SIYAPATHA FINANCE PLC

FINANCIAL STATEMENTS

31 DECEMBER 2016

EY
Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

SPF/FSI/AD

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF SIYAPATHA FINANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Siyapatha Finance PLC (the "Company"), which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of 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.

Board's Responsibility for the Financial Statements

The Board of Directors (the "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 controls as 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 evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 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 the Company as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

(Contd..2/)

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Report on other legal and regulatory requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

a) The basis of opinion, 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, and
- the financial statements of the Company, comply with the requirements of Section 151 of the Companies Act No. 7 of 2007.

Ernst & Young

07 February 2017
Colombo

INCOME STATEMENT

Year ended 31 December 2016

	Note	2016 Rs.'000	2015 Rs.'000
Interest income		2,838,995	1,973,921
Less:Interest expenses		(1,620,783)	(824,699)
Net interest income	5	1,218,212	1,149,222
Fee & commission income		139,442	86,385
Less:Fee and commission expenses		(2,139)	(6,252)
Net fee and commission income	6	137,303	80,133
Other operating income	7	175,471	152,182
Total operating income		1,530,986	1,381,537
Impairment (charges)/ reversal for loans and other losses	8	(79,189)	(49,275)
Net operating income		1,451,797	1,332,262
Less: Operating expenses			
Personnel costs	9	(439,718)	(329,553)
Other operating expenses	10	(368,393)	(350,251)
Operating profit before VAT and NBT on financial services		643,686	652,458
Less: VAT and NBT on financial services	11	(128,500)	(93,305)
Profit before taxation from operations		515,186	559,153
Less:Taxation	12	(187,904)	(174,629)
Profit for the year		327,282	384,524
Basic earnings per share (Rs.)	13	6.14	7.32
Dividend per share (Rs.)	14	1.10	0.60

The Accounting policies and Notes to the Financial Statements from pages 08 to 59 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 Rs.'000	2015 Rs.'000
Profit for the year		327,282	384,524
Other comprehensive income/ (expenses)			
Other comprehensive income not to be reclassified to profit or loss:			
Actuarial losses on defined benefit plan	33.3	(3,165)	(2,749)
Deferred tax effect on actuarial losses	32	886	770
Other comprehensive income for the year,net of tax		(2,279)	(1,979)
Total comprehensive income for the year,net of tax		325,003	382,545
Attributable to :			
Equity holders of the parent company		325,003	382,545
		325,003	382,545

The Accounting policies and Notes to the Financial Statements from pages 08 to 59 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 Rs. '000	2015 Rs. '000
Assets			
Cash and bank balances	16	169,333	130,070
Securities purchased under repurchase agreements	17	777,438	601,679
Factoring receivables	18	1,979,243	1,157,136
Gold loan receivables	19	1,768,922	770,839
Pawning receivables	20	-	-
Loan receivables	21	743,740	286,968
Lease receivables	22	13,851,890	9,230,730
Hire purchase receivables	23	837,560	2,083,571
Other assets	24	291,648	234,417
Financial instruments- available for sale	25	56	56
Financial investments held to maturity	26	4,288	4,274
Property, plant & equipment	27	358,131	124,697
Intangible assets	28	8,489	14,889
Total Assets		20,790,738	14,639,326
Liabilities			
Bank overdraft		460,494	163,583
Due to other customers		3,362,662	1,233,041
Debt issued and other borrowed funds	29	14,187,266	10,925,421
Other payables	30	595,597	508,921
Income taxation payable	31	61,257	75,663
Deferred taxation liability	32	170,088	102,306
Retirement benefit obligations	33	23,013	19,259
Total Liabilities		18,860,377	13,028,194
Shareholders' Funds			
Stated capital	34	576,975	525,000
Statutory reserve fund	35	86,422	70,059
Retained earnings	36	1,266,964	1,016,073
Total Shareholders' Funds		1,930,361	1,611,132
Total Liabilities and Shareholders' Funds		20,790,738	14,639,326
Net asset value per share (Rs.)		35.67	30.69
Commitments and contingencies	40	1,045,384	558,986

We certify that these Financial Statements are presented in compliance with the requirements of the Companies Act No.7 of 2007.

Managing Director

Group Finance Director

The Board of Directors is responsible for the preparation & and presentation of these Financial Statements.
Signed for and on behalf of the Board by,

Director

Director

The Accounting policies and Notes to the Financial Statements from pages 08 to 59 form an integral part of these Financial Statements.

ERNST & YOUNG
Chartered Accountants
07 February 2017
Colombo
COLOMBO

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Note	Stated Capital Rs'000	Statutory Reserve Fund Rs'000	Retained Earnings Rs'000	Total Rs'000
Balance as at 31 December 2014		525,000	50,832	735,813	1,311,645
Super Gain Tax	32.2	-	-	(51,558)	(51,558)
Net profit for the year		-	-	384,524	384,524
Other comprehensive income		-	-	(1,979)	(1,979)
Transfer to Statutory Reserve Fund	35	-	19,227	(19,227)	-
Dividend paid	14	-	-	(31,500)	(31,500)
Balance as at 31 December 2015		525,000	70,059	1,016,073	1,611,132
Net profit for the year		-	-	327,282	327,282
Other comprehensive income		-	-	(2,279)	(2,279)
Transfer to Statutory Reserve Fund	35	-	16,363	(16,363)	-
Dividend paid	14	51,975	-	(57,750)	(5,775)
Balance as at 31 December 2016		576,975	86,422	1,266,963	1,930,360

The Accounting policies and Notes to the Financial Statements from pages 08 to 59 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 Rs. '000	2015 Rs. '000
Cash flows from operating activities			
Profit before taxation from operations		515,186	559,153
Interest expenses	5.2	1,620,783	824,699
Fee & commission expenses	6	2,139	6,252
Provision for impairment	8	79,189	49,275
Provision for staff gratuity	33.2	6,784	4,309
Provision for depreciation	27	42,173	25,355
Amortisation of software	28	7,753	7,087
(Profit)/Loss on sale of motor vehicles		39	-
Write off of provisions		(14,775)	-
		1,744,085	916,976
Operating profit before working capital changes		2,259,271	1,476,129
(Increase)/Decrease in Lease receivables		(4,675,805)	(5,832,238)
(Increase)/Decrease in Hire purchase receivables		1,255,436	2,312,656
(Increase)/Decrease in Factoring receivables		(840,364)	(199,542)
(Increase)/Decrease in Pawning receivables		14,775	456,193
(Increase)/Decrease in Gold loan receivables		(1,006,021)	(773,198)
(Increase)/Decrease in Loan receivables		(456,797)	218,433
(Increase)/Decrease in Other assets		(64,978)	(274,858)
Increase/(Decrease) in Other payables		133,763	153,359
		(5,639,992)	(3,939,195)
Cash generated from operations		(3,380,721)	(2,463,067)
Interest paid		(1,502,565)	(779,294)
Gratuity paid	33	(6,195)	(334)
Income tax paid	31	(105,409)	(169,503)
Dividend tax paid		(5,775)	(3,150)
Net cash outflow from operating activities		(5,000,665)	(3,415,348)
Cash flow from investing activities			
Investments in government bonds & government securities		(8,114)	(76)
Purchase of property, plant and equipment and intangible assets		(279,002)	(57,213)
Proceeds from sale of property, plant and equipment		2,003	-
Net cash outflow from investing activities		(285,113)	(57,289)
Net cash outflow before financing activities		(5,285,778)	(3,472,638)
Cash flow from financing activities			
Proceeds from long term loans/ Securitizations		3,346,350	5,482,037
Repayments of long long term loans/ Securitizations		(3,204,655)	(2,463,666)
Net proceeds from term deposits		2,054,301	1,206,628
Proceeds from debentures		2,500,000	-
Debentures redeemed		-	(259,000)
Net proceeds from short term borrowings		499,794	(388,116)
Cash dividend paid	14	-	(31,500)
Net cash inflow from financing activities		5,195,790	3,546,383
Net increase/(decrease) in cash and cash equivalents		(89,988)	73,747
Cash & cash equivalents at the beginning of the year		568,166	494,419
Cash and cash equivalents at end of the period		478,178	568,166
Analysis of the cash and cash equivalents at the end of the period			
Cash and bank balances (Note 16)		169,333	130,070
Securities purchased under repurchase agreements (Note 17)		769,339	601,679
Bank overdraft		(460,494)	(163,583)
		478,178	568,166

The Accounting policies and Notes to the Financial Statements from pages 08 to 59 form an integral part of these Financial Statements.

1. CORPORATE INFORMATION

1.1 General

Siyapatha Finance PLC ("The Company"), formerly known as Siyapatha Finance Limited is a domiciled, Public Limited Company incorporated in Sri Lanka on 03 March 2005. The Company was re-registered under the Companies Act No.07 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto. The registered office of the Company is located at No.110, Sir James PierisMawatha,Colombo 02. The principal place of business is located at. No.46/12, NawamMawatha, Colombo 02.

The debentures of the Company were initially listed on the Colombo Stock Exchange on 2 January 2015.

The staff strength of the Company as at 31 December 2016 was 390(328 as at 31 December2015).

1.2 Principal Activities and Nature of Operations

The Company provides acomprehensive range of financial services encompassing acceptance of Fixed Deposits, providing Finance Lease, Hire Purchase, Vehicle Loan Facilities, Mortgage Loans, Gold Loan, Debt Factoring, Revolving Loans andBusiness/Personal Loans.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking /ultimate parent and the controlling party is Sampath Bank PLC, which is incorporated in Sri Lanka.

1.4 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards (SLFRS/ LKAS).

1.5 Date of Authorization

The Financial Statements of the Company for the year ended 31 December 2016 were authorized for issue in accordance with their solution of the Board of Directors dated07February 2017.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company (Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes) as at 31 December 2016 are prepared in accordance with Sri Lanka Accounting Standards (SLFRSs& LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka, in compliance with the requirements of the Companies Act No. 7 of 2007.

2.2 Basis of Measurement

The Financial Statements of the Company are prepared in Sri Lanka Rupees on a historical cost basis, except for the following material items in the Statement of Financial Position.

- Available for sale investments are measured at fair value
- Liabilities for defined benefit obligations are recognised as the present value of the defined benefit obligation.

2.3 Functional and Presentation Currency

The financial statements are presented in Sri Lankan Rupees (Thousands), which is also the Company's functional and presentation currency (except otherwise indicated).

2.4 Presentation of Financial Statements

The Company presents its statement of financial position broadly 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 Note39.

2.5 Materiality and Aggregation

In compliance with 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 are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount reported in theStatementof Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any Accounting Standard or interpretation and as specifically disclosed in the Accounting Policies.

2.6 Comparative Information

The accounting policies have been consistently applied by the Company with those of the previous financial yearin accordance with LKAS 01 *Presentation of Financial Statements.*

The comparative information is re-classified wherever necessary to conform to the current year's presentation.

2.7 Events After Reporting Date

All material events after the reporting date have been considered where appropriate adjustments or disclosures are made in respective Note 41 to the Financial Statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognized in the financial statements of the Company are as follows.

i. Going Concern

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied thatit has the resources to continue in business for the foreseeable future. Furthermore, management is not awareof any material uncertainties that may cast significant doubt upon the Company's ability to continue as a goingconcern and does not intend either to liquidate or to cease operations. Therefore, the financial statements continue to be prepared on the going concern basis.

ii. Useful Life-time of the Property, Plant,Equipment and Intangible Assets

The Company reviews the residual values, useful lives and methods of depreciation and amortization of Property, Plant, Equipment and Intangible Assets at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

iii. Impairment Losses on Loans and Receivables (Leases, Hire Purchases,Vehicle Loans, Factoring, Mortgage Loans, Revolving Loans,Business/Personal Loans and Gold Loans)

The Company reviews its individually significant loans and advancesat each Statement-of-Financial-Position date toassess whether an impairment loss should be recorded in the income statement. 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 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 also an type, asset type and past due status etc., and judgements on the effect of concentrations of risks and economic data includinglevelsofunemployment, consumer prices indices, interest rates, exchange rates).

iv Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that 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 future tax-planning strategies.

v. Defined Benefit Plans

The cost of Defined Benefit Pension Plan is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables**.** Future salary increases are based on expected future inflation rates and expected future salary increase rate for the Company.

vi Provision for Liabilities & Contingencies

The Company receives the legal claims against it in the normal course of the business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and costs ultimately depend on the due process in respective legal jurisdictions.

vii Fair Value of Financial Instruments

The determination of fair value of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instrument is described in Note 37 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in Note 37 to the Financial Statements.

viii Financial Assets and Financial Liabilities Classification

The Company's accounting policies provide scope for assets and liabilities to be classified, at inception in to different accounting categories. The classification of financial instrument is given in Note 15"Analysis of Financial Instruments by Measurement Basis".

ix Fair value of Property, plant & Equipment

The freehold land of the Company is reflected at fair value at the date of revaluation. TheCompany engages independent valuation specialists to determine fair value of free hold land in terms of Sri Lanka Accounting Standard –SLFRS 13, (Fair Value Measurement).The details of freehold land including methods of valuation are given in Note 27 to the Financial Statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company in preparation of its Financial Statements are included in below.

4.1 Financial Assets and Financial Liabilities – Initial Recognition and Subsequent Measurement

4.1.1 Date of Recognition

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

4.1.2 RecognitionandInitial Measurement of Financial Assets and Financial Liabilities

The classification of financial assets and financial liabilities at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All Financial Assets and Financial Liabilities are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or losses per Sri Lanka Accounting Standard LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'.

4.1.3 Classification and Subsequent Measurement of Financial Assets

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

a) Financial Investments at Fair value through profit or loss (FVTPL);
   - Financial Investments held for trading
   - Financial Investments – Designated at fair value through profit or loss

b) Loans & Receivables (L&R)

c) Held to Maturity (HTM) Financial Investments

d) Available for Sale (AFS) Financial Assets

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

Subsequent measurement of financial assets depends on their classification.

a) Financial Investments 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.

The Company does have financial assets under this category.

b) Available for Sale Financial Assets

Available for sale investments includeequity 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.

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 or losses are recognized 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 Income Statement in 'Other Operating Income'. When the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the effective interest rate (EIR).

Dividendsearned whilst holding available for sale financial investments are recognised in the income statement as 'Otheroperating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Income Statement in 'impairment charges for loans and other losses' and removed from the Available for Sale Reserve.

Currently, the Companyhas recorded its non- quoted equity investments classified as available for sale financial instruments at cost less impairment if any. The details of available for sale financial assets are given in note 25to the Financial Statements.

c) Held to Maturity Financial Investments

Held to Maturity Financial Investmentsare non- derivative financial assets with fixed or determinable payments and fixed maturities, which the company has the intention and ability to hold to maturity. This includes investment in government securities.

After the initial measurement, held to maturity financial instruments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement in 'impairment charges for loans and other losses'.

If the Company were to sell or reclassify more than an insignificant amount of Held to Maturity investments before maturity (other than in certain specific circumstances) the entire category would be tainted and would be reclassified as available for sale. Furthermore, the Company would be prohibited from classifying any financial assets as held to maturity during the following two years. The details of HTM financial investments are given in Note 26to Financial Statements.

d) Loans and Receivables Financial Instruments

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 in the near term and those that, upon initial recognition, designates as 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 investments, 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 in to 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 and Similar Income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in 'impairment charges for loans and receivables'.

Loans and Receivables consist of cash and bankbalances, securities purchased under repurchase agreements, factoring receivables, lease receivables, hire purchasereceivables, loan receivables,goldloanreceivablesandother assets.

Cash and Bank balances

Cash and bank balances comprise cash in hand, balances with banks, 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. Details of cash and bank balances are given in Note 16 toFinancial Statements.

4.1.4 Classification and SubsequentMeasurement 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)
  a) Financial liabilities held for trading
  b) Financial liabilities designated at fair value through profit or loss
(ii) Financial liabilities at amortised cost

The subsequent measurement of financial liabilities depends on their classification.

i. Financial Liabilities at Fair Value Through Profit or Loss (FVTPL)

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 fair value, and changes therein recognized in profit or loss.

a) Financial Liabilities held for Trading

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 the portfolio that is managed together for short term profit or position taking. This category includes derivative financial instruments entered in to by the Company which are not designated as hedging instruments in the hedge relationships as defined by the Sri Lanka Accounting Standards – LKAS 39 on Financial Instruments: Recognition and Measurements.

b) Financial Liabilities designated at Fair Value through profit or loss

The Company designates financial liabilities at fair value through profit or loss in the following circumstances.

- Such designation eliminates or significantly reduces measurement or recognition in consistency that would otherwise arise from measuring the liabilities.

- The liabilities are a part of group of financial liabilities, financial assets or both, which are managed and their performance evaluated on a fair value basis, in accordance with the documented risk management or investment strategy.

- The liability contains one or more embedded derivatives that significantly modify the cash flows that would otherwise have been required under the contract.

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

ii. 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 at amortised cost under ‘debt issued and other borrowed funds’ 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 assets for a fixed number of own equity shares at amortised cost using 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 integral part of the EIR. The EIR amortisation is included in ‘interest expenses’ in the Income Statement. Gains and losses are recognized in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

This Category consists of bank overdraft, debt issued and other borrowed funds and other payables.

Debt issued and other borrowed funds

These represent the funds borrowed in the form of term loans, short term loans, debentures, commercial papers and securitizations.

4.1.5 Reclassification of Financial Assets

Reclassification is at the discretion of management in accordance with Sri Lanka Accounting Standards – LKAS 39 on Financial Instruments, and is determined on an instrument by instrument basis.

The Company has not reclassified any financial assets during the year.

4.1.6 Derecognition of Financial Assets and Financial Liabilities

(i) Financial Assets

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

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass–through’ arrangement and either:
    - ✓ The 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.

(ii) Financial Liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as aderecognition 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.

4.1.7 Determination of Fair Value

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 valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

-Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
-Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
-Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 37 to the Financial Statements.

4.1.8 Impairment of Financial Assets

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

Evidence of impairment may include: indications that the borrower or a group of borrowers are experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation default or delinquency in interest or principal payments; and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial Assets carried at Amortised Cost

a) Individually assessed Loans and Receivables-Factoring and Loans

For financial assets carried at amortised cost (such as loans and advances to customers as well as held to maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

The criteria used to determine that there is such objective evidence includes:
– known cash flow difficulties experienced by the borrower;
– past due contractual payments of either principal or interest;
– breach of loan covenants or conditions;
– the probability that the borrower will enter bankruptcy or other financial realisation; and
– Significant downgrading in credit rating by an external credit rating agency

For those loans where objective evidence of impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

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.

b) Collectively assessed Loans and Receivables

Impairment is assessed on a collective basis in two circumstances:
– to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
– for homogeneous groups of loans that are not considered individually significant.

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 and the Group are not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

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

Homogeneous groups of Loans and Advances

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

- When the group of loan by nature short term, the company use net flow rate method

Under this methodology the movement in the outstanding balance of customers in to bad categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated.

Under the methodology, 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 covering inherent loss.

These additional macro and portfolio risk factors may include:
- recent loan portfolio growth and product mix,
- unemployment rates, Gross Domestic Production (GDP) growth, inflation
- exchange rates, interest rates
- changes in government laws and regulations

c) 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.

d) 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 Effective Interest Rate (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 an individual or collective impairment assessment, calculated using the loan's original EIR.

e) Reversals of impairment

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

i. 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.

In the case of equity investments classified as available for sale, objective evidence would also include a‘significant’ or ‘prolonged’ decline in the fair value of the investment below its cost. The Company treats ‘significant ’generally as 20% and ‘prolonged’ generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

ii.Held to Maturity Financial Assets

An impairment loss in respect of held to maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of future cash flows discounted at the asset’s original EIR and is recognised in profit or loss. Interest on impaired asset continues to be recognised through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

4.1.9 Offsetting Financial Assets and Liabilities

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 group’s trading activity.

4.2 Finance and Operating Lease

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.

Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in ‘Lease Receivable”. The finance income receivable is recognised in ‘Net interest income’ over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Company is a lessee under finance leases, the leased assets are capitalised and included in ‘Property, plant and equipment’ and the corresponding liability to the lessor is including ‘Other liabilities’. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in ‘Net interest income’ over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

The details of Finance Lease Receivables are given in Note 22to FinancialStatements.

Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in ‘Property, plant and equipment’ and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position .Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in ‘other operating expenses’ and ‘other operating income’, respectively.

4.3 Property, Plant andEquipment

Property, plant &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 & Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on Property, plant &equipment. Initially property and equipment are measured at cost.

i. Basis ofRecognition and Measurement

Cost Model

An item of property, plant &equipment that qualifies for recognition as an asset is initially measured at its costs. Costs include expenditure that is directly attributable to the acquisition of the asset and cost is 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 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 capitalized borrowing costs. Purchase of software that is integral to the functionality of the related equipment is capitalized as a part of computer equipment.

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

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

Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

ii. Subsequent Cost

These are costs that are recognised in the carrying amount of an item, if it is probable that the future economic benefits embodied within that part will flow to the Company and it can be reliably measured.

iii. Repairs and Maintenance

Repairs and maintenance are charged to the 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.

iv. Capital Work -in -Progress

Capital work in progress is stated at cost. It would be transferred to the relevant asset 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 management. Capital work in progress is stated at cost less any accumulated impairment losses.

v. Borrowing Costs

As per Sri Lanka Accounting Standard- LKAS 23 on 'Borrowing Costs', the company capitalizes the borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

vi. 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 de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

vii. Depreciation

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

The rates of depreciations based on the estimated useful lives are as follows:

Category of Asset	**Period of Depreciation**	
	2016	**2015**
Office Equipment	15.00 % p.a.	15.00 % p.a.
Computer Equipment	16.67% p.a	16.67% p.a
Furniture and Fittings	15.00% p.a.	15.00% p.a.
Motor Vehicles (except Motor Bicycles)	12.50% p.a.	12.50% p.a.
Motor Bicycles	20.00% p.a.	12.50% p.a.
Fixtures	20.00% p.a.	20.00% p.a.

viii. Change in Estimates

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. Due to changes in useful life of Motor bicycles and estimation, an increaseof Rs.1,813,678/-hasresulted in the current year, in comparison to the depreciation charge based on previous estimate.

4.4 Intangible Assets

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

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

ii. Subsequent Expenditure

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

iii. Useful Economic life, Amortization and Impairment

The useful lives of intangible assets are assessed to be either finite or indefinite.

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 financial year–end. 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 income statement in the expense category consistent with the function of the intangible asset.

iv. Amortization

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual value over their estimated useful life as follows:

The Class of Intangible Assets	Useful Life	Amortisation Method
Computer software	**4 Years**	Straight line method

The unamortized balances of Intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

v. Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their 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 the profit or loss in the year the asset is derecognised.

4.5 Impairment of non–Financial Assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the ‘value in use’ of such individual assets or the cash-generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. These estimates about expected future cash flows and discount rates are subject to uncertainty.

4.6 Dividend Payable

Dividends on ordinary shares are recognised as a liability and deducted in equity when they are recommended and declared by the Board of Directors and approved by the shareholders.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date in accordance with the Sri Lanka Accounting Standard – LKAS 10 on ‘Events after the reporting period’.

4.7 Retirement Benefit Obligations

i. Defined Benefit Plan - Gratuity

All the employees of the company are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

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 projected unit credit actuarial cost method as required by Sri Lanka Accounting Standard – LKAS 19 on “Employee Benefits”.

The item is stated under other liabilities in the Statement of Financial Position.

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.

Interest Cost
Interest cost is the expected increase due to interest during the period in the present value of the planned liabilities because the benefits are one year closer to settlement.

Funding Arrangements
The Gratuity liability is not externally funded.

ii. Defined Contribution Plans

The Company also contributes defined contribution plans. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under ‘Personnel expenses’. Unpaid contributions are recorded as a liability.

The Company contributes to the following Schemes:

Employees’ Provident Fund

The Company and employees contribute 12% and 8% respectively of the employee’s total earnings (as defined in the Employees’ Provident Fund) to the Employees’ Provident Fund.

Employees’ Trust Fund

The Company contributes 3% of the employee’s total earnings (as defined in theEmployees’ Trust Fund) to the Employees’ Trust Fund.

4.8 Statutory Reserve Fund

The reserves recorded in the equity on the Company’s Statement of Financial Position includes the ‘Statutory reserve fund’ which has been created in accordance with the Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. Accordingly, 5% of the net profit for the period is transferred to the Statutory reserve fund during the financial year.

4.9 Provisions

Provisions are recognised 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 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 obligations at that date.

The expense relating to any provision is presented in the income statement net of any reimbursement.

4.10 Recognition of Income and Expenses

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

i. Interest and similar income and expenses

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

The carrying amount of the financial asset or financial liability is adjusted if the 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 and similar income' for financial assets and 'Interest and similar expense' for financial liabilities.

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

ii. Dividend income

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

iii. Income from Government Securities and Securities purchased under Re-Sale Agreement

Discounts/ premium on Treasury bills & Treasury bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreement is recognised in the Income Statement on an accrual basis over the period of the agreement.

iv. Fee and Commission Income

The Company earns a fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided in to two categories.

a) Fee Income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period.

b) Fee Income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party.

v. Interest Income on Overdue Rentals

Interest from overdue rentals has been accounted for on cash received basis.

vi. Recovery of Bad Debts Written Off

Recovery of amounts written off as bad and doubtful debts is recognised on a cash basis.

vii. Other Income

Other income is recognised on an accrual basis.

4.11 Personnel Costs

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligationto pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4.12 Taxes

Income tax expense consists of current and deferred tax. Income tax expense is recognized in the Income Statement.

i. Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the Balance Sheet date.

Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 12to the Financial Statements.

ii. Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax liabilities are recognised for all temporary differences.

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.
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The carrying amount of a deferred tax asset is reviewed at each Balance Sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each Balance Sheet date and are recognised to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity are not in the income statement.

iii. Value Added Tax(VAT) on Financial Services

VAT on financial services is calculated in accordance with the Value Added Tax Act No.14 of 2002 and subsequent amendments thereto. The base for the 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 rate.

iv. Withholding Tax on Dividends

Withholding tax on dividends distributed by the Company withholding tax that arise from the distribution of dividends of the company is recognised at the time of liability to pay the related dividend is recognized. At present, the rate of 10% is deducted at source.

v. Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 01, 2004. Currently, the ESC is payable at 0.5% 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 three subsequent years.

ESC is not payable on turnover on which income tax is payable.

vi. Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No.12 of 2013, the CIL was introduced with effect from April 1, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

vii. 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 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

4.13 Earnings per Share (EPS)

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

4.14 Commitments and Contingencies

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

To meet the financial needs of the customers, the Company enters into various irrecoverable commitments and contingent liabilities. These consists of financial guarantees and other undrawn commitment to lend. The guarantees commit the Company to make payments on behalf of customers in the event of a specific act. They carry similar credit risk to loans. Operating lease commitments and pending legal claims against the Company too form part of commitments of the Company. Contingent Liabilities are not recognised in the statement of financial position. But are disclosed unless its occurrence is remote. These contingent liabilities do contain credit risk and therefore form part of the overall risk of the Company.

Financial guarantees are initially recognized in the Statement of Financial Position (within other liabilities) at fair value, being the premium received subsequent to initial recognition, the Company’s liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the Income Statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the Income Statement under the ‘impairment charge’ for loans and other losses. The premium received is recognized in the Income Statement under ‘Net fee and commission incomeon a straight line basis over the life of the guarantee.

Legal Claims

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated. The company makes adjustment to account for any adverse effects which the claims may have on its financial standing.

At the reporting date the Company has several unresolved legal claims against the Company for which legal advisor of the Company advised as the loss is probable, but not probable, that action will succeed.

Accordingly, no provision for any claims has been made in these Financial Statements.

4.15 Statement of Cash Flows

The Cash Flow statement is prepared using the indirect method, as stipulated in LKAS 7-“Statement of Cash Flows” Whereby operating, investing and financial activities are separately recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the Statement of Cash Flows

For the purpose of the Statement of Cash Flow,cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted current accounts with Company’s on demand or with an original maturity of three months or less.

4.16 Sri Lanka Accounting Standards not yet effective as at 31 December 2016

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31st December 2016. The Company intends to adopt these standards, if applicable, when they become effective.

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 contracts with customers.

SLFRS 15 introduces a five step approach for revenue recognition from contracts with customers and replaces all other currently applicable revenue Standards and interpretations.
SLFRS 15 will become effective on 1st January 2018. The Company carried out an initial impact analysis with the assistance of an external consultant during the year ended 31st December 2016. According to the above analysis the Company does not have any material impact from the adoption of SLFRS 15 in the year 2018.

SLFRS 9 –Financial Instruments

This standard will replace Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement). The improvements introduced by SLFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially - reformed approach to hedge accounting.

SLFRS 9 will become effective on 01st January 2018. Given the complexities and technical expertise required in the process of convergence with SLFRS 09, a diagnostic phase assessment on impairment based on the requirements of SLFRS 09 has been already carried out with the assistance of an external consultant based on the outstanding balances as at 31 December 2016.

Classification and measurement
Classification determines how financial assets and financial liabilities are accounted for in the Financial Statements and, in particular, how they are measured on an ongoing basis. SLFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply.

Accordingly, financial assets are measured at amortized cost, fair value through other comprehensive income (‘FVOCI’) or fair value through profit or loss (‘FVPL’). Although the classification and measurement outcomes will be similar to LKAS 39 in many instances, the combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortized cost or fair value compared to LKAS 39. The classification of financial liabilities is essentially unchanged. However the Company is not expected to have a material impact from the new classification and measurement principles introduced by SLFRS 09.

Impairment
SLFRS 9 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized. This credit loss (impairment) requirements apply to financial assets measured at amortized cost and FVOCI, lease receivables and certain loan commitments and financial guarantee contracts.

At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12 - month ECL') for all financial assets to which impairment requirement is applied. In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The Management is required to establish multiple outcomes (futuristic) which are probability weighted based different economic scenarios in order to capture 12months and lifetime Expected Credit Losses. Further, the Company is required to calculate product wise LGD based on the segmentation determined by the management under Incurred Loss principle.

The Management shall estimate forward looking parameters and incorporate to the LGD for the purpose of converting Incurred Loss LGD to embed futuristic assumption as relevant.
For revolving credit facilities/other facilities as relevant the Company shall establish

- The period over which the Company was exposed to credit risk on similar financial instruments
- The length of time for related defaults to occur on similar financial instruments
- The credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

The increase in impairment allowance is not measured with precision, based on the current stage of the impact assessment.

SLFRS 16- Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 introduces a single lessee accounting model for lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new standard requires a lessee to:
Recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.
SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAs – 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

SLFRS 16 will become effective on 1st January 2019. The impact on the implementation of the above Standard has not been quantified yet.

4.17 Amendments to existing Accounting Standards effective from January 2017

Amendments to existing Accounting Standards with effect from 01st January 2017 as published by the Institute of Chartered Accountants of Sri Lanka are not expected to have an impact on the Financial StatementsoftheCompany.

		2016	2015
5.	**NET INTEREST INCOME**	**Rs. '000**	**Rs. '000**
5.1	**Interest income**		
	Interest income on lease receivables	1,742,245	912,427
	Interest income on hire purchase receivables	251,810	567,499
	Interest income on factoring receivables	303,848	179,242
	Interest income accrued on impaired financial assets	13	163
	Interest income on loan receivables	59,537	66,909
	Interest income on pawning & gold loan receivables	263,644	119,153
	Interest income on government securities	75,380	39,328
	Interest income on overdue rentals	131,022	86,900
	Interest income on staff loans	8,446	2,300
	Interest income on fixed deposits	3,050	-
	Total interest income	2,838,995	1,973,921
5.2	**Interest expenses**		
	Bank overdraft	6,017	828
	Short term borrowings	230,643	106,580
	Customer deposits	250,269	35,616
	Long term borrowings	942,455	515,772
	Commercial papers	1,066	14,086
	Securitisation loans	4,742	29,797
	Debentures	185,591	122,020
	Total interest expenses	1,620,783	824,699
	Net interest income	1,218,212	1,149,222

		2016	2015
6.	**NET FEE AND COMMISSION INCOME**	**Rs. '000**	**Rs. '000**
	Documentation charges	35,450	35,746
	Insurance commission	41,006	28,402
	Service charges- pawning/gold loan	60,862	22,237
	Processing fees	2,027	-
	Other fee & commission income	97	-
	Total fee and commission income	139,442	86,385
	Fee and commission expenses		
	Guarantee fee	2,139	6,252
	Total fee and commission expenses	2,139	6,252
	Net fee and commission income	137,303	80,133

		2016	2015
7.	**OTHER OPERATING INCOME**	**Rs. '000**	**Rs. '000**
	Profit on early terminations	139,828	116,113
	Profit on disposal of motor vehicles	340	-
	Recovery of bad debts written off	2,625	3,191
	Recovery of charges	17,654	18,575
	Sundry income	15,024	14,303
	Total other operating income	175,471	152,182

		2016	2015
8.	**IMPAIRMENT CHARGES/ (REVERSAL) FOR LOANS AND OTHER LOSSES**	**Rs. '000**	**Rs. '000**
	Lease receivables	54,645	(32,511)
	Hire purchase receivables	(9,424)	(8,080)
	Factoring receivables	18,257	38,722
	Loan receivables	25	(35)
	Pawning & gold loan receivables	7,939	2,358
	Repossessed stock	8,043	47,793
	Other loans	(296)	1,029
		79,189	49,275

9. PERSONNEL COSTS

	2016 Rs. '000	2015 Rs. '000
Salary & bonus	358,169	271,987
Contribution to defined contribution plan	34,904	26,445
Gratuity charge for the year	6,784	4,309
Others	39,861	26,812
	439,718	329,553

10. OTHER OPEARATING EXPENSES

	2016 Rs. '000	2015 Rs. '000
Directors' emoluments	15,345	11,160
Auditors' remuneration	1,409	1,117
Non- audit fees to auditors	2,530	4,227
Professional & legal expenses	9,543	15,147
Depreciation on property, plant & equipment	42,173	25,355
Amortization of intangible assets	7,753	7,087
Deposit insurance premium	3,457	702
Office administration & establishment expenses	193,549	169,252
Advertising expenses	60,000	75,909
Loss on sale of fixed assets	379	-
Others	32,255	40,295
	368,393	350,251

11. VAT & NBT ON FINANCIAL SERVICES

	2016 Rs. '000	2015 Rs. '000
VAT on financial services	109,033	77,867
NBT on financial services	19,467	15,438
	128,500	93,305

12. TAXATION

12.1 The major components of income tax expense for the year ended 31 December are as follows.

Income statement	2016 Rs. '000	2015 Rs. '000
Current income tax		
Income tax for the year	123,595	137,768
Under/ (Over) provision of current taxes in respect of previous year	(4,359)	3,768
	119,236	141,536
Deferred tax		
Deferred taxation charge/ (reversal) (refer note 32)	68,668	33,093
	187,904	174,629

12.2 A reconciliation between tax expenses and the product of accounting profit multiplied by the statutory tax rate is as follows.

	2016 Rs. '000	2015 Rs. '000
Accounting profit before income taxation	515,186	559,153
At the statutory income tax rate of 28%	144,253	156,563
Tax effect of non deductible expenses	18,024	36,499
Tax effect of other allowable credits	(38,682)	(55,294)
Tax effect of exempt income	-	-
Tax effect of losses claimed	-	-
Under/ (Over) provision of current taxes in respect of previous years	(4,359)	3,768
Deferred tax effect	68,668	33,093
At the effective income tax rate of 36.47% (31.23% - 2015)	187,904	174,629

The Company's income is taxed at the rate of 28% during the years 2016 and 2015.

13. EARNINGS PER ORDINARY SHARE - BASIC (Rs.)

Earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year, as per Sri Lanka Accounting Standard -LKAS 33 (Earnings Per Share).

	2016	2015
Profit attributable to ordinary shareholders (Rs. 000)	327,282	384,524
Weighted average number of ordinary shares during the year	53,312,363	52,500,000
Basic earnings per ordinary share- (Rs.)	6.14	7.32

14. DIVIDEND PAID

	2016	2015
Dividends paid (Rs. 000)	57,750	31,500
Weighted average number of ordinary shares during the year	52,500,000	52,500,000
Dividends per ordinary share (Rs.)	1.10	0.60

A scrip dividend of Rs. 1.10 per share for the year 2015 was paid in June 2016. (a cash dividend of Rs. 0.60 per share for the year 2014 was paid in June 2015)

15. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial Instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in Sri Lanka Accounting Standard-LKAS 39 (Financial Instruments: Recognition & Measurement) under headings of Statement of Financial Position.

15.1 Analysis of Financial Instruments by Measurement Basis

As at 31 December 2016	Amortised Cost Rs'000	Held to Maturity Rs'000	Available for Sale Rs'000	Total Rs'000
Financial Assets				
Cash and bank balances	169,333	-	-	169,333
Securities purchased under repurchase agreements	777,438	-	-	777,438
Factoring receivables	1,979,243	-	-	1,979,243
Gold loan receivables	1,768,922	-	-	1,768,922
Loan Receivables	743,740	-	-	743,740
Lease receivables	13,851,890	-	-	13,851,890
Hire purchase receivables	837,560	-	-	837,560
Other assets	197,139	-	-	197,139
Financial instruments- Available for sale	-	-	56	56
Financial investments- Held to maturity	-	4,288	-	4,288
Total Financial Assets	20,325,265	4,288	56	20,329,608
Financial Liabilities				
Bank overdraft	460,494	-	-	460,494
Due to other customers	3,362,662	-		3,362,662
Debt issued and other borrowed funds	14,187,266	-	-	14,187,266
Other payables	490,902	-	-	490,902
Total Financial Liabilities	18,501,324	-	-	18,501,324

As at 31 December 2015	Amortised Cost Rs'000	Held to Maturity Rs'000	Available for Sale Rs'000	Total Rs'000
Financial Assets				
Cash and bank balances	130,070	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	601,679
Factoring receivables	1,157,136	-	-	1,157,136
Gold loan receivables	770,839	-	-	770,839
Loan Receivables	286,968	-	-	286,968
Lease receivables	9,230,730	-	-	9,230,730
Hire purchase receivables	2,083,571	-	-	2,083,571
Other assets	168,527	-	-	168,527
Financial instruments- Available for sale	-	-	56	56
Financial investments- Held to maturity	-	4,274	-	4,274
Total Financial Assets	14,429,520	4,274	56	14,433,850
Financial Liabilities				
Bank overdraft	163,583	-	-	163,583
Due to other customers	1,233,041	-	-	1,233,041
Debt issued and other borrowed funds	10,925,421	-	-	10,925,421
Other payables	421,278	-	-	421,278
Total Financial Liabilities	12,743,323	-	-	12,743,323

16. CASH AND BANK BALANCES

	2016 Rs. '000	2015 Rs. '000
Balances with local banks	20,248	47,237
Cash in hand	149,085	82,833
	169,333	130,070

17. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

	2016 Rs. '000	2015 Rs. '000
Securities purchased under repurchase agreements	777,438	601,679
	777,438	601,679

18. FACTORING RECEIVABLES

	2016 Rs. '000	2015 Rs. '000
Factoring receivables	2,069,849	1,236,836
Less : Provision for individual impairment(Note 18.1.1)	(88,475)	(76,116)
Provision for collective impairment(Note 18.1.2)	(2,131)	(3,584)
	1,979,243	1,157,136

18.1 Movement in impairment losses

18.1.1 Individually significant customer loan impairment

	2016 Rs. '000	2015 Rs. '000
Opening balance as at 01st January	76,116	34,394
Charge/ (reversal) to income statement	19,710	37,792
Recoveries during the year	-	792
Unwinding impact	(13)	(163)
Other movements	(7,338)	3,301
Closing balance as at 31 December	88,475	76,116

18.1.2 Collective loan impairment

	2016 Rs. '000	2015 Rs. '000
Opening balance as at 01st January	3,584	2,654
Charge/ (reversal) to income statement	(1,453)	930
Closing balance as at 31 December	2,131	3,584

19. GOLD LOAN RECEIVABLES

	2016 Rs. '000	2015 Rs. '000
Gold loan receivables	1,781,331	775,309
Less : Provision for collective impairment(Note 19.1)	(12,409)	(4,470)
	1,768,922	770,839

19.1 Movement in Collective impairment losses & Auction losses

	2016 Rs. '000	2015 Rs. '000
Opening balance as at 01st January	4,470	2,970
Charge/ (reversal) to income statement	7,939	1,500
Closing balance as at 31 December	12,409	4,470

20. PAWNING RECEIVABLES

	2016 Rs. '000	2015 Rs. '000
Pawning receivables	-	14,775
Less : Provision for collective impairment	-	-
Less : Auction losses(Note 20.1)	-	(14,775)
	-	-

20. PAWNING RECEIVABLES (Contd..)

20.1 Movement in Collective impairment losses & Auction losses

	2016 Rs. '000	2015 Rs. '000
Opening balance as at 01st January	14,775	13,941
Charge/ (reversal) to income statement	-	858
Written off during the year	(14,775)	-
Other movements	-	(24)
Closing balance as at 31 December	-	14,775

21. LOAN RECEIVABLES

	2016 Rs. '000	2015 Rs. '000
Revolving loan receivables	244,485	-
Vehicle loan receivables	159,705	287,796
Personal/Business loan receivables	340,403	-
Gross loan receivables	744,593	287,796
Less : Provision for collective impairment (Note 21.2)	(853)	(828)
	743,740	286,968

21.2 Movement in collective impairment losses

	2016 Rs. '000	2015 Rs. '000
Opening balance as at 01st January	828	863
Charge/ (reversal) to income statement	25	(35)
Closing balance as at 31 December	853	828

22. LEASE RECEIVABLES
At Amortized cost

	2016 Rs. '000	2015 Rs. '000
Gross Lease receivables	18,434,605	12,012,660
Less: Unearned income	(4,427,228)	(2,683,679)
Less: VAT suspense	(5,164)	(4,998)
Less: Prepaid rentals	(340)	(1,095)
Less: Provision for collective impairment(Note 22.3)	(149,983)	(92,158)
Total Lease receivables (Note 22.1 & 22.2)	13,851,890	9,230,730

Lease receivables include receivables amounting to Rs.9,104,307,271/- (2015- Rs.4,949,818,531/-) that have been assigned under securitization & term loan funding arrangement.

22.1 As at 31 December 2016

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Lease receivables (Net of VAT suspense and prepaid rentals)	5,970,058	12,392,143	66,899	18,429,100
Less: Unearned income	(1,983,106)	(2,440,405)	(3,717)	(4,427,228)
	3,986,952	9,951,738	63,182	14,001,872
Less: Provision for collective impairment	(43,639)	(105,624)	(719)	(149,983)
	3,943,313	9,846,114	62,463	13,851,890

22.2 As at 31 December 2015

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Lease receivables (Net of VAT suspense and prepaid rentals)	3,750,866	8,160,761	94,939	12,006,567
Less: Unearned income	(1,178,381)	(1,500,788)	(4,510)	(2,683,679)
	2,572,485	6,659,973	90,429	9,322,887
Less: Provision for collective impairment	(28,747)	(62,630)	(781)	(92,158)
	2,543,738	6,597,343	89,649	9,230,730

22. LEASE RECEIVABLES (Contd..)

22.3 Movement in collective impairment losses

	2016 Rs. '000	2015 Rs. '000
Opening balance as at 01st January	92,158	124,483
Charge/ (reversal) to income statement	54,645	(32,511)
Written off during the year	-	-
Other movements	3,180	186
Closing balance as at 31 December	149,983	92,158

23. HIRE PURCHASE RECEIVABLES

	2016 Rs. '000	2015 Rs. '000
Gross Hire purchase receivables	1,017,828	2,642,026
Less: Unearned income	(139,965)	(504,610)
Less: Prepaid rentals	-	-
Less: Provision for collective impairment(Note 23.3)	(40,303)	(53,845)
Total Hire purchase receivables (Note 23.1 & 23.2)	837,560	2,083,571

Hire purchase receivables include receivables amounting to Rs.219,801/-(2015-Rs.2,076,068,672/-) that have been assigned under a securitization funding arrangement.

23.1 As at 31 December 2016

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Gross Hire purchase receivables	586,922	430,833	73	1,017,828
Less: Unearned income	(100,542)	(39,391)	(32)	(139,965)
	486,380	391,442	41	877,863
Less: Provision for collective impairment	(22,378)	(17,925)	-	(40,303)
	464,002	373,517	41	837,560

23.2 As at 31 December 2015

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Gross Hire purchase receivables	1,246,025	1,396,001	-	2,642,026
Less: Unearned income	(314,556)	(190,054)	-	(504,610)
	931,469	1,205,947	-	2,137,416
Less: Provision for collective impairment	(25,286)	(28,559)	-	(53,845)
	906,183	1,177,388	-	2,083,571

23.3 Movement in collective impairment losses

	2016 Rs. '000	2015 Rs. '000
Opening balance as at 01st January	53,845	61,909
Charge/ (reversal) to income statement	(9,424)	(8,080)
Written off during the year	-	-
Other movements	(4,118)	16
Closing balance as at 31 December	40,303	53,845

24. OTHER ASSETS

	2016 Rs. '000	2015 Rs. '000
Financial Assets		
Repossessed stock	137,890	129,847
Less: Provision for Repossessed stock	(137,890)	(129,847)
Insurance premium receivable	100,163	82,386
Less: Provision for insurance premium receivable	(2,926)	(3,202)
Staff loan	81,899	71,848
Less:Staff loan fair value adjustment	(6,466)	-
Insurance commission receivable	11,541	12,661
Other financial assets	12,928	4,834
	197,139	168,527
Non Financial Assets		
Pre paid expenses	34,980	22,436
Pre-paid staff cost	6,466	-
Advance payments	5,553	15,069
Inventories	3,035	2,982
Taxes receivable	29,906	10,527
Other non financial assets	14,569	14,876
	94,509	65,890
	291,648	234,417

24.1 Movement in provision for repossessed stock

As at 31 December 2016	Rs. '000 Impairment charges at the beginning of the year	Rs. '000 Other movements	Rs. '000 Provision for impairment-charge/ (reversal) during the Year	Rs. '000 Impairment charges at the end of the year
Repossession stock				
Lease	94,503	-	6,028	100,531
Hire Purchase	29,973	-	1,210	31,183
Loan	4,881	-	39	4,920
Factoring	490	-	766	1,256
	129,847	-	8,043	137,890

As at 31 December 2015	Rs. '000 Impairment charges at the beginning of the year	Rs. '000 Other movements	Rs. '000 Provision for impairment-charge/ (reversal) during the Year	Rs. '000 Impairment charges at the end of the year
Repossession stock				
Lease	62,583	-	31,920	94,503
Hire Purchase	15,398	(13)	14,588	29,973
Loan	3,721	-	1,160	4,881
Factoring	366	-	124	490
	82,067	(13)	47,793	129,847

25. FINANCIAL INSTRUMENTS - AVAILABLE FOR SALE

	2016 Rs. '000	2015 Rs. '000
Credit Information Bureau - Unquoted	56	56
	56	56

Unquoted available for sale investments are recorded at cost, since there is no market value for these investments and the company intends to hold them for the long run.

26. FINANCIAL INVESTMENTS- HELD TO MATURITY

	2016 Rs. '000	2015 Rs. '000
Government debt securities-Treasury bonds	4,288	4,274
	4,288	4,274

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Cost/Valuation	Balance as at 31.12.2015 Rs. '000	Additions Rs. '000	Disposals Rs. '000	Balance as at 31.12.2016 Rs. '000
Freehold Land	-	204,079	-	204,079
Fixtures	66,593	42,810	-	109,403
Office furniture	19,686	5,382	-	25,068
Office equipment	48,863	7,627	-	56,490
Motor vehicles	21,750	-	(4,310)	17,440
Computer equipment	50,174	17,751	-	67,925
Total Value of Depreciable Assets	207,066	277,649	(4,310)	480,405

27.2 Accumulated Depreciation	Balance as At 31.12.2015 Rs. '000	Charge for the year Rs. '000	Disposals Rs. '000	Balance as at 31.12.2016 Rs. '000
Freehold Land	-	-	-	-
Fixtures	23,101	18,680	-	41,781
Office furniture	9,362	2,886	-	12,248
Office equipment	15,518	7,208	-	22,726
Motor vehicles	9,807	5,148	(2,268)	12,687
Computer equipment	24,581	8,251	-	32,832
	82,369	42,173	(2,268)	122,274

27.3 Net book values	2016 Rs. '000	2015 Rs. '000
Freehold Land	204,079	-
Fixtures	67,622	43,492
Office furniture	12,820	10,324
Office equipment	33,764	33,345
Motor vehicles	4,753	11,943
Computer equipment	35,093	25,593
	358,131	124,697
Total carrying amount of Property, Plant & Equipment	358,131	124,697

27.4 During the financial year, the Company acquired Property, plant & equipment to the aggregate value of Rs.277.65 Million (2015 Rs.52.34 Million).

Cost of fully depreciated assets of the Company which are still in use as at 31 December 2016 is Rs.32.14 Million (2015 - Rs.23.17 Million).

27.5 The useful lives of the assets is estimated as follows;	**2016**	**2015**
Fixtures	05 Years	05 Years
Furniture & fittings	6.67 Years	6.67 Years
Office equipments	6.67 Years	6.67 Years
Motor vehicles	08 Years	08 Years
Computer equipments	06 Years	06 Years

27. PROPERTY, PLANT AND EQUIPMENT (Contd..)

27.6 Fair value related disclosures of Freehold land

Freehold land located at 534,Baudhaloka Mawatha,Colombo 08 is carried at the revalued amount, being the fair value at the valuation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The independent valuers provide the fair value of land and buildings once in three years according to the Company policy. Therefore the fair value exist in the recent valuation(25 January 2016) which was carried out by professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard-SLFRS 13(Fair Value Measurement) less subsequent accumulated depreciation and impairment losses considered as the fair value exist as at the reporting date(31 December 2016).

Fair Value hierarchy

The fair value of the Company's freehold land is categorised into Level 3 of the fair value hierarchy.

Level 3 fair value

The following table shows a reconciliation from the beginning balances to the closing balances for the fair value measurements to the Company’s freehold land.

	Rs'000
Balance at 1 January 2016	-
Acquisition	204,079
Changes in fair value	-
Balance at 31 December 2016	204,079

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of freehold land, as well as the significant unobservable inputs used.

Valuation technique	**Significant unobservable inputs**	**Range (weighted average) 2016**
Market Comparable Method	Estimated price per perch	Rs.3 Million-Rs.10 Million

28. INTANGIBLE ASSETS

	2016 Rs. '000	**2015 Rs. '000**
Cost as at 01 January	45,081	40,203
Additions and improvements	1,353	4,879
Cost as at 31 December	46,434	45,082
Amortisation as at 01 January	30,192	23,106
Amortisation for the year	7,753	7,087
Accumulated amortisation as at 31 December	37,945	30,193
Net book value as at 31 December	8,489	14,889

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs.1.35 million (2015 - Rs.4.88 million). Cost of fully depreciated assets of the Company as at 31 December 2016 is Rs. 17.20 Million (2015 - Rs. 14.66 Million). useful life of the above is estimated as 4 years.

29. DEBT ISSUED AND OTHER BORROWED FUNDS

	2016 Rs. '000	**2015 Rs. '000**
Loans (29.1)	10,572,006	9,805,127
Securitizations	-	99,486
Commercial papers	-	206
Debentures (29.2)	3,615,260	1,020,602
	14,187,266	10,925,421

The company has not had any default of principal, interest or other breaches with regard to any liability during 2015 & 2016.

29. DEBT ISSUED AND OTHER BORROWED FUNDS (Contd..)

29.1 Loans - on terms

	Period	Amortised cost 2016 Rs'000	Amortised cost 2015 Rs'000
Short term loans			
Sampath Bank PLC	01 Month	-	427
Hatton National Bank PLC	03 Months	653,124	802,513
Muslim Commercial Bank	03 Months	203,212	-
Nations Trust Bank PLC	03 Months	704,332	200,953
Seylan Bank PLC	03 Months	-	300,986
Union Bank PLC	03 Months	254,050	-
		1,814,718	1,304,879
Long term loans			
Sampath Bank PLC	60 Months	2,128,239	2,770,787
Commercial Bank PLC	60 Months	1,759,822	1,597,262
Hatton National Bank PLC	60 Months	976,702	1,533,629
Nations Trust Bank PLC	60 Months	240,210	365,132
Seylan Bank PLC	60 Months	2,471,005	1,566,629
Union Bank PLC	60 Months	928,314	666,810
Muslim Commercial Bank	60 Months	252,996	-
		8,757,288	8,500,248
		10,572,006	9,805,127

The above short term loans and long lerm loans were institution wise aggregated values as at 31 December 2016 & 31 December 2015.

29.1.1 Loans - on maturity

	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
Short term loans and long lerm loans payable	4,910,295	5,661,711	10,572,006
	4,910,295	5,661,711	10,572,006

29.2 Redeemable debentures - movement

	2016 Rs'000	2015 Rs'000
Balance as at 01st January	1,000,000	1,259,000
Debentures issued	2,500,000	-
Debentures redeemed	-	(259,000)
	3,500,000	1,000,000
Interest payable	206,193	130,350
Interest paid	(90,933)	(109,748)
Balance as at 31st December	3,615,260	1,020,602

29.2.1 Redeemable debentures - maturity

	Payable within 1 Year Rs'000	Payable after 1 Year Rs'000	Total Rs'000
Debentures payable	115,260	3,500,000	3,615,260
	115,260	3,500,000	3,615,260

29.2.2 Details of debentures issued

	No of Debentures	Issue Date	Maturity Date	Rate of interest	Amortised cost 2016 Rs'000	Amortised cost 2015 Rs'000
Rated unsecured subordinated redeemable debentures	10,000,000	24-Dec-14	24-Dec-19	8.90%	1,022,027	1,020,602
Rated unsecured senior redeemable debentures						
Type A	14,219,900	20-Sep-16	20-Sep-19	13.00%	1,474,156	-
Type B	10,780,100	20-Sep-16	20-Sep-21	13.50%	1,119,077	-
					3,615,260	1,020,602

30. OTHER PAYABLES

	2016 Rs'000	2015 Rs'000
Financial Liabilities		
Vendor payable	356,462	311,629
Insurance premium payable	80,017	66,822
Other financial liabilities	54,423	42,827
	490,902	421,278
Non Financial Liabilities		
VAT payable	2,016	4,084
Other taxes payable	55,377	38,151
Accrued expenses	18,968	14,760
Deposit insurance premium	381	151
Deferred guarantee income	47	-
Other non financial liabilities	27,906	30,497
	104,695	87,643
	595,597	508,921

31. INCOME TAXATION PAYABLE

	2016 Rs'000	2015 Rs'000
As at beginning of the year	75,663	111,179
Less: Tax paid	(105,409)	(169,503)
Adjustment (ESC/WHT/Notional Tax etc.)	(28,233)	(7,549)
Provision for the year (Note 12)	119,236	141,536
As at the end of the year	61,257	75,663

31.1 Notional tax credit on secondary market transactions

Any company which derives income from secondary market transactions involving any security or treasury bonds or treasury bills on which the income tax has been deducted at the rate of 10% at the time of issue of such security, is entitled to a notional tax credit at 10% of the grossed up amount of net interest income from such secondary market transactions to an amount of one ninth of the same.Accordingly,the net interest income earned by the company from such transactions has been grossed up in the Financial Statements for the year ended 31 December 2016 and the notional tax credit amounts to Rs.7.54 Million(2015-Rs.3.9 Million).

32. DEFERRED TAX LIABILITIES/(ASSETS)

Deferred Tax Assets, Liabilities and Income Tax relates to the following

	Temporary Differences		Income Statement		OCI	
	2016 Rs'000	2015 Rs'000	2016 Rs'000	2015 Rs'000	2016 Rs'000	2015 Rs'000
Deferred Tax Liability						
Capital allowances for tax purposes	662,276	382,677	279,599	218,008	-	-
	662,276	382,677				
Deferred Tax Assets						
Defined benefit plans-Income Statement	3,979	3,814	(165)	(1,113)	-	-
Defined benefit plans-OCI	2,464	1,578	-	-	886	770
Tax losses	447,024	226,753	(220,271)	(171,530)	-	-
Unclaimed provisions	38,721	48,226	9,505	(12,272)	-	-
	492,188	280,371				
Deferred income tax charge/(reversal)			68,668	33,093	886	770
Net Deferred Tax Liability	170,088	102,306				

33. RETIREMENT BENEFIT OBLIGATIONS

An actuarial valuation of the gratuity fund of the Company was carried out as at 31 December 2016 by Messrs. Piyal S Goonethilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Actuarial Cost Method", recommended by Sri Lanka Accounting Standard-LKAS 19 (Employee Benefits).

33.1 Defined benefit obligation reconciliation

	2016 Rs'000	2015 Rs'000
Balance as at 01st January	19,259	12,535
Amount recognised in the income statement (33.2)	6,784	4,308
Amounts recognised in other comprehensive income (33.3)	3,165	2,750
Benefits paid by the plan	(6,195)	(334)
Balance as at 31st December	23,013	19,259

33.2 Amount recognised in the Income Statement

	2016 Rs'000	2015 Rs'000
Current service cost for the year	4,897	3,243
Interest on the defined benefit liability	1,887	1,065
Total amount recognised in income statement	6,784	4,308

33.3 Amounts recognised in Other Comprehensive Income (OCI)

	2016 Rs'000	2015 Rs'000
Liability (gains)/losses due to changes in assumptions	(42)	(34)
Liability experience (gains)/losses arising during the year	3,207	2,784
Total amount recognized in OCI	3,165	2,750

33.4 Assumptions

	2016	2015
Discount rate	12.00%	9.80%
Future salary increment rate	11.00%	8.80%
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Retirement age	Normal retirement age, or age on valuation date, if greater	Normal retirement age, or age on valuation date, if greater

Expected average future working life of the active participants is 11.2 years. (2015: 11.3 years)

33. RETIREMENT BENEFIT OBLIGATIONS (Contd..)

33.5 Sensitivity assumptions employed in actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

		2016		2015	
Variable	**Rate Change**	**Sensitivity Effect on Financial Position-Increase/(Decrease) in the Liability (Rs. Mn.)**	**Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)**	**Sensitivity Effect on Financial Position-Increase/(Decrease) in the Liability (Rs. Mn.)**	**Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)**
Discount rate	1.00%	(2.60 Million)	2.60 Million	(2.10 Million)	2.10 Million
Discount rate	-1.00%	3.06 Million	(3.06 Million)	2.48 Million	(2.48 Million)
Salary Increment rate	1.00%	3.01 Million	(3.01 Million)	2.43 Million	(2.43 Million)
Salary Increment rate	-1.00%	(2.60 Million)	2.60 Million	(2.10 Million)	2.10 Million

34. STATED CAPITAL

	2016		2015	
	No. of shares	**Rs.000**	**No. of shares**	**Rs.000**
Issued and Fully Paid-Ordinary shares				
Ordinary shares as at 01st January	52,500,000	525,000	52,500,000	525,000
Issued during the year	-	-	-	-
Scrip dividend	1,624,726	51,975	-	-
Ordinary shares as at 31st December	54,124,726	576,975	52,500,000	525,000

The total amount received by the Company or due and payable to the Company in respect of the issue and calls of the shares are referred to as stated capital. The holders of ordinary shares are entitled to receive a dividend as declared from time to time and are entitled to one vote per share at the Annual General Meeting of the Company.

35. STATUTORY RESERVE FUND

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 as Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 5% of the net profit for the year transferred to Reserve Fund as long as the capital funds are not less than 25% of total deposit liabilities.

As at 31 December	**2016 Rs.000**	**2015 Rs.000**
Balance as at 01st January	70,059	50,832
Transfer during the year	16,363	19,227
Balance as at 31st December	86,422	70,059

36. RETAINED EARNINGS

This represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

37. FAIR VALUE OF ASSET AND LIABILITIES

The following describes the methodologies and assumptions used to determine fair value of those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value.

Financial Assets-Available for Sale

Available for sale financial assets primarily consist of unquoted equity securities.Unquoted equity securities are carried at cost since it is the most reasonable value available to represent the price of such securities.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using market interest rates for debts with similar credit risk and maturity.For quoted debt issued,the fair values are determined based on quoted market prices.

Variable rate Financial Instruments

Variable rate is a fair measure which reflects market movements.Hence the carrying value represents the fair value of the variable rate instruments.

Set out below is the comparison, by class, of the carrying amounts of fair values of the Company's financial instruments that are not carried at fair value and non financial assets carried at fair value in the financial statements.

	2016					2015				
		Fair value measurement using					Fair value measurement using			
	Carrying value	**Quoted prices in active markets (Level I)**	**Significant observable inputs (Level 2)**	**Siginificant unobservable inputs (Level 3)**	**Total**	**Carrying value**	**Quoted prices in active markets (Level I)**	**Significant observable inputs (Level 2)**	**Siginificant unobservable inputs (Level 3)**	**Total**
FINANCIAL ASSETS										
Factoring receivables	1,979,243	-	1,972,828	-	1,972,828	1,157,136	-	1,142,664	-	1,142,664
Gold loan receivables	1,768,922	-	1,760,925	-	1,760,925	770,839	-	764,658	-	764,658
Loan receivables	743,740	-	697,999	-	697,999	286,968	-	222,443	-	222,443
Lease receivables	13,851,890	-	13,662,826	-	13,662,826	9,230,730	-	9,233,482	-	9,233,482
Financial investments- Held to Maturity	4,288	-	3,857	-	3,857	4,274	-	4,166	-	4,166
Financial instruments- available for sale	56	-	-	56	56	56	-	-	56	56
Hire purchase receivables	837,560	-	864,967	-	864,967	2,083,571	-	2,278,537	-	2,278,537
TOTAL FINANCIAL ASSETS	19,185,699	-	18,963,402	56	18,963,458	13,533,574	-	13,645,950	56	13,646,006
FINANCIAL LIABILITIES										
Due to other customers	3,362,662	-	3,456,936	-	3,456,936	1,233,041	-	1,236,295	-	1,236,295
Debt instruments issued and other borrowed funds	14,187,266	-	14,094,259	-	14,094,259	10,925,421	-	10,905,609	-	10,905,609
TOTAL FINANCIAL LIABILITIES	17,549,928	-	17,551,195	-	17,551,195	12,158,462	-	12,141,904	-	12,141,904

There were no transfers between levels of fair value hierachy during 2016 & 2015.

The following table lists those financial instruments for which their carrying amounts are a reasonable appoximation of fair values because, for example, they are short term in nature ore re-priced to current market rates frequently.

Assets

Cash and bank balances
Securities purchased under repurchase agreements
Other assets

Liabilities

Bank overdraft
Other payables

38. RISK MANAGEMENT

38.1 Introduction

Risk is inherent in a financial business and such risks are managed through a process of ongoing identification, measurement mitigating measures and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The Company is exposed to credit risk, interest rate risk, liquidity risk, operational risk, regulatory & compliance risk, reputation risk and environmental risk.

38.2 Risk Management Structure

The board is primarily responsible for risk management initiatives. Integrated Risk Management committee(IRMC), which is a sub-committee of the board oversees the risk management function in line with the Board approved policies and strategies. Integrated Risk Management committee shall develop the policy and operations for Company-wide risk management. In addition to the Board's representatives, the IRMC consist of the MD, COO and other key managerial personnel of the company.

Risk appetite of the company is defined in both qualitative and quantitative terms. These risk appetite parameters are dynamic and subject to changes in line with the changing business strategies of the Company and changing market conditions. Risk appetite of the Company is defined through the Risk tolerance limits approved by the Board of Directors.

The IRMCwas set up to fulfil the requirement set out in the Finance Companies Direction No. 3 of 2008 on Corporate Governance for Finance Companies issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act, No. 42 of 2011.

The said Committee consists of such number of members, as the board may determine from time to time. The committee currently consists of membership of 4 Directors, Managing Director and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.

In addition to the IRM Committee, Risk Management function is managed by Risk Management Department (RMD). RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Department works closely with the Risk Committee to ensure that procedures are compliant with the overall framework. RMD is also responsible for monitoring compliance with risk principles, policies and limits across the Company. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

The Company's policy is to ensure that risk management processes throughout the Company are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit division discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

38. RISK MANAGEMENT (Contd…)

38.3 Risk measurement & Reporting System and Risk Mitigation

Prudent management of risk exposures relevant to the Company's business operations would be ensured through a mechanism of "Three Lines of Defence". These levels consist of management of risk by the relevant risk-assuming function, independent risk management & compliance functions and internal & external audit functions

The positioning map of each risk component is placed within the risk grid. Tolerance levels are set by using sustainable measurements and these are discussed at risk management meetings. The risk console indicates the severity of each component of risk. Tabulated below is the Risk Console that is used in identification of Key Risks and Risk Measures taken by the company together with mitigates suggested.

Financial Risks		Risk Measures	Mitigants
Credit Risk	**<u>1.Default Risk</u>** Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations **<u>2. Concentration Risk</u>** Credit Exposure being concentrated to few sectors/ groups (insufficient diversification)	• Probability of Default • Loss Given Default • Sector / Asset / Client / Branch Concentrations of Lending Portfolio • Concentrations in Repossessed assets • Macro Credit Portfolio risk measures such as a) Provision Coverage b) Net NPL as a % of Equity Funds	• Board approved credit policies/ procedures/ framework and annual review • Delegated authority levels/ segregation of duties • Setting Prudential limits on maximum exposure - Overall NPL Ratio setting based on risk appetite - Credit Limit Exposures (for Asset Type and Sector) that takes account of NPL / Infection ratios and movement in NPL ratios - Concentration limits for clients/ groups, asset types • Monitoring of exposures against the limits • Trend analysis reported to BRMC Strict compliance with CBSL Guidelines

38. Risk Management (Contd…)

<table>
<tr><th colspan="2">Financial Risks</th><th>Risk Measures</th><th>Mitigants</th></tr>
<tr><td>Interest rate risk</td><td>Adverse effect on Net Interest Income</td><td>Net Interest Yield and Movement in Net Interest Yield
Lending to Borrowing Ratio
Tracking of Movements in Money Market rates
Marginal Cost of funds / Risk based Pricing
Gaps in asset Liability Re-Pricing
Cumulative Gaps as a % of Cumulative Liabilities</td><td rowspan="2">Setting of Marginal Pricing with Risk Premiums for Different classes of Lending assets
Setting of Lending to Borrowing ratios
Gaps limits for structural liquidity,
Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets
Volatile Liability Dependency measures
Balance sheet ratios</td></tr>
<tr><td>Liquidity Risk</td><td>Inability to meet obligations as they fall due</td><td>Gaps in dynamic liquidity flows
Stocks of high quality liquid assets</td></tr>
</table>

38.4 Credit Risk

Credit risk refers to the risk that borrowers will default on any type of debt by failing to make payments they are obligated to do. Credit risk originates from the fact that counter parties may be unwilling or unable to fulfil their contractual obligations. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances.

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of Company is not to eliminate credit risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

38. RISK MANAGEMENT (Contd…)

38.4.1 Impairment Assessment

For accounting purposes, the Company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Company grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or encounter other financial difficulties
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant loan on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract.

Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected pay-out, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows.

Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired. 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, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry–specific problems).

The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Company's overall policy.

38. RISK MANAGEMENT (Contd…)

38.4.2 Credit Quality by Class of Financial Assets

		2016					2015				
		NEITHER PAST DUE NOR IMPAIRED	PAST DUE NOT IMPAIRED	INDIVIDUALLY IMPAIRED	TOTAL	PERCENTAGE	NEITHER PAST DUE NOR IMPAIRED	PAST DUE NOT IMPAIRED	INDIVIDUALLY IMPAIRED	TOTAL	PERCENTAGE
		Rs'000	Rs'000	Rs'000	Rs. '000		Rs'000	Rs'000	Rs'000	Rs. '000	
Assets	**Note**										
Cash and bank balances	16	169,333	-	-	169,333	0.82%	130,070	-	-	130,070	0.89%
Securities purchased under repurchase agreements	17	777,438	-	-	777,438	3.77%	601,679	-	-	601,679	4.10%
Financial investments held to maturity	26	4,288	-	-	4,288	0.02%	4,274	-	-	4,274	0.03%
Factoring receivables	18	1,649,482	3,326	417,041	2,069,849	10.04%	915,784	17,377	303,676	1,236,836	8.43%
Gold loan receivables	19	1,246,457	534,874	-	1,781,331	8.64%	517,267	258,043	-	775,309	5.29%
Loan receivables	21	550,616	193,978	-	744,593	3.61%	133,151	154,644	-	287,795	1.96%
Lease receivables	22	7,706,755	6,295,038	-	14,001,793	67.89%	6,072,805	3,250,082	-	9,322,887	63.57%
Hire purchase receivables	23	354,451	523,412	-	877,863	4.26%	934,198	1,203,218	-	2,137,416	14.58%
Other assets	24	197,139	-	-	197,139	0.96%	168,527	-	-	168,527	1.15%
Financial instruments- available for sale	25	56	-	-	56	0.00%	56	-	-	56	0.00%
Total		12,656,015	7,550,628	417,041	20,623,684	100.00%	9,477,810	4,883,364	303,676	14,664,851	100.00%

38.4.2.1 Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

	Past due not impaired					Past due not impaired				
	Less than 30 days 2016 Rs'000	31 to 60 days 2016 Rs'000	61 to 90 days 2016 Rs'000	More than 91 days 2016 Rs'000	Total 2016 Rs'000	Less than 30 days 2015 Rs'000	31 to 60 days 2015 Rs'000	61 to 90 days 2015 Rs'000	More than 91 days 2015 Rs'000	Total 2015 Rs'000
Factoring receivables	3,186	-	-	141	3,327	-	-	-	17,377	17,377
Lease receivables	3,662,614	1,678,975	666,210	287,239	6,295,038	1,923,437	776,110	360,114	190,421	3,250,082
Hire purchase receivable	210,591	182,609	64,841	65,371	523,412	536,586	357,879	191,856	116,897	1,203,218
Loan receivables	105,317	57,895	24,395	6,371	193,978	37,901	49,537	22,244	44,962	154,644
Gold loan receivables	329,660	197,503	2,703	5,008	534,873	182,449	71,106	4,427	61	258,043
Total	4,311,368	2,116,982	758,149	364,130	7,550,628	2,680,373	1,254,632	578,641	369,718	4,883,364

38. RISK MANAGEMENT (Contd…)

38.4.3 Maximum Exposure to Credit Risk

As at 31 December	2016		2015	
	MAXIMUM EXPOSURE TO CREDIT RISK	NET EXPOSURE	MAXIMUM EXPOSURE TO CREDIT RISK	NET EXPOSURE
	Rs'000	Rs. '000	Rs'000	Rs. '000
Financial Assets				
Cash and bank balances	169,333	20,248	130,070	47,237
Securities purchased under repurchase agreements	777,438	-	601,679	-
Factoring receivables	1,979,243	1,828,151	1,157,136	1,154,842
Gold loan receivables	1,768,922	-	770,839	-
Loan receivables	743,740	-	286,968	-
Lease receivables	13,851,890	-	9,230,730	-
Hire purchase receivables	837,560	-	2,083,571	-
Other assets	197,139	121,705	168,527	168,527
Financial instruments available for sale	56	56	56	56
Financial investments held to maturity	4,288	-	4,274	-
Total Financial Assets	**20,329,608**	**1,970,160**	**14,433,850**	**1,370,662**

38.4.4 Offsetting financial assets and liabilities

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed.

	2016		
	Gross amount	Amount subject to netting but do not qualify for offsettling	Net amount
	Rs.'000	Rs.'000	Rs.'000
Financial Assets			
Loan receivables	906,705	223,824	682,881

38. RISK MANAGEMENT (Contd…)

38.4.5 Analysis of Risk Concentration

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position.

As at 31 December 2016 **Rs' 000**

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	169,333	-	-	169,333
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	777,438	-	-	-	777,438
Factoring receivables	904,686	26,267	360,914	407,402	215,513	5,331	59,130	-	-	-	-	1,979,243
Gold loan receivables	-	-	-	-	-	-	-	-	-	1,768,922	-	1,768,922
Loan receivables	109,830	47,126	13,128	112,592	81,586	16,611	321,512	-	37,648	-	3,707	743,740
Lease receivables	301,518	232,134	860,853	3,322,275	469,697	-	857,650	-	-	-	7,807,763	13,851,890
Hire purchase receivables	10,548	18,486	40,536	199,875	12,829	-	7,934	-	-	-	547,352	837,560
Other assets	-	-	-	-	-	-	-	-	-	-	197,139	197,139
Financial instruments available for sale	-	-	-	-	-	-	-	-	56	-	-	56
Financial investments held to maturity	-	-	-	-	-	-	-	4,288	-	-	-	4,288
	1,326,582	324,013	1,275,431	4,042,144	779,625	21,942	1,246,226	781,726	207,037	1,768,922	8,555,961	20,329,609

As at 31 December 2015 **Rs' 000**

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	130,070	-	-	130,070
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	601,679	-	-	-	601,679
Factoring receivables	430,355	14,915	50,984	500,296	105,289	-	55,297	-	-	-	-	1,157,136
Gold loan receivables	-	-	-	-	-	-	-	-	-	770,839	-	770,839
Loan receivables	-	258	270	47,185	-	512	238,743	-	-	-	-	286,968
Lease receivables	86,172	89,312	515,385	1,214,630	193,264	200,928	5,782,582	-	-	-	1,148,457	9,230,730
Hire purchase receivables	21,266	29,846	117,696	441,922	31,291	30,858	1,220,933	-	-	-	189,759	2,083,571
Other assets	-	-	-	-	-	-	-	-	-	-	168,527	168,527
Financial instruments available for sale	-	-	-	-	-	-	-	-	56	-	-	56
Financial investments held to maturity	-	-	-	-	-	-	-	4,274	-	-	-	4,274
	537,793	134,331	684,335	2,204,033	329,844	232,298	7,297,555	605,953	130,126	770,839	1,506,743	14,433,850

38. RISK MANAGEMENT (Contd…)

38.5 Interest Rate Risk

Interest Rate Risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institution’s financial condition due to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken. Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing.

Asset liability management encompasses the complete set of techniques used to manage interest rate risk within the broad risk management framework.

The fluctuation of interest rates is an external factor which is beyond the control of the Company.Though the Company is affected by movements in interest rates to the extent that its asset / liability mismatches gives rise to interest paying liabilities being re-priced faster than its interest earning assets. This in turn affects Net Interest income and Net Interest Yields.

Interest rate risk analysis is almost always based on simulating movements in one or more yield curve. The strategy of SLFL is not to eliminate risk, but to maintain the same within pre-determined acceptance levels.

In setting the Tolerance levels for Interest rate risk, the following metrics are used.

- Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.
- Setting the proportion of Variable Rated Borrowing’s within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.
- Setting the Lending to Borrowing ratio in order to maintain gearing at the desired levels

38.5.1 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Income Statement & Equity.

			Rs. Million
Currency of Borrowings/ Advance	**Increase (Decrease) in basis points**	**Sensitivity of Profit or Loss**	**Sensitivity of Equity**
	2016	**2016**	**2016**
Long Term Loans linked to AWPLR	+1/ (-1)	(62.39)/62.39	3.23%
	+0.5 / (0.5)	(31.19)/31.19	1.62%
	+0.25 / (0.25)	(15.60)/15.60	0.81%
	2015	**2015**	**2015**
Long Term Loans linked to AWPLR	+1/ (-1)	(52.94)/52.94	3.29%
	+0.5 / (0.5)	(26.47)/26.47	1.64%
	+0.25 / (0.25)	(13.24)/13.24	0.82%

The base ratio considers in the Interest Rate Sensitivity Analysis is the AWPLR. Since 57.33% (2016) of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity, due to changes in the Average Weighted Prime Lending Rate.

38. RISK MANAGEMENT (Contd…)

38.5.2 Interest Rate Risk (Contd..)

Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

As at 31 December 2016	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Non Interest Bearing Rs'000	Total Rs'000
Financial Assets							
Cash and bank balances	169,333	-	-	-	-	-	169,333
Securities purchased under repurchase agreements	769,338	8,100	-	-	-	-	777,438
Factoring receivables	617,178	1,305,338	56,727	-	-	-	1,979,243
Lease receivables	1,077,942	2,865,370	6,626,659	3,219,455	62,464	-	13,851,890
Hire purchase receivables	166,364	297,637	372,122	1,395	42	-	837,560
Gold loan receivables	1,465,998	301,516	1,408	-	-	-	1,768,922
Loan receivables	93,309	421,916	178,818	49,697	-	-	743,740
Other assets	-	-	-	-	-	197,139	197,139
Financial instruments available for sale	-	-	-	-	56	-	56
Financial investments held to maturity	-	-	-	4,288	-	-	4,288
Total Financial Assets	4,359,462	5,199,877	7,235,734	3,274,835	62,562	197,139	20,329,609
Financial Liabilities							
Bank overdraft	460,494	-	-	-	-	-	460,494
Due to other customers	1,606,962	1,417,347	173,045	165,308	-	-	3,362,662
Debt instruments issued and other borrowed funds	8,263,381	640,185	3,821,790	1,461,910	-	-	14,187,266
Other payables	-	-	-	-	-	490,902	490,902
Total Financial Liabilities	10,330,837	2,057,532	3,994,835	1,627,218	-	490,902	18,501,324
Interest Sensitivity Gap	(5,971,375)	3,142,345	3,240,899	1,647,617	62,562	(293,763)	1,828,285

As at 31 December 2015	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Non Interest Bearing Rs'000	Total Rs'000
Financial Assets							
Cash and bank balances	130,070	-	-	-	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	-	-	-	601,679
Factoring receivables	1,157,136	-	-	-	-	-	1,157,136
Lease receivables	710,828	1,832,910	4,190,037	2,407,306	89,649	-	9,230,730
Hire purchase receivables	337,616	568,626	1,050,589	126,740	-	-	2,083,571
Gold loan receivables	696,731	74,108	-	-	-	-	770,839
Loan receivables	48,054	71,213	139,567	28,134	-	-	286,968
Other Assets	-	-	-	-	-	168,527	168,527
Financial instruments available for sale	-	-	-	-	56	-	56
Financial investments held to maturity	-	-	-	-	4,274	-	4,274
Total Financial Assets	3,682,114	2,546,857	5,380,193	2,562,180	93,979	168,527	14,433,850
Financial Liabilities							
Bank overdraft	163,583	-	-	-	-	-	163,583
Due to other customers	73,519	1,096,559	59,551	3,412	-	-	1,233,041
Debt instruments issued and other borrowed funds	6,885,664	556,055	1,399,600	2,084,102	-	-	10,925,421
Other payables	-	-	-	-	-	421,278	421,278
Total Financial Liabilities	7,122,766	1,652,614	1,459,151	2,087,514	-	421,278	12,743,323
Interest Sensitivity Gap	(3,440,652)	894,243	3,921,042	474,666	93,979	(252,751)	1,690,527

38. RISK MANAGEMENT (Contd…)

38.6 Liquidity Risk

Liquidity is generally defined as the ability of a financial institution to meet its debt obligations without incurring unacceptably large losses.

Liquidity risk refers to the non-availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments.

An institution might loose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causing counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. A key element of these systems is monitoring and assessing the firm’s current and future fund requirement including debt obligations and planning for any unexpected funding needs, regardless of whether they arise from firm-specific factors, or from systemic (economy-wide) factors.

Company assesses available lines of credit, GAP analysis and volatile liability dependency ratio in order to assess the liquidity risk. In setting the Tolerance levels for Liquidity risk, the following metrics are used.

- Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.

- Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.

- Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks (Interest bearing liabilities maturity within 01 year as a percentage of total lending assets).

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs. In addition, the Company maintains the liquidity ratio prescribed by Central Bank of Sri Lanka.

38. RISK MANAGEMENT (Contd…)

38.6 Liquidity Risk (Contd..)

38.6.1 Statutory Liquid Asset Ratio

Statutory Liquid Asset Calculation is performed based on the following calculations as prescribed in section 2, 3 & 4 of the Finance Companies (Liquid Assets) Direction No.04 of 2013.

The Company's liquid asset ratio is 7.5% of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per section 4 of the said direction). Liquid assets are maintained with Sri Lanka Government securities.

38.6.2 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Companies financial assets and liabilities as at 31 December 2016.

Repayments of short term loans which are subject to notice are treated as if notice were to be given immediately. However the company expects that banks will not request repayment on the earliest date that the company is required to pay and the table does not reflect the expected cash flows indicated by the company.

As at 31 December 2016	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Financial Assets						
Cash and bank balances	169,333	-	-	-	-	169,333
Securities purchased under repurchase agreements	859,163	8,800	-	-	-	867,963
Factoring receivables	770,726	1,305,338	56,727	-	-	2,132,791
Lease receivables	1,754,229	4,236,379	8,725,176	3,666,967	66,899	18,449,650
Hire purchase receivables	220,309	376,368	428,615	2,217	73	1,027,582
Gold loan receivables	1,502,862	332,679	1,557	-	-	1,837,098
Loan receivables	96,468	466,189	225,427	55,570	-	843,654
Other assets	114,080	19,556	39,829	41,282	7,185	221,932
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,300	-	4,300
Total Financial Assets	5,487,170	6,745,309	9,477,331	3,770,336	74,214	25,554,360
Financial Liabilities						
Bank overdraft	460,494	-	-	-	-	460,494
Due to other customers	1,701,255	1,562,313	216,956	267,010	-	3,747,534
Debt instruments issued and other borrowed funds	2,891,996	3,375,488	8,521,516	2,595,710	-	17,384,710
Other payables	490,902	-	-	-	-	490,902
Total Financial Liabilities	5,544,647	4,937,801	8,738,472	2,862,720	-	22,083,640
Net Financial Asset/Liabilities	(57,477)	1,807,508	738,859	907,616	74,214	3,470,720

As at 31 December 2015	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Financial Assets						
Cash and bank balances	130,070	-	-	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	-	-	601,679
Factoring receivables	1,157,136	-	-	-	-	1,157,136
Lease receivables	1,105,559	2,651,400	5,460,855	2,699,907	94,939	12,012,660
Hire purchase receivables	470,128	775,898	1,260,808	135,193	-	2,642,027
Gold loan receivables	709,989	81,608	-	-	-	791,597
Loan receivables	47,785	93,296	170,415	34,628	-	346,124
Other assets	94,613	11,149	22,712	30,252	9,801	168,527
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	-	4,274	4,274
Total Financial Assets	4,316,959	3,613,351	6,914,790	2,899,980	109,070	17,854,150
Financial Liabilities						
Bank overdraft	163,583	-	-	-	-	163,583
Due to other customers	78,355	1,155,965	70,103	5,090	-	1,309,513
Debt instruments issued and other borrowed funds	2,170,338	2,427,700	5,027,517	3,087,244	-	12,712,799
Other payables	421,278	-	-	-	-	421,278
Total Financial Liabilities	2,833,554	3,583,665	5,097,620	3,092,334	-	14,607,173
Net Financial Asset/Liabilities	1,483,405	29,686	1,817,170	(192,354)	109,070	3,246,977

39. MATURITY ANALYSIS

As at 31 December 2016	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	169,333	-	-	-	-	169,333
Securities purchased under repurchase agreements	769,338	8,100	-	-	-	777,438
Factoring receivables	617,178	1,305,338	56,727	-	-	1,979,243
Lease receivables	1,077,942	2,865,370	6,626,659	3,219,455	62,464	13,851,890
Hire purchase receivables	166,364	297,637	372,122	1,395	42	837,560
Gold loan receivables	1,465,998	301,516	1,408	-	-	1,768,922
Loan receivables	93,309	421,916	178,818	49,697	-	743,740
Other assets	162,426	35,975	44,478	41,227	7,542	291,648
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,288	-	4,288
Intangible assets	-	-	-	-	8,489	8,489
Property, plant & equipment	-	-	-	-	358,131	358,131
Total Assets	4,521,888	5,235,852	7,280,212	3,316,062	436,724	20,790,738
Liabilities						
Bank overdraft	460,494	-	-	-	-	460,494
Due to other customers	1,606,962	1,417,347	173,045	165,308	-	3,362,662
Debt instruments issued and other borrowed funds	2,618,767	2,406,788	6,904,001	2,257,710	-	14,187,266
Other payables	583,773	11,824	-	-	-	595,597
Deferred taxation liability	-	-	-	-	170,088	170,088
Income taxation payable	-	61,257	-	-	-	61,257
Retirement benefit obligations	-	-	-	-	23,013	23,013
Total Liabilities	5,269,996	3,897,216	7,077,046	2,423,018	193,101	18,860,377

As at 31 December 2015	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	130,070	-	-	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	-	-	601,679
Factoring receivables	1,157,136	-	-	-	-	1,157,136
Lease receivables	710,828	1,832,910	4,190,037	2,407,306	89,649	9,230,730
Hire purchase receivables	337,616	568,626	1,050,589	126,740	-	2,083,571
Gold loan receivables	696,731	74,108	-	-	-	770,839
Loan receivables	48,054	71,213	139,567	28,134	-	286,968
Other assets	122,531	33,145	33,338	34,729	10,674	234,417
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	-	4,274	4,274
Intangible assets	-	-	-	-	14,889	14,889
Property, plant & equipment	-	-	-	-	124,697	124,697
Total Assets	3,804,645	2,580,002	5,413,531	2,596,909	244,239	14,639,326
Total Liabilities						
Bank overdraft	163,583	-	-	-	-	163,583
Due to other customers	73,519	1,096,559	59,551	3,412	-	1,233,041
Debt instruments issued and other borrowed funds	2,033,579	1,836,285	4,187,415	2,868,142	-	10,925,421
Other payables	488,705	20,216	-	-	-	508,921
Deferred taxation liability	-	-	-	-	102,306	102,306
Income taxation payable	-	75,663	-	-	-	75,663
Retirement benefit obligations	-	-	-	-	19,259	19,259
Total Liabilities	2,759,386	3,028,723	4,246,966	2,871,554	121,565	13,028,194

40. COMMITMENTS AND CONTINGENCIES

	2016 Rs. '000					2015 Rs. '000				
	On Demand	**With in 01 year**	**1-5 years**	**More than 5 years**	**Total**	**On Demand**	**With in 01 year**	**1-5 years**	**More than 5 years**	**Total**
Commitments										
Commitment for unutilised facilities-Direct credit facilities										
- Factoring	794,203	-	-	-	794,203	315,071	-	-		315,071
-Revolving Loans	8,270	-	-	-	8,270	-	-	-		-
Operating lease commitments-Company as lessee	-	31,808	123,542	48,881	204,231	-	39,684	134,870	69,361	243,915
Capital commitments(Note 40.1)	-	4,780	-	-	4,780	-	-	-	-	-
	802,473	36,588	123,542	48,881	1,011,484	315,071	39,684	134,870	69,361	558,986
Contingent Liabilities										
Guarantees	-	33,900	-		33,900	-	-	-		-
	-	33,900	-	-	33,900	-	-	-	-	-
Total commitments & contingencies	802,473	70,488	123,542	48,881	1,045,384	315,071	39,684	134,870	69,361	558,986

40.1 Capital commitments

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below.

	2016 Rs'000	2015 Rs'000
Approved and contracted for	2,280	-
Approved but not contracted for	2,500	-
	4,780	-

40.2 Litigation filed by the Company/ against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigation against the Company as at 31 December 2016 which would have a material impact on the Financial Statements.

41. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

42. COMPARATIVE INFORMATION

The comparative information is reclassified wherever necessary to conform to the current year's presentation.

43. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with the parties who are defined as Sri Lanka Accounting Standard No.24 Related Party Disclosure, details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

43.1 Parent and Ultimate Controlling Party

The Company is 100% owned by Sampath Bank PLC. Hence, Sampath Bank PLC is the parent company and the ultimate controlling party.

43. RELATED PARTY TRANSACTIONS (Contd..)

43.2 Transactions with Key Managerial Personnel

According to Sri Lanka Accounting Standard-LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all of the three activities mentioned in the above definition(i.e. planning, directing and controlling the activities of the entity).Such KMPs include the Board of Directors of the Company, Chief Executive Officer(CEO) and the KMPs of the Sampath Bank PLC.

	2016 Rs'000	2015 Rs'000
Short term employee benefits	12,575	9,018
Post- employment benefits	1,698	-
Directors' fees and expenses	15,345	11,160
Total	29,618	20,178

In addition to the above, the Company has also paid for fuel and medical benefits to KMP who are employees of the Company in line with the approved benefit plans of the Company.

43.3 Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFMs)

43.3.1 Loans and advances granted

No loans or advances were given to Key Managerial Personnel and their close family members during the year.(2015- Nil).

43.3.2 Deposits and Borrowings from KMPs are detailed below.

	2016 Rs'000	2015 Rs'000
Term deposits	23,000	-
Interest on term deposits	1,205	-

No borrowing through debt instruments were made or no investments were made by key management personnel during the year 2016. (2015- Nil)

43.4 Transactions, Arrangements and Agreements involving with Related Entities of KMPs

43.4.1 Operating Lease	2016 Rs'000	2015 Rs'000
Rent Paid	31,609	20,628

Head Office premises of the Company is located at No. 46/12, Nawam Mawatha, Colombo 02, which is owned by Ceylon Ocean Lines Limited, the Ultimate Parent of which is Hayleys PLC.

43.4.2 Loans and Advances

	2016 Rs'000	2015 Rs'000
Lease facilities	-	910
Interest income earned	58	362

Above lease facility had been granted to a related company of a KMP of the Company.

	2016 Rs'000	2015 Rs'000
Revolving credit facilities	95	-
Interest income earned	2,361	-
Service charges earned	1,186	-

Above revolving credit facilities have been granted to a related company of a KMP of the Company.

43.5 Transactions with Group Companies

43.5.1 Sampath Bank PLC

The Company has obtained short term loans, term loans, overdraft and bank guarantee facilities from the bank. All the transactions with the bank were on terms and conditions similar to facilities obtained through other banks.

Balance outstanding as at 31 December	2016 Rs'000	2015 Rs'000
Investment in government securities		
Opening Balance	601,679	489,685
Matured during the year	(593,579)	-
Investment during the year	-	111,994
Closing Balance	8,100	601,679
Other receivables	725	-

		2016 Rs'000	2015 Rs'000
43.	**RELATED PARTY TRANSACTIONS (Contd..)**		
43.5	**Transactions with Group Companies (Contd..)**		
43.5.1	**Sampath Bank PLC (Contd..)**		
	Short Term Loans		
	Opening Balance	-	540,000
	Net proceeds from Short Term Loans	-	(540,000)
	Closing Balance	-	-
	Term Loan		
	Opening Balance	2,767,920	713,705
	Granted during the year	-	2,500,000
	Less : Repayment during the year	(643,140)	(445,785)
	Closing Balance	2,124,780	2,767,920
	Bank Overdraft	413,230	163,583
	Total Accommodation obtained	2,538,010	2,931,503
	Less : Favourable balances in current accounts with bank	11,577	4,742
	Net Accommodation	2,526,433	2,926,761
	Net Accommodation as a percentage of Capital Funds	130.88%	181.66%

Transaction during the year	Rs'000	Rs'000
Expenses		
Interest paid	278,646	153,163
Bank Guarantee fee paid	2,139	6,252
Staff training paid (for facilitating staff training)	32	40
Rent paid (for the branch located within Sampath Bank premises)	1,338	1,374
Broker commission paid (for introduction of investors to the debenture issue in year 2016)	158	-
Fees paid for acting as Bankers to the debentures issued in year 2016.	255	-
Income		
Fee for locating ATM machines at Company's branch premises operations	383	405
Interest on fixed deposits	3,050	-
Interest Income on short term government securities	54,518	38,930

Fixed deposit with Sampath Bank PLC was placed on 13 January 2016 for a one month period and same was withdrawn at maturity.
The company has invested in short term government securities through Sampath Bank PLC.

Dividend		
Cash Dividend(Gross)	-	31,500
Scrip Dividend(Gross)-(number of shares-1,624,726)	57,750	-

43.5.2 Sampath Information Technology Solutions Ltd

Sampath Information Technology Solutions Ltd is a subsidiary of Sampath Bank PLC which is the parent undertaking of Siyapatha Finance PLC.

The Company has obtained Hardware/ Software maintenance services from SITS and payments were made as per the maintenance agreement. Company has purchased Leasing/ Loan Management & Pawning software and same is disclosed below.

Balance outstanding as at 31 December	**2016 Rs'000**	**2015 Rs'000**
Facilities granted	-	953
Other receivables	400	240
Transaction during the year		
Hardware/Software maintenance paid	1,557	4,876
Payment for Software		
Pawning	-	473
Leasing	-	315
Loan Management	-	-
Interest income and other fees for the leasing facilities granted	269	1,159

The Company had the following receivable balances with other Group companies	**2016 Rs'000**	**2015 Rs'000**
SC Securities Pvt Ltd	173	45
Sampath Centre Ltd	202	360

44. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy are to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders'