Form of Proxy by filling 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 filling 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

Company Name

Asia Asset Finance PLC

Legal Form

Incorporated as a private Limited Liability Company under the Companies ordinance, no 51 of 1983 (Cap 145) on 23rd September 1970 and name changed under the Companies ordinance, No.51 of 1938 (Cap 145) on 03rd October 2006 and Re-registered under the companies act No 07 of 2007 on 23rd January 2008 and converted to a public company under the companies act no.07 of 2007 on 20th March 2012.

Registration Number

(Under the Companies Act No.17 of 1982)

PVS/PBS 3266

New Registration Number

(Under the companies Act No 07 of 2007)

PB 139 PQ

Place of Incorporation

Colombo, Sri Lanka

Registered Office

No 76/1, Dharmapala Mawatha, Colombo 03.

Telephone: 011 5 66 99 22

Fax: 011 7 57 74 77

E-mail: info@asiaassetfinance.lk

Website: <http://www.asiaassetfinance.lk>

Company Secretary

P R Secretarial Services (pvt) Ltd,
No. 59, Gregory Road, Colombo 07.

Company Auditors - External

M/s. BDO Partners
Chartered Accountants,
65/2, Sir Chiththapatam A Gardiner Mawatha,
Colombo 02

Lawyers of the Company

Shiranthi Gunawardane Associate
No. 22/1, Ettiot Place,
Borella, Colombo 08.

Bankers of the Company

Sampath Bank PLC
Commercial Bank of Ceylon PLC
DFCC Vardhana Bank PLC
Hatton National Bank PLC
Pan Asia Banking Corporation PLC
People's Bank
Bank of Ceylon
National Development Bank PLC
Seylan Bank PLC

Board of Directors of the Company

Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara
Mr. Rajiv James Abeywickrema Gunawardena
Ms. Dayangani Priyanthi Pieris
Mr. George Muthoot Alexander
Mr. Chandrakumar Ramachandra
Mr. Ranasinghe Arachchige Thusitha Priyantha Perera
Mr. Kuttikattu Rajappan Bijimon
Mr. Pattage Mayurasiri Bandula Fernando

Audit Committee

Mr. Chandrakumar Ramachandra
Mr. Hiniduma Liyanage Lakpriya Manohan Nanavakkara
Mr. Ranasinghe Arachchige Thusitha Priyantha Perera
Mr. Pattage Mayurasiri Bandula Fernando
Mr. Kuttikattu Rajappan Bijimon

Integrated Risk Management Committee

Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara
Mr. Chandrakumar Ramachandra
Mr. Ranasinghe Arachchige Thusitha Priyantha Perera

Remuneration Committee

Mr. Chandrakumar Ramachandra
Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara
Mr. Ranasinghe Arachchige Thusitha Priyantha Perera
Mr. George Muthoot Alexander

Related Party Transactions Review Committee

Mr. Chandrakumar Ramachandra
Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara
Ms. Dayangani Priyanthi Pieris
Mr. Kuttikattu Rajappan Bijimon

