



A Fully Owned Subsidiary of Commercial Bank of Ceylon PLC

SERENDIB FINANCE FINANCIALS STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017



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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SERENDIB FINANCE LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Serendib Finance Limited ("the Company"), which comprise the statement of financial position as at March 31, 2017, and the statements of profit or loss and other comprehensive income, changes in equity and, 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 ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 March 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

- The basis of opinion and scope and limitations of the audit are as stated above.
- 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 07 of 2007.

CHARTERED ACCOUNTANTS

Colombo

26 June 2017

SERENDIB FINANCE LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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For the year ended 31 March

	Notes	2017 Rs.	2016 Rs.
Gross Income	9	825,794,486	447,079,734
Interest income		748,511,173	388,572,775
Interest expenses		(438,867,529)	(172,786,297)
Net interest income	10	309,643,644	215,786,478
Fee and commission income		75,014,536	54,925,652
Fee and commission expenses		(14,504,739)	(19,022,959)
Net fee and commission income	11	60,509,797	35,902,693
Other operating income	12	2,268,777	3,581,307
Total operating income		372,422,218	255,270,478
Impairment charges for loans and other losses	13	(17,454,606)	(190,408,629)
Net operating income		354,967,612	64,861,849
Operating expenses			
Personnel expenses	14	(72,106,871)	(58,820,905)
Depreciation and amortization		(10,293,456)	(9,939,330)
Other operating expenses	15	(60,438,522)	(71,181,385)
Operating profit / (Loss) before value added tax on financial services		212,128,763	(75,079,771)
Value added tax on financial services		(28,064,980)	-
Profit / (Loss) before taxation		184,063,783	(75,079,771)
Income tax expense	16	(56,616,919)	(8,677,804)
Profit / (Loss) for the year		127,446,864	(83,757,575)
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation surplus of property, plant and equipment, net of tax			
Revaluation surplus of property, plant and equipment	22	17,725,391	-
Deferred tax (charge) / reversal on revaluation surplus	28	(4,828,336)	3,746,509
		12,897,055	3,746,509
Actuarial gains / (losses) on defined benefit plans, net of tax			
Actuarial gains / (losses) on defined benefit plans	27	(175,455)	20,109
Deferred tax (charge) / reversal on actuarial gains / (losses)	28	49,127	(5,631)
		(126,328)	14,478
Items that are or may be reclassified to profit or loss			
Net change in fair value of available-for-sale financial assets, net of tax			
Net change in fair value of available-for-sale financial assets		49,729	(27,028)
Deferred tax (charge) / reversal on available-for-sale financial assets reserve	28	(13,924)	7,567
		35,805	(19,461)
Other comprehensive income for the year, net of tax		12,806,532	3,741,526
Total comprehensive income for the year		140,253,396	(80,016,049)
Basic earnings/ (loss) per share	17	4.15	(3.88)

Figures in brackets indicate deductions.

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

SERENDIB FINANCE LIMITED
STATEMENT OF FINANCIAL POSITION

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As at 31 March,

	Notes	2017 Rs.	2016 Rs.
ASSETS			
Cash and cash equivalents	19	19,291,649	4,563,249
Financial investments - Available-for-sale	20	71,888,216	17,886,559
Securities purchased under resale agreements		82,128,414	78,680,438
Loans and receivables	21	5,431,042,357	2,989,212,839
Property, plant and equipment	22	203,662,512	199,040,037
Intangible assets	23	8,539,738	7,987,045
Current tax assets	29	-	13,274,928
Other assets	24	9,621,495	9,695,441
Total assets		5,826,174,381	3,320,340,536
LIABILITIES			
Due to banks	25	4,863,279,581	2,464,655,697
Debentures	26	-	15,000,000
Employee benefits	27	4,476,255	3,712,464
Deferred tax liabilities	28	59,532,935	21,077,988
Current tax liabilities	29	69,420	-
Other liabilities	30	86,949,413	144,281,006
Total liabilities		5,014,307,604	2,648,727,155
EQUITY			
Stated capital	31	580,000,001	580,000,001
Retained earnings	32	114,594,596	(11,981,191)
Other reserves	33	117,272,180	103,594,571
Total equity		811,866,777	671,613,381
Total liabilities and equity		5,826,174,381	3,320,340,536

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

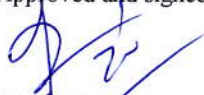
I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



Chief Financial Officer

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

Approved and signed for and on behalf of the Board,



Director



Director

26 June 2017

Kandy

SERENDIB FINANCE LIMITED
STATEMENT OF CHANGES IN EQUITY

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For the year ended 31 March

	Stated capital	Other reserves				Retained earnings	Total equity
		Capital reserve	Revaluation reserve	Statutory reserve fund	Available for sale assets		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2015	380,000,000	50,000	64,075,269	15,656,516	(12,151)	20,097,889	551,629,429
Comprehensive income							
Loss for the year	-	-	-	-	-	(83,757,575)	(83,757,575)
Other comprehensive Income for the year net of tax	-	-	3,746,509	-	(19,461)	14,478	3,741,526
Total comprehensive income	-	-	3,746,509	-	(19,461)	(83,743,097)	(80,016,049)
Transactions with owners of the Company							
Issue of ordinary shares	200,000,001	-	-	-	-	-	200,000,001
Balance as at 31 March 2016	580,000,001	50,000	67,821,778	15,656,516	(31,612)	20,097,889	671,613,381
Balance as at 01 April 2016	580,000,001	50,000	67,821,778	15,656,516	(31,612)	20,097,889	671,613,381
Comprehensive income							
Profit for the year	-	-	-	-	-	127,446,864	127,446,864
Other comprehensive Income for the year net of tax	-	-	12,897,055	-	35,805	(126,328)	12,806,532
Total comprehensive income	-	-	12,897,055	-	35,805	127,320,536	140,253,396
Transactions recognized directly in Equity							
Transfers during the year	-	-	-	6,372,343	-	(6,372,343)	-
Revaluation surplus transferred to retained earnings on disposal	-	-	(5,627,594)	-	-	5,627,594	-
Balance as at 31 March 2017	580,000,001	50,000	75,091,239	22,028,859	4,193	20,097,889	811,866,777

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

For the year ended 31 March

	Notes	2017 Rs.	2016 Rs.
Cash flows from operating activities			
Profit/ (Loss) before taxation		184,063,783	(75,079,771)
Adjustments for,			
Impairment charges for loans and other losses	13	17,454,606	190,408,629
Notional tax on interest income from government securities	29	(9,610,757)	(244,346)
Dividend income	12	(58,500)	(54,000)
Depreciation and amortization		10,293,456	9,939,330
Provision/(reversal) for defined benefit plans	27	1,236,336	1,010,463
Writing off of PPE	22	-	90,371
Disposal profit on sale of PPE	12	3,489,445	(148,896)
Operating profit before working capital changes		<u>206,868,369</u>	<u>125,921,780</u>
Increase in loans and receivables		(2,459,284,124)	(1,418,405,374)
(Increase)/decrease in other assets		73,946	1,984,682
Increase/(decrease) in other liabilities		(57,331,593)	21,003,383
Cash generated used in operations		<u>(2,309,673,402)</u>	<u>(1,269,495,529)</u>
Taxes paid	29	-	(54,420,605)
Gratuity paid	27	(648,000)	(62,500)
Net cash flows used in operating activities		<u>(2,310,321,402)</u>	<u>(1,323,978,634)</u>
Cash flows from investing activities			
Net investment in Deposits with licensed banks		-	4,869,744
Net Investment in Financial investments - Available-for-sale		(53,951,928)	(1,080,178)
Net Investment in Securities purchased under resale agreements		(3,447,976)	(76,982,896)
Acquisition of property, plant and equipment	22	(7,491,574)	(6,964,621)
Acquisition of intangible assets	23	(1,693,588)	(1,000,500)
Dividend income	12	58,500	54,000
Proceeds from sale of PPE		7,952,484	1,351,925
Net cash flows used in investing activities		<u>(58,574,082)</u>	<u>(79,752,526)</u>
Cash flows from financing activities			
Net cash flow from securitized borrowings		2,657,448,158	1,097,545,685
Debenture redemptions	26	(15,000,000)	(202,797,494)
Net proceeds from the issue of ordinary shares	31	-	200,000,001
Net cash flows from financing activities		<u>2,642,448,158</u>	<u>1,094,748,192</u>
Net increase/ (decrease) in cash and cash equivalents		<u>273,552,674</u>	<u>(308,982,968)</u>
Cash and cash equivalents at the beginning of the year		<u>(449,081,904)</u>	<u>(140,098,936)</u>
Cash and cash equivalents at the end of the year *		<u><u>(175,529,230)</u></u>	<u><u>(449,081,904)</u></u>
* Analysis of cash and cash equivalents at the end of the year			
Cash and bank balances	19	19,291,649	4,563,249
Bank overdraft	25	(194,820,879)	(453,645,153)
		<u><u>(175,529,230)</u></u>	<u><u>(449,081,904)</u></u>

Figures in brackets indicate deductions.

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

1. REPORTING ENTITY

1.1 General

Serendib Finance Limited (formerly known as Indra Finance Limited ('the Company'), regulated under the Finance Business Act No. 42 of 2011, was incorporate on 1987 as a Limited Liability Company domiciled in Sri Lanka under provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No 7 of 2007.

The registered office and the principal place of business of the Company is located at 187, Katugastota Road, Kandy.

1.2 Principal Activities and Nature of Operations

The principal activities of the Company are granting of Lease Facilities, Hire Purchase, Mortgage Loans and other credit facilities. There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.3 Parent Entity and Ultimate Parent Entity

The Company's parent enterprise and the ultimate parent enterprise is Commercial Bank of Ceylon PLC.

1.4 Number of employees

The number of employees as at 31 March 2017 is 114 (2016: 102).

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company which comprise of the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Accounting Policies and Notes, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

2.2 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company for the year ended 31st March 2017 were approved and authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 26 June 2017.

2.3 Basis of Measurement

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

- Available-for-Sale financial assets are measured at fair value.
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation.
- Land and buildings measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation.

2.4 Functional and Presentation Currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency.

2.5 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statements of Financial Position are listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 35.

2.6 Materiality and Aggregation

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

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the 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 statement of profit or loss and other comprehensive income unless required or permitted by an Accounting Standard.

2.7 Comparative Information

The comparative information is re-classified wherever necessary to conform to the current year's classification in order to provide a better presentation.

2.8 Use of Judgments and Estimates

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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows:

2.8.1 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.8.2 Impairment Losses on Loans and Advances (Leases, Hire Purchases and Other Loans)

The Company collectively reviews its loans and advances portfolio at each reporting date to assess whether an impairment loss should be recorded in profit or loss. These estimates are based on assumptions based on a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

2.8.3 Impairment of Available for Sale Investments

The Company reviews the debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. In particular, Management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Company generally treats 'significant' as 20% or more and 'prolonged' as greater than nine months. In addition the Company evaluates, among other factors, historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

2.8.4 Deferred Tax Assets

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

2.8.5 Defined Benefit Obligation

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. 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 and future salary increases are based on expected future inflation rates and expected future salary increase rate of the Company.

2.8.6 Revaluation of Property, Plant & Equipment

The Company measures land and buildings at revalued amounts with changes in fair value being recognised in Equity through Other Comprehensive Income (OCI). The Company engaged an independent professional valuer to assess fair value of land and buildings as at 30 March 2017. The key assumptions used to determine the fair value of the land and buildings and sensitivity analyses are provided in Note 22.4

2.8.7 Useful Life-time of the Property, Plant and Equipment

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

2.8.8 Taxation

The Company is subject to income taxes and other taxes including VAT on financial services. Significant judgement was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

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

3. SIGNIFICANT ACCOUNTING POLICIES - STATEMENT OF FINANCIAL POSITION

The significant accounting policies applied by the Company in the preparation of the Financial Statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Company, unless otherwise indicated.

3.1 Financial Instruments - Initial Recognition, Classification and Subsequent Measurement

3.1.1 Date of Recognition

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes 'regular way trades'. Regular way trades means 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.

3.1.2 Classification and Initial Measurement of Financial Instruments

The classification of financial instruments at the initial recognition depends on their purpose and characteristics and the Management's intention in acquiring them. Further details on classification of financial assets and financial liabilities are given under 3.1.3 and 3.1.4 respectively.

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instruments except in the case of financial assets and financial liabilities at fair value through profit and loss as per the Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement). Transaction cost in relation to financial assets and financial liabilities at fair value through profit and loss are dealt with through Statement of profit or loss and other comprehensive income.

'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 profit or loss. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

3.1.3 Classification and Subsequent Measurement of Financial Assets

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

- a. Financial assets at fair value through profit or loss
 - i. Financial assets held for trading
 - ii. Financial assets designated at fair value through profit or loss
- b. Financial assets available-for-sale
- c. Held-to-maturity financial investments
- d. Loans and receivables

The subsequent measurement of financial assets depends on their classification.

3.1.3.1 Financial Assets at Fair Value through Profit or Loss

A financial asset is classified at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

3.1.3.1.1 Financial Assets Held for Trading

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

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net trading income'. Interest and dividend income is recorded in 'Net trading income' according to the terms of the contract, or when the right to receive the payment has been established.

The Company evaluates its held for trading asset portfolio, to determine whether the intention to sell them in the near future is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Company may select to reclassify these financial assets.

The Company has not classified any financial assets as Held for Trading.

3.1.3.1.2 Financial Assets Designated at Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'net gain or loss on financial instrument designated at fair value through profit or loss.' Interest earned is accrued in 'interest income', using the effective interest rate (EIR) method, while dividend income is recorded in 'other operating income' when the right to the payment has been established.

The Company has not designated any financial assets upon initial recognition as designated at fair value through profit or loss or Company has not used fair value hedge or credit derivative instruments.

3.1.3.2 Available for Sale Financial Assets

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

sold in response to needs for liquidity or in response to changes in the market conditions. The Company has not designated any loans or receivables as available for sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in Equity through Other Comprehensive Income in the 'available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in Equity is recognised in the Statement of Profit or Loss and Other Comprehensive Income under 'other operating income'. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a weighted average basis. Interest earned whilst holding 'available for sale financial investments' is reported as 'interest income' using the effective interest rate (EIR). Dividends earned whilst holding 'available for sale financial investments' are recognised in the Statement of Profit or Loss and Other Comprehensive Income as 'other operating income' when the right of payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss and Other Comprehensive Income in 'Impairment charge/ (reversal) for loans and other losses' and removed from the 'available for sale reserve'.

Details of 'financial investments - available for sale' are given in Note 20 to the Financial Statements.

3.1.3.3 Held to Maturity Financial Assets

Held to maturity financial investments are financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After the initial recognition, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate (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 Statement of Profit or Loss and Other Comprehensive Income. The losses arising from impairment of such investments are recognised in 'Impairment (charge)/reversal for loans and other losses' in the Statement of Profit or Loss and Other Comprehensive Income.

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 permitted in the Sri Lanka Accounting Standards - LKAS 39 (Financial Instruments: Recognition and Measurement)], the entire category would be tainted and would have to be reclassified as 'available for sale'. Furthermore, the Company would be prohibited from classifying any financial asset as 'held to maturity' during the following two years.

The Company has not classified any financial assets as Held to Maturity.

3.1.3.4 Loans and Receivables

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

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

Loans and receivable includes Deposits with licensed banks, Securities purchased under re-sale agreements, Lease rentals receivable and Hire purchase receivable, Amounts due from related parties and other trade receivables.

Assets leased to customers which transfer substantially all the risk and rewards associated with ownership other than legal title, are classified as finance leases.

Assets sold to customers under fixed rate hire agreements, which transfer all the risk and rewards as well as the legal title at the end of such contractual period are classified as hire purchase receivable.

Amounts receivable under finance leases and hire purchases are included under 'Loans and receivables' in the statement of financial position after deduction of rental received in advance, unearned income and the allowance for impairment.

After initial measurement, Loans and receivables are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Statement of Profit or Loss and Other Comprehensive income. The losses arising from impairment are recognised in 'impairment (charge) /reversal on loans and other losses' in the Statement of Profit or Loss and Other Comprehensive income.

Details of 'Loans and receivables are given in Note 21 to the Financial Statements.

3.1.3.4.1 Securities Purchased Under Resale Agreements

When Company purchases a financial asset and simultaneously enters in to an agreement to resell the asset (or a similar asset) at a fixed price in future date, the agreement is accounted for as a financial asset in the Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Company. Subsequent to initial recognition, these securities issued are measured at their amortised cost using the EIR method with the corresponding interest receivable being recognised.

3.1.3.5 Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand and bank balances Cash and cash equivalents are carried at amortized cost in the Statement of Financial Position.

For the purpose of Statement of Cash Flows, cash and cash equivalents consist of cash in hand and bank balances net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

Details of cash and cash equivalents are given in Note 19 to the Financial Statements.

3.1.4 Classification and Subsequent Measurement of Financial Liabilities

At the inception the Company determines the classification of its financial liabilities. Accordingly all financial liabilities are classified as financial liabilities at amortised cost:

3.1.4.1 Financial Liabilities at Amortised Cost

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

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

The details of the Company's financial liabilities at amortised cost are shown in Notes 25 and 26 to the Financial Statements.

3.1.5 Reclassification of Financial Instruments

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

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

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

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

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

3.1.6 Derecognition of Financial Instruments

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

On derecognition of financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

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

3.1.7 Offsetting of Financial Instruments

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

Income and expenses are presented on a net basis only when permitted under SLASs.

3.1.8 Amortised Cost Measurement

An 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.1.9 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 not carried at fair value through profit or loss is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated.

3.1.10 Impairment of Financial Assets carried at Amortised Cost

3.1.10.1 Collectively Assessed Financial Assets

Impairment is assessed on a collective basis on two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For homogeneous group of loans that are not considered individually significant.

The collective impairment allowance is determined after taking into account:

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

3.1.10.2 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 financial asset impairment allowance account accordingly. The write-back is recognised in profit or loss.

3.1.10.3 Write-off of Financial Assets carried at Amortised Cost

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

3.1.10.4 Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letters of guarantees, real estate, receivables, inventories, other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

3.1.10.5 Collateral Repossessed

The Company's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

3.1.11 Impairment of Financial Assets - Available for Sale

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

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss; otherwise any increase in fair value is recognized through OCI.

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. In general the Company considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. Where there is evidence of impairment, the cumulative loss on that investment previously recognised in Equity through OCI is removed from equity and charged to profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is always recognised in OCI.

The Company writes-off certain Financial Investments - Available for Sale either partially or in full and any related provision for impairment losses, when the Company determines that there is no realistic prospect of recovery.

3.2 Finance and Operating Leases

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 fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.2.1 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 the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease Rentals Receivable'. The finance income receivable is recognized in '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 included in 'Due to Banks'. 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 recognized in '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.

3.2.2 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.

3.3 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets.

3.3.1 Recognition

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

3.3.2 Measurement

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

3.3.3 Cost Model

The Company applies cost model to property, plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

3.3.4 Revaluation Model

The Company applies the Revaluation Model for the entire class of freehold land and buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and buildings of the Company are revalued by independent professional valuers every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged profit or loss. In this circumstance, the increase is recognised as income only to extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in profit or loss or charged to Revaluation Reserve in equity through OCI, only to the extent of any credit balances existing in the

Revaluation Reserve in respect of that asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

3.3.5 Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to profit or loss as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

3.3.6 Derecognition

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

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

3.3.7 Depreciation

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Company of the different types of assets. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The periods of depreciations based on the estimated useful lives are as follows:

Class of asset	Period
Buildings	50 years
Furniture and Fittings	8 years
Office Equipment	8 years
Motor Vehicles	5 years
Computers & Accessories	5 years
Telephone System	4 years
Electrical Equipment	8 years
Sign Boards	8 years
Fixtures and Fittings	8 years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at the end of each reporting period.

3.3.8 Changes in Estimates

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

3.4 Intangible Assets

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

3.4.1 Basis of Recognition

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

3.4.2 Computer Software

Cost of all computer software licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category Intangible Assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

3.4.3 Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

3.4.4 Derecognition of Intangible Assets

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in profit or loss when the item is derecognised.

3.4.5 Amortisation of Intangible Assets

Intangible assets, except for goodwill, are amortised on a straight line basis in profit or loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Company. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The Company assumes that there is no residual value for its intangible assets.

Class of asset	Period
Computer software	10 years

3.5 Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU's) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

3.6 Dividends Payable

Provision for final dividends is recognized at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividends payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 7 of 2007.

Dividends for the year that are declared after the reporting date are disclosed in Notes to the Financial Statements as an event after the Reporting Period in accordance with the Sri Lanka Accounting Standard - LKAS 10 (Events after the Reporting Period).

3.7 Employee Benefits

3.7.1 Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan' as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits). Refer 3.8.2 for the definition of defined contribution plan.

3.7.1.1 Defined Benefit Plan - Gratuity

All the employees of the Company are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983.

Employees those who have resigned or whose services are terminated other than by retirement are eligible to receive the terminal 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 reporting period 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 defined benefits obligation is calculated annually by Independent actuary using Projected Unit Credit Method as recommended by LKAS-19, "Employee Benefits".

The assumptions based on which the results of actuarial valuation was determined, are included in notes to the financial statements.

Recognition of Actuarial Gains or Losses

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

Funding Arrangements

The Gratuity liability is not externally funded.

3.7.2 Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

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' as and when they become due. Unpaid contributions are recorded as a liability.

3.7.2.1 Employees' Provident Fund

The Company and the Employees contribute 12% and 8% respectively on the salary of each employee to the Government Provident Fund.

3.7.2.2 Employees' Trust Fund

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

3.8 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. The expense relating to any provision is presented in the Statement of Profit or Loss and Other Comprehensive Income net of any reimbursement.

3.9 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless the probability of settlement is remote.

3.10 Earnings per Share (EPS)

The Company presents Basic Earnings per Share (EPS) data for its ordinary shares. 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.

3.11 Segment Reporting

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

For management purposes, the Company has identified four operating segments based on products and services, as follows:

- Leasing
- Hire Purchases
- Loans and Advances
- Others

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses. Income taxes are managed on a Company basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2016 or 2017.

4. SIGNIFICANT ACCOUNTING POLICIES - 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:

4.1 Interest Income and Interest Expense

Interest income and expenses are recognised in profit or loss using the Effective Interest Rate (EIR) method for all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale.

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

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

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

4.2 Fee and Commission Income and Expense

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

Fee and commission income and expense that are integral to the EIR on a financial asset or liability are included in the measurement of the EIR.

Other fee and commission income are recognised on a straight line basis over the commitment period.

Other fees and commission expense are expensed as the services are received.

4.3 Dividend Income

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

4.4 Expenditure Recognition

Expenses are recognized in the Statement of Profit or Loss and Other Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year

4.5 Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

5 SIGNIFICANT ACCOUNTING POLICIES - INCOME TAX EXPENSE

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in profit or loss except to the extent it relates to items recognised directly in 'Equity' or 'other comprehensive income (OCI)', in which case it is recognised in Equity or in OCI.

5.1 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 year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Reporting date.

Accordingly, Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and the amendments thereto at the rates specified in Note 16 to the Financial Statements.

5.2 Deferred Taxation

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes of the Company.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each Reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the Reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

5.3 Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with 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.

The VAT on Financial service is recognized as expense in the period it becomes due.

5.4 Nations Building Tax on Financial Services

As per provisions of the Nations Building Tax Act (NBT) Act No 9 of 2009 and amendments thereto, NBT was payable at 2% on Company's value additions attributable to financial services with effect from 01st January 2014. The value addition attributable to financial service is same as the value used to calculate VAT on financial services.

The NBT on Financial service is recognized as expense in the period it becomes due.

5.5 Economic Service Charges (ESC)

As per provisions of the Economic Service Charge (ESC) Act No 13 of 2006 and amendments thereto, ESC was payable at 1% on Company's liable turnover and was deductible from income tax payable. With effect from 1st April 2012 as per the ESC amendment Act No 11 of 2012 ESC is payable only on exempt turnover of the Company and is deductible from income tax payable. ESC is not payable on turnover on which income tax is payable.

The ESC is recognized as expense in the period it becomes due.

5.6 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 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax (before the deferred tax charge/ (reversal).

The CIL is recognized as expense in the period it becomes due.

6. FAIR VALUE MEASUREMENT

6.1 Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible to 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 value of measurement of a non-financial asset takes in to 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. External professional valuers are involved for valuation of significant assets such as land and buildings.

Fair Value Hierarchy

The Group measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1

Inputs that are unadjusted quoted market prices in an active market for identical instruments.

When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs other than quoted prices included within Level that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

- (a) quoted market prices in active markets for similar instruments,
- (b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
- (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparison with similar instruments for which observable market prices exists and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect cost to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1 'profit or loss') is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

7 STATEMENT OF CASH FLOWS

The cash flow statement has been prepared by using 'The Indirect Method' in accordance with the Sri Lanka Accounting Standard - LKAS 7 'Statement of Cash Flows', whereby operating activities, finance activities and investing activities have been recognised. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand and balances with banks.

8 NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

A number of new standards and amendments to standards which have been issued but not yet effective as at the Reporting date have not been applied in preparing these Financial Statements. Accordingly, these Standards have not been applied in preparing these financial statements and Company plans to apply these standards on the respective effective dates.

Accounting Standards	Summary of the requirements	Possible impact on financial statements
SLFRS 9 - Financial Instruments	<p>SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 <i>Financial Instruments: Recognition and Measurement</i>. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.</p> <p>SLFRS 9 will become effective for the Company from April 1, 2018.</p>	<p>The Company is assessing the potential impact on its financial statements resulting from the application of SLFRS 9.</p> <p>Given the nature of the Company's operations, this standard is expected to have a pervasive impact on the Company's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.</p>
SLFRS 15 - Revenue from Contracts with Customers	<p>SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on Revenue, and LKAS 11 on Construction Contracts.</p> <p>SLFRS 15 will become effective for the Company from April 1, 2018.</p>	<p>The Company is assessing the potential impact on its financial statements resulting from the application of SLFRS 15.</p>
SLFRS 16 - Leases	<p>SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead, there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.</p> <p>SLFRS 16 will become effective for the Company from 1st April 2019.</p>	<p>The Company is assessing the potential impact on its financial statements resulting from the application of SLFRS 16.</p>

For the year ended 31 March

		2017 Rs.	2016 Rs.
9 GROSS INCOME			
Interest income	(Note 10.1)	748,511,173	388,572,775
Fee and commission income	(Note 11.1)	75,014,536	54,925,652
Other operating income	(Note 12)	2,268,777	3,581,307
Total income		825,794,486	447,079,734
10 NET INTEREST INCOME			
10.1 Interest income			
Lease rentals receivable and stock out on hire		398,240,075	288,434,125
Hire purchase and other loans		335,815,193	97,450,995
Interest income from bank deposits and government securities		14,455,905	2,687,655
Total interest income		748,511,173	388,572,775
10.2 Interest expenses			
Interest on overdraft		30,146,658	26,585,667
Interest on debentures		884,378	26,989,167
Interest on long term borrowings		407,836,493	119,211,463
Total interest expenses		438,867,529	172,786,297
Net interest income		309,643,644	215,786,478
11 NET FEE AND COMMISSION INCOME			
11.1 Fee and commission income			
Service charge		19,703,753	10,577,131
Insurance commission		6,552,288	6,858,265
Other fees recovered		48,758,495	37,490,256
Total fee and commission income		75,014,536	54,925,652
11.2 Fee and commission expenses			
Sales commission		5,856,354	2,933,451
Introducer commission		8,251,392	16,089,508
Recovery Agent Commission		396,993	-
Total fee and commission expenses		14,504,739	19,022,959
Net fee and commission income		60,509,797	35,902,693
12 OTHER OPERATING INCOME			
Profit on disposal of property, plant and equipment		(3,489,445)	148,896
Dividend income		58,500	54,000
Rent Income		918,360	688,770
Other income		4,781,362	2,689,641
Total		2,268,777	3,581,307
13 IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES			
Lease rentals receivable		(18,346,295)	168,580,197
Loans and Hire Purchases receivable		35,888,495	21,828,432
	(Note 21.1)	17,542,200	190,408,629
Other Losses on Trade debtors	(Note 24.1)	(104,069)	-
Direct Write off for the year		16,475	-
Total		17,454,606	190,408,629

For the year ended 31 March

	2017 Rs.	2016 Rs.
14 PERSONNEL EXPENSES		
Salaries and other related expenses	49,740,156	42,152,043
Employer's contribution to Employees' Provident Fund	5,068,369	4,213,624
Employer's contribution to Employees' Trust Fund	1,267,103	1,053,487
Gratuity charge for the year (Note 27.2.1)	1,236,336	1,010,463
Other staff related expenses	14,794,907	10,391,288
Total	72,106,871	58,820,905

15 OTHER OPERATING EXPENSES

Directors' emoluments	2,920,000	2,730,000
Auditors' remuneration	1,285,378	1,673,366
Professional and legal expenses	358,803	921,596
General insurance expenses	394,969	260,306
Office administration and establishment expenses	40,751,875	48,288,424
Sales, marketing and business promotional expenses	14,727,497	17,307,693
Total	60,438,522	71,181,385

16 INCOME TAX EXPENSE

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

Amounts recognized in profit or loss

Current tax expense		
Current year	22,955,105	6,979,418
	22,955,105	6,979,418
Deferred tax expense		
Deferred taxation charge / (reversal) (Note 28)	33,661,814	1,698,386
Total	56,616,919	8,677,804

16.2 Reconciliation of effective tax rate

A reconciliation between taxable income and the accounting profit multiplied by the statutory tax rate is given below:

	2017 Rs.	2016 Rs.
Profit/ (Loss) for the Year	127,446,864	(83,757,575)
Income Tax Expenses	56,616,919	8,677,804
Profit/ (Loss) before taxation	184,063,783	(75,079,771)
Tax using the domestic corporation tax rate of 28%	28% 51,537,859	28% (21,022,336)
Tax effect of aggregate disallowed items	10% 18,887,954	-76% 57,395,609
Tax effect of aggregate allowable expenses	-109% (200,480,414)	250% (187,530,203)
Tax effect of capital portion of rentals	85% 157,216,772	-202% 151,946,895
Tax effect of (Profit)/loss on finance leasing business	1% 1,982,387	-8% 6,189,453
Tax effect of tax loss set off- Lease	-3% (6,189,453)	0% -
Deferred taxation charge/ (reversal)	18% 33,661,814	-2% 1,698,386
	31% 56,616,919	-12% 8,677,804

For the year ended 31 March 2017

17 EARNINGS PER SHARE

17.1 Basic earnings per share is calculated by dividing the net profit / (loss) for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

17.2 The following reflect the income and shares details used in the Basic earning per share computation.

	2017 Rs.	2016 Rs.
Amounts used as the numerator:		
Profit/ (Loss) attributable to ordinary shareholders for basic earnings per share	127,446,864	(83,757,575)
Number of ordinary shares used as the denominator		
Weighted average number of ordinary shares in issue for basic earnings per share	30,728,252	21,600,000
Basic earnings/ (loss) per share	4.15	(3.88)

18 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

18.1 As at 31 March 2017

	Loans & Receivables at amortized cost	Available for Sale at fair value	Other financial liabilities at amortized cost	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and cash equivalents	19,291,649	-	-	19,291,649
Loans and receivables	5,431,042,357	-	-	5,431,042,357
Financial investments - Available-for-sale	-	71,888,216	-	71,888,216
Securities purchased under resale agreements	82,128,414	-	-	82,128,414
Total financial assets	5,532,462,420	71,888,216	-	5,604,350,636
Liabilities				
Due to banks	-	-	4,863,279,581	4,863,279,581
Other liabilities	-	-	49,156,053	49,156,053
Total financial liabilities	-	-	4,912,435,634	4,912,435,634

18.2 As at 31 March 2016

	Loans & Receivables at amortized cost	Available for Sale at fair value	Other financial liabilities at amortized cost	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and cash equivalents	4,563,249	-	-	4,563,249
Loans and receivables	2,989,212,839	-	-	2,989,212,839
Financial investments - Available-for-sale	-	17,886,559	-	17,886,559
Securities purchased under resale agreements	78,680,438	-	-	78,680,438
Total financial assets	3,072,456,526	17,886,559	-	3,090,343,085
Liabilities				
Due to banks	-	-	2,464,655,697	2,464,655,697
Debentures	-	-	15,000,000	15,000,000
Other liabilities	-	-	108,590,793	108,590,793
Total financial liabilities	-	-	2,588,246,490	2,588,246,490

As at 31 March,

						2017 Rs.	2016 Rs.
19	CASH AND CASH EQUIVALENTS						
	Cash in hand held in local currency					16,957,684	3,683,186
	Balances with licensed commercial banks					2,333,965	880,063
	Total					19,291,649	4,563,249
20	FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE						
	Unquoted equities		(Note 20.1)			123,700	123,700
	Government Securities					71,764,516	17,762,859
	Total					71,888,216	17,886,559
20.1	Unquoted equities	Number of shares	Cost as at 31 March 2017 Rs.	Directors' valuation as at 31 March 2017 Rs.	Number of shares 2016	Cost as at 31 March 2016 Rs.	Directors' valuation as at 31 March 2016 Rs.
	Credit Information Bureau	100	123,700	123,700	100	123,700	123,700
	Total		123,700	123,700		123,700	123,700
21.	LOANS AND RECIVABLES						
	Total loans and receivables					7,345,362,537	4,397,842,936
	Less: Unearned income					1,474,557,705	985,076,202
	Gross loans and receivables					5,870,804,832	3,412,766,734
	Less: Allowance for impairment losses				21.1	439,762,475	423,553,895
	Net loans and receivables					5,431,042,357	2,989,212,839
21.1	Allowance for impairment losses						
	Collective impairment						
	As at 01 April					423,553,895	233,145,266
	Charge for the year					17,542,200	190,408,629
	Write off for the year					(1,333,620)	-
	As at 31 March					439,762,475	423,553,895

As at 31 March,

	Notes	2017 Rs.	2016 Rs.
21. LOANS AND RECIVABLES (Cont.)			
21.2 Analysis by Product			
Leases	21.2.1	2,508,870,665	2,387,464,627
Hire Purchase	21.2.2	82,874,518	172,333,940
Other Loans	21.2.3	2,839,297,174	429,414,272
		<u>5,431,042,357</u>	<u>2,989,212,839</u>
21.2.1 Leases			
Gross Lease receivable			
Within one year	21.2.1 (a)	736,884,476	1,111,655,720
One to five years	21.2.1 (b)	1,822,699,738	1,535,046,727
After five years	21.2.1 (c)	258,278,494	68,944,509
		<u>2,817,862,708</u>	<u>2,715,646,956</u>
Less: Allowance for impairment losses		308,992,043	328,182,329
Net Lease receivable		<u>2,508,870,665</u>	<u>2,387,464,627</u>
21.2.1 (a) Gross Lease receivable within one year			
Total Lease receivable		1,071,301,106	1,431,773,300
Less: Unearned income		334,416,630	320,117,580
		<u>736,884,476</u>	<u>1,111,655,720</u>
21.2.1 (b) Gross Lease receivable within one to five years			
Total Lease receivable		2,293,743,354	2,029,923,359
Less: Unearned income		471,043,616	494,876,632
		<u>1,822,699,738</u>	<u>1,535,046,727</u>
21.2.1 (c) Gross Lease receivable after five years			
Total Lease receivable		260,034,701	76,378,290
Less: Unearned income		1,756,207	7,433,781
		<u>258,278,494</u>	<u>68,944,509</u>
21.2.2 Hire Purchase			
Gross Hire Purchase receivable			
Within one year	21.2.2 (a)	78,542,010	123,601,643
One to five years	21.2.2 (b)	25,912,499	128,054,104
After five years	21.2.2 (c)	55,504,317	1,752,434
		<u>159,958,826</u>	<u>253,408,181</u>
Less: Allowance for impairment losses		77,084,308	81,074,241
Net Hire Purchase receivable		<u>82,874,518</u>	<u>172,333,940</u>
21.2.2 (a) Gross Hire Purchase receivable within one year			
Total Hire Purchase rentals receivable		86,760,155	139,305,392
Less: Unearned income		8,218,145	15,703,749
		<u>78,542,010</u>	<u>123,601,643</u>
21.2.2 (b) Gross Hire Purchase receivable within one to five years			
Total Hire Purchase rentals receivable		28,760,392	152,330,866
Less: Unearned income		2,847,893	24,276,762
		<u>25,912,499</u>	<u>128,054,104</u>
21.2.2 (c) Gross Hire Purchase receivable after five years			
Total Hire Purchase rentals receivable		55,504,317	2,117,107
Less: Unearned income		-	364,673
		<u>55,504,317</u>	<u>1,752,434</u>

As at 31 March,

	Notes	2017 Rs.	2016 Rs.
21. LOANS AND RECIVABLES (Cont.)			
21.2 Analysis by Product (Cont.)			
21.2.3 Other Loans			
Gross Other Loans receivable			
Within one year	21.2.3 (a)	1,997,449,401	169,433,204
One to five years	21.2.3 (b)	863,462,792	270,219,298
After five years	21.2.3 (c)	32,071,105	4,059,095
		<u>2,892,983,298</u>	<u>443,711,597</u>
Less: Allowance for impairment losses		53,686,124	14,297,325
Net Other Loans receivable		<u>2,839,297,174</u>	<u>429,414,272</u>
21.2.3 (a) Gross Other Loans receivable within one year			
Total Other Loans receivable		2,380,817,297	217,037,795
Less: Unearned income		<u>383,367,896</u>	<u>47,604,591</u>
		<u>1,997,449,401</u>	<u>169,433,204</u>
21.2.3 (b) Gross Other Loans receivable within one to five years			
Total Other Loans receivable		1,133,835,551	343,812,257
Less: Unearned income		<u>270,372,759</u>	<u>73,592,959</u>
		<u>863,462,792</u>	<u>270,219,298</u>
21.2.3 (c) Gross Other Loans receivable after five years			
Total Other Loans receivable		34,605,664	5,164,570
Less: Unearned income		<u>2,534,559</u>	<u>1,105,475</u>
		<u>32,071,105</u>	<u>4,059,095</u>

SERENDIB FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 March 2017

22 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Furniture and fittings	Office equipment	Computers and accessories	Sign boards	Telephone system	Electrical equipment	Motor vehicles	Fixtures and fittings	Total 2017	Total 2016
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At cost/ valuation												
Balance as at 01 April	86,000,000	91,000,000	7,240,408	8,202,994	12,742,678	1,115,467	1,755,524	2,118,257	14,871,370	869,550	225,916,248	223,764,926
Additions	-	1,124,385	643,577	1,134,334	2,847,254	212,500	65,600	486,965	-	976,959	7,491,574	6,964,621
Surplus on revaluation of proper	481,335	17,244,056	-	-	-	-	-	-	-	-	17,725,391	-
Disposals	(10,418,835)	(904,685)	(74,100)	(48,000)	-	(96,390)	(468,823)	-	(252,536)	-	(12,263,369)	(4,722,928)
Transfers	-	(4,663,756)	-	-	-	-	-	-	-	-	(4,663,756)	(90,371)
Balance as at 31 March	76,062,500	103,800,000	7,809,885	9,289,328	15,589,932	1,231,577	1,352,301	2,605,222	14,618,834	1,846,509	234,206,088	225,916,248
Depreciation												
Balance as at 01 April	-	2,884,987	3,058,879	3,106,119	7,489,931	97,207	1,219,903	755,037	8,222,012	42,116,000	26,876,211	21,484,515
Charge for the year	-	1,821,083	889,955	980,457	2,156,482	150,068	290,345	277,278	2,421,314	165,579	9,152,561	8,911,597
Disposals	-	(42,314)	(37,331)	(19,216)	-	(12,549)	(468,823)	-	(241,207)	-	(821,440)	(3,519,901)
Transfers	-	(4,663,756)	-	-	-	-	-	-	-	-	(4,663,756)	-
Balance as at 31 March	-	-	3,911,503	4,067,360	9,646,413	234,726	1,041,425	1,032,335	10,402,119	207,695	30,543,576	26,876,211
Carrying value as at 31 March 2017	76,062,500	103,800,000	3,898,382	5,221,968	5,943,519	996,851	310,876	1,572,887	4,216,715	1,638,814	203,662,512	-
Carrying value as at 31 March 2016	86,000,000	88,115,013	4,181,529	5,096,875	5,252,747	1,018,260	535,621	1,363,200	6,649,358	827,434	-	199,040,037

22.1 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs.7,491,574/- (2016 - Rs.6,964,621/-). Cash payments amounting to Rs.7,491,574/- (2016 - Rs.6,964,621/-) was paid during the year for purchases of Property, Plant and Equipment.

22.2 There were no significant temporarily idling assets as at 31 March 2017.

22.3 The Property, Plant and Equipment does not include assets subject to operating lease where the Company is the Lessor.

SERENDIB FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

22 PROPERTY, PLANT AND EQUIPMENT (Cont.)

22.4 Informations on valuation of freehold Land and Buildings of the Company.

Date of valuation: 30th March 2017

Name of the professional valuer/Location and Address	Location of the property	Method of valuation and significant unobservable inputs	Range of estimation for unobservable inputs	Net book value before valuation		Revaluation amount of		Revaluation gain Recognized on	
				Land Rs.	Building Rs.	Land Rs.	Building Rs.	Land Rs.	Building Rs.
Sarath G. Fernando G.M.I.V., Incorporated Valuer, Wattegama, Sri Lanka.	No.187, Katugastota Road, Kandy.	• Valuation on Comparative Method.	Useful life period of the Building is 35	59,139,495	67,329,077	59,662,500	78,800,000	523,005	11,470,923
	No.182, Katugastota Road, Kandy.	• Useful life period of the Building.	Useful life period of the Building is 30	16,441,670	19,226,867	16,400,000	25,000,000	(41,670)	5,773,133
				75,581,165	86,555,944	76,062,500	103,800,000	481,335	17,244,056

22.5 The carrying amount of Company's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less accumulated depreciation is as follows:

As at 31 March,

	2017			2016		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	40,313,868	-	40,313,868	50,732,703	-	50,732,703
Building	49,485,023	4,804,820	44,680,203	49,265,323	4,134,748	45,130,575
Total	89,798,891	4,804,820	84,994,071	99,998,026	4,134,748	95,863,278

As at 31 March,

23 INTANGIBLE ASSETS

Computer software

	2017	2016
	Rs.	Rs.
Cost		
As at 01 April	10,975,500	9,975,000
Additions during the year	1,693,588	1,000,500
As at 31 March	12,669,088	10,975,500
Amortization		
As at 01 April	2,988,455	1,960,721
Amortization for the year	1,140,895	1,027,734
As at 31 March	4,129,350	2,988,455
Carrying value as at 31 March	8,539,738	7,987,045

As at 31 March,	2017 RS.	2016 RS.
24 OTHER ASSETS		
Prepayments	6,217,517	5,757,607
Other receivables	5,187,156	4,084,076
Less: Allowance for impairment losses	1,783,178	1,887,247
	9,621,495	7,954,436
Value added tax, Nation building tax and Crop Insurance Levy recoverables	-	1,741,005
Total	9,621,495	9,695,441

24.1 Allowance for impairment losses

As at 01 April	1,887,247	1,887,247
Reversals during the year	(104,069)	-
As at 31 March	1,783,178	1,887,247

25 DUE TO BANKS

Bank overdrafts	194,820,879	453,645,153
Securitized borrowings (Note 25.1)	4,668,458,702	2,011,010,544
Total	4,863,279,581	2,464,655,697

25.1 Securitized borrowings

	As at 01.04.2016 Rs.	Loans obtained during the year Rs.	Capital repayments Rs.	Amortized interest payable Rs.	As at 31.03.2017 Rs.
Direct bank borrowings					
Term loans					
Commercial Bank of Ceylon PLC	336,613,265	1,300,000,000	539,218,215	3,694,047	1,101,089,098
Sampath Bank PLC	1,674,397,279	2,875,000,000	1,906,532,440	5,489,424	2,648,354,263
Bank Of Ceylon	-	1,000,000,000	83,333,335	2,348,675	919,015,341
Total	2,011,010,544	5,175,000,000	2,529,083,990	11,532,146	4,668,458,702

25.2 Assets pledged

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of liability	2017 Rs.	2016 Rs.
Leasing Receivable	Commercial Bank of Ceylon PLC- Term loan and bank overdraft	1,556,690,000	523,583,357
Property at No. 182 & 187, Katugastota Road, Kandy	Commercial Bank of Ceylon PLC- Term loan and bank overdraft	75,000,000	75,000,000
Letter of Comfort from Commercial Bank of Ceylon PLC	Sampath Bank PLC - Term loans and bank overdraft	2,971,726,170	2,167,800,000
Letter of Comfort from Commercial Bank of Ceylon PLC	Bank Of Ceylon - Term loans	1,000,000,000	-

26 DEBENTURES

As at 01 April	15,000,000	215,000,000
Redemptions during the year	(15,000,000)	(200,000,000)
Balance before amortized interest payable	-	15,000,000
Amortized interest payable	-	-
As at 31 March	-	15,000,000

26.1 Debenture category	Interest frequency	Issue date	Maturity date	Effective annual yield		
Fixed rate debentures						
2011/60/14.15%/MLY/01	Monthly	25-Aug-11	25-Aug-16	14.15%	-	10,000,000
2011/60/14.15%/MLY/02	Monthly	25-Aug-11	25-Aug-16	14.15%	-	5,000,000
Total					-	15,000,000

As at 31 March,		2017 Rs.	2016 Rs.
27	EMPLOYEE BENEFITS		
27.1	Defined contribution plans		
	Employees' Provident Fund		
	Employer's contribution	5,068,369	4,213,624
	Employees' contribution	3,378,913	2,809,083
	Employees' Trust Fund	1,267,103	1,053,487
27.2	Defined benefit plans		
	Movement in the present value of the defined benefit obligations		
	As at 01 April	3,712,464	2,784,610
	Current service cost	846,527	745,925
	Interest cost (Note 27.2.1)	389,809	264,538
	Actuarial (gains)/losses during the year (Note 27.2.2)	175,455	(20,109)
	Payments made during the year	(648,000)	(62,500)
	As at 31 March	<u>4,476,255</u>	<u>3,712,464</u>
27.2.1	Expense recognized in profit or loss		
	Current service cost for the year	846,527	745,925
	Interest cost for the year	389,809	264,538
	Total	<u>1,236,336</u>	<u>1,010,463</u>
27.2.2	Amount recognized for defined benefit obligation in other comprehensive income		
	Cumulative loss as at 1st April	489,032	509,141
	Recognized during the year	175,455	(20,109)
	Cumulative loss as at 31st March	<u>664,487</u>	<u>489,032</u>
27.2.3	Actuarial assumptions		
	Discount rate	11.50% p.a.	10.50% p.a.
	Salary increment rate	5.00% p.a.	4.50% p.a.
	Staff turnover	25.00%	39.00%
	Mortality - A 1967/70 Mortality Table		
	Disability - Standard		
	Retirement age - Normal retirement Age, The employees who are aged over the specified retirement age		

An actuarial valuation of the gratuity was carried out as at 31 March 2017 by Mr. M. Poopalanathan, AIA, of Actuarial and Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the "Projected Unit Credit Method", recommended by LKAS 19.

27.2.4 Sensitivity Analysis

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

	2017		2016	
	Increase (Rs.)	Decrease (Rs.)	Increase (Rs.)	Decrease (Rs.)
Discount rate (1% movement)	(114,233)	120,853	(72,357)	75,448
Salary increment rate (1% movement)	147,708	(141,615)	96,317	(93,731)

As at 31 March,

28 DEFERRED TAX LIABILITIES

	2017	2016
As at 01 April	21,077,988	23,128,047
Origination/ (reversal) of temporary differences		
- Recognized in profit or loss	33,661,814	1,698,386
- Recognized in other comprehensive income	4,793,133	(3,748,445)
As at 31 March	<u>59,532,935</u>	<u>21,077,988</u>

28.1 Summary of net deferred tax liability

	2017		2016	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs.	Rs.	Rs.	Rs.
Deferred tax liabilities				
Accelerated depreciation for tax purposes - Lease Assets	394,033,145	110,329,281	281,871,432	78,924,001
Accelerated depreciation for tax purposes - Own Assets	35,466,843	9,930,716	29,678,704	8,310,037
Revaluation surplus on buildings	58,923,229	16,498,504	43,122,729	12,074,364
	<u>488,423,217</u>	<u>136,758,501</u>	<u>354,672,864</u>	<u>99,308,402</u>
Deferred tax assets				
Defined benefit plans	4,476,254	1,253,351	3,712,464	1,039,490
Carried forward tax losses	7,079,952	1,982,387	22,105,189	6,189,453
Carried forward unclaimed impairment losses	264,255,211	73,991,459	253,532,779	70,989,178
Unrealized loss on AFS	(5,825)	(1,631)	43,904	12,293
	<u>275,805,591</u>	<u>77,225,566</u>	<u>279,394,336</u>	<u>78,230,414</u>
Net deferred tax liability as at 31 March	<u>212,617,626</u>	<u>59,532,935</u>	<u>75,278,529</u>	<u>21,077,988</u>

28.2 Deferred tax assets and liabilities are attributable to the following:

	Recognized in Profit or Loss		Recognized in Other Comprehensive Income		Statement of Financial Position	
	2017	2016	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Deferred tax liabilities						
Accelerated depreciation for tax purposes - Lease Assets	31,405,280	22,924,728	-	-	110,329,281	78,924,001
Accelerated depreciation for tax purposes - Own Assets	1,620,679	(2,771,535)	-	-	9,930,716	8,310,037
Reversal of deferred tax on revaluation gains (Note 28.3)	-	-	-	(3,746,509)	-	-
Revaluation surplus on buildings	(404,196)	-	4,828,336	-	16,498,504	12,074,364
	<u>32,621,763</u>	<u>20,153,193</u>	<u>4,828,336</u>	<u>(3,746,509)</u>	<u>136,758,501</u>	<u>99,308,402</u>
Deferred tax assets						
Defined benefit plans	(164,734)	(320,471)	(49,127)	5,631	1,253,351	1,039,490
Carried forward tax losses	4,207,066	(6,189,453)	-	-	1,982,387	6,189,453
Carried forward unclaimed impairment losses	(3,002,281)	(11,944,883)	-	-	73,991,459	70,989,178
Unrealized loss on AFS	-	-	13,924	(7,567)	(1,631)	12,293
	<u>1,040,051</u>	<u>(18,454,807)</u>	<u>(35,203)</u>	<u>(1,936)</u>	<u>77,225,566</u>	<u>78,230,414</u>
Deferred tax effect on statement of profit or loss and other comprehensive income	<u>33,661,814</u>	<u>1,698,386</u>	<u>4,793,133</u>	<u>(3,748,445)</u>		
Net deferred tax liability as at 31 March					<u>59,532,935</u>	<u>21,077,988</u>

<i>As at 31 March,</i>		2017 Rs.	2016 Rs.
29	CURRENT TAX LIABILITIES / (ASSETS)		
	As at 01 April	(13,274,928)	34,410,605
	Provision for the year	22,955,105	6,979,418
	Tax credits	(9,610,757)	(244,346)
	Payments made during year	-	(54,420,605)
	As at 31 March	<u>69,420</u>	<u>(13,274,928)</u>
30	OTHER LIABILITIES		
	Trade payables	49,156,053	108,590,793
	Accrued expenses	31,684,735	24,084,749
	Direct deposits from customers	1,640,150	5,491,403
	Value added tax payable	2,101,018	2,138,472
	Stamp duty payable	2,367,457	3,975,588
	Total	<u>86,949,413</u>	<u>144,281,006</u>

<i>As at 31 March,</i>		2017		2016	
		Number of shares	Value of shares Rs.	Number of shares	Value of shares Rs.
31	STATED CAPITAL				
	Fully paid ordinary shares				
	As at 01 April	30,728,252	580,000,001	21,600,000	380,000,000
	Issue of ordinary shares	-	-	9,128,252	200,000,001
	As at 31 March	<u>30,728,252</u>	<u>580,000,001</u>	<u>30,728,252</u>	<u>580,000,001</u>
31.1	Shareholders as at 31 March				
			2017 Holding %	2017 No of shares	2016 No of shares
	Commercial Bank of Ceylon PLC		100	30,728,252	30,728,252
	Total		<u>100</u>	<u>30,728,252</u>	<u>30,728,252</u>

<i>As at 31 March,</i>		2017 Rs.	2016 Rs.
32	RETAINED EARNINGS		
	As at 01 April	(11,981,191)	71,761,906
	Profit / (Loss) for the year	127,446,864	(83,757,575)
	Actuarial gains / (losses) on defined benefits plans, after tax	(126,328)	14,478
	Transferred to statutory reserve fund (Note 33.1)	(6,372,343)	-
	Transferred from revaluation reserve (Note 33.2)	5,627,594	-
	As at 31 March	<u>114,594,596</u>	<u>(11,981,191)</u>

Retained earnings 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.

33	OTHER RESERVES		
	Capital reserve	50,000	50,000
	Statutory reserve fund (Note 33.1)	22,028,859	15,656,516
	Revaluation reserve (Note 33.2)	75,091,239	67,821,778
	Available for sale asset reserve	4,193	(31,612)
	General reserve (Note 33.3)	20,097,889	20,097,889
	Total	<u>117,272,180</u>	<u>103,594,571</u>

As at 31 March,

33. OTHER RESERVES (Cont.)

33.1 Statutory reserve fund

	2017 Rs.	2016 Rs.
As at 01 April	15,656,516	15,656,516
Transferred from retained earnings	6,372,343	-
As at 31 March	<u>22,028,859</u>	<u>15,656,516</u>

The statutory reserve fund is maintained as per the requirements under the direction No. 05 of 2006 of Finance Leasing Act No. 56 of 2000. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred elsewhere until balance in the reserve fund is equal to 50% of the Company's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount in the reserve fund is equal to stated capital of the Company.

Statutory reserve fund is a capital reserve which contains profits transferred as required by Department of Supervision of Non Bank Financial Institutions of Central Bank of Sri Lanka, under the direction No. 05 of 2006 of Finance Leasing Act No. 56 of 2000.

33.2 Revaluation reserve

As at 01 April	67,821,778	67,821,778
Revaluation surplus of property plant and equipment	17,725,391	-
Revaluation surplus transferred to retained earnings on disposal	(5,627,594)	-
Deferred tax (charge) / reversal on revaluation surplus	(4,828,336)	-
As at 31 March	<u>75,091,239</u>	<u>67,821,778</u>

33.3 General reserve

The purpose of the transfer to General Reserve is to increase Tier 1 Core Capital as per sec 2 (ii) of Finance Companies (Minimum Core Capital) Direction 01 of 2011 in order to fulfil requirements to obtain the License to carry out Finance Business from the Monetary Board of Central Bank of Sri Lanka.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation models

The determination of fair value for financial assets and financial liabilities for which there is no observable market price, requires the use of valuation techniques as described in Notes to the Financial Statements. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation Framework

The Company has an established control framework with respect to the measurement of fair values of investments. The Asset and Liability Committee (ALCO) has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements carried out by the treasury division, which include :

- * Verification of observable pricing;
- * Re-performance of model valuations;
- * Quarterly calibration and back-testing of models against observed market transactions;
- * Analysis and investigation of significant daily valuation movements; and
- * Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 as explained below

When third party information, such as broker quotes or pricing services, is used to measure fair value, documents of evidence obtained from third parties to support the conclusion that such valuations meet the requirements of SLFRS/LKAS.

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34 FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont.)

34.1 Fair value of financial instruments measured at fair value and fair value hierarchy

The following table provides an analysis of financial instruments measured at fair value as at the Reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. These amounts were based on the values recognized in the Statement of Financial Position.

As at 31 March 2017	Carrying amount Rs.	Fair value		
		Level 1	Level 2	Level 3
		Rs.	Rs.	Rs.
Financial assets measured at fair value				
Financial investments - Available-for-sale (*)	71,888,216	71,764,516	-	123,700
	71,888,216	71,764,516	-	123,700
As at 31 March 2016				
	Carrying amount Rs.	Fair value		
		Level 1	Level 2	Level 3
		Rs.	Rs.	Rs.
Financial assets measured at fair value				
Financial investments - Available-for-sale (*)	17,886,559	17,762,859	-	123,700
	17,886,559	17,762,859	-	123,700

(*) Value of unquoted shares Rs. 123,700 as at end of 31 March 2017 categorized under financial investments available for sale in the statement of financial position, whose fair value cannot be reliably measured due to non availability of market data, is stated at cost in the Statement of Financial Position as permitted by the Sri Lanka Accounting Standards - LKAS 39 on "Financial Instruments: Recognition and Measurement".

34.2 Fair value of financial instruments not measured at fair value.

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 in the financial statements. This table does not include the fair value information of financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

As at 31 March,	2017		2016	
	Carrying Value Rs.	Fair Value Rs.	Carrying Value Rs.	Fair Value Rs.
Financial assets not measured at fair value				
Cash and cash equivalents	19,291,649	19,291,649	4,563,249	4,563,249
Securities purchased under resale agreements	82,128,414	82,128,414	78,680,438	78,680,438
Loans and receivables	5,431,042,357	5,542,343,670	2,989,212,839	2,046,237,369
	<u>5,532,462,420</u>	<u>5,643,763,733</u>	<u>3,072,456,526</u>	<u>2,129,481,056</u>
Financial liabilities not measured at fair value				
Due to banks	4,863,279,581	4,863,279,581	2,464,655,697	2,464,655,697
Debentures	-	-	15,000,000	15,000,000
Other liabilities	49,156,053	49,156,053	108,590,793	108,590,793
	<u>4,912,435,634</u>	<u>4,912,435,634</u>	<u>2,588,246,490</u>	<u>2,588,246,490</u>

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost (Eg. fixed rate loans and receivables) are estimated based on the Discounted Cash Flow approach.

Assets for which Fair Value Approximates Carrying Value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

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35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and shareholders' funds employed by the Company is detailed below:

	2017			2016		
	Within 12 Months Rs.	After 12 Months Rs.	Total as at 31/03/2017 Rs.	Within 12 Months Rs.	After 12 Months Rs.	Total as at 31/03/2016 Rs.
Assets						
Cash and cash equivalents	19,291,649	-	19,291,649	4,563,249	-	4,563,249
Financial investments - Available-for-sale	71,764,516	123,700	71,888,216	17,762,859	123,700	17,886,559
Securities purchased under resale agreement	82,128,414	-	82,128,414	78,680,438	-	78,680,438
Loans and receivables	2,702,395,838	2,728,646,519	5,431,042,357	1,233,929,776	1,755,283,063	2,989,212,839
Property, plant and equipment	-	203,662,512	203,662,512	-	199,040,037	199,040,037
Intangible assets	-	8,539,738	8,539,738	-	7,987,045	7,987,045
Income Tax Assets	-	-	-	13,274,928	-	13,274,928
Other assets	5,139,439	4,482,056	9,621,495	5,706,451	3,988,990	9,695,441
Total assets	2,880,719,856	2,945,454,525	5,826,174,381	1,353,917,701	1,966,422,835	3,320,340,536
Percentage	49%	51%	100%	41%	59%	100%
Liabilities						
Due to banks	1,823,544,456	3,039,735,125	4,863,279,581	1,301,711,421	1,162,944,276	2,464,655,697
Debentures	-	-	-	15,000,000	-	15,000,000
Retirement benefit obligations	-	4,476,255	4,476,255	-	3,712,464	3,712,464
Income Tax Liabilities	-	69,420	69,420	-	-	-
Deferred tax liabilities	-	59,532,935	59,532,935	-	21,077,988	21,077,988
Other liabilities	86,761,338	188,075	86,949,413	144,281,006	-	144,281,006
Total liabilities	1,910,305,794	3,104,001,810	5,014,307,604	1,460,992,427	1,187,734,728	2,648,727,155
Equity						
Stated capital	-	580,000,001	580,000,001	-	580,000,001	580,000,001
Retained earnings	-	114,594,596	114,594,596	-	(11,981,191)	(11,981,191)
Other reserves	-	117,272,180	117,272,180	-	103,594,571	103,594,571
Total equity	-	811,866,777	811,866,777	-	671,613,381	671,613,381
Total equity and liabilities	1,910,305,794	3,915,868,587	5,826,174,381	1,460,992,427	1,859,348,109	3,320,340,536
Percentage	33%	67%	100%	44%	56%	100%

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36 RELATED PARTY TRANSACTIONS

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard -LKAS 24 - "Related party disclosures", the details of which are reported below.

36.1 Parent and ultimate controlling party

On 1 September 2014, Commercial Bank of Ceylon PLC fully acquired the Serendib Finance Limited (formerly known as Indra Finance Limited) and accordingly the ownership of the Company was transferred to the Commercial Bank of Ceylon PLC. Therefore in the opinion of Directors, Commercial Bank of Ceylon PLC became the parent and ultimate controlling party of the Serendib Finance Limited from 1 September 2014 to as of date. (Refer Note 31.1)

36.2 Transactions with Key Management Personnel (KMP)

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly, the KMP include members of the Board of Directors of the Company (including Executive and Non - Executive Directors) and selected key employees who meet the criteria for KMP.

As Commercial Bank of Ceylon PLC is the ultimate parent of the Company and the Board of Directors of Commercial Bank of Ceylon PLC has the authority and responsibility of planning, directing and controlling the activities of the Company, the Directors of Commercial Bank of Ceylon PLC have also been identified as KMP of the Company.

36.2.1 Compensation of Key Management Personnel	2017 Rs.	2016 Rs.
Short term employee benefits	5,161,667	7,257,500
Post employment benefits	Nil	Nil

36.2.2 Transactions with KMP

	2017 Rs.	2016 Rs.
Interest paid on debentures	884,378	2,122,500
Dividend paid/ recovery	Nil	Nil

Transactions, Arrangements and Agreements Involving Close Family Members (CFMs) of KMP

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KPM in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP domestic partner and dependents of the KMP or the KMP domestic partner.

There were no transactions with the CFMs of KMP during the year.

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36 RELATED PARTY TRANSACTIONS (Contd.)

36.3 Transactions with the Parent and Related Entities

Name of the Company	Relationship	Names of the common Directors/ KMPs	Nature of transactions	Value of transactions		Balance as at 31 March	
				2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Commercial Bank of Ceylon PLC	Parent (from 01 Sep 2014)	K.G.D.D. Dheerasinghe	Loan/Bank overdraft balance as at end of the year	-	-	1,137,751,321	590,722,159
			Bank overdraft obtained during the year	-	500,000,000	-	-
		N. Sooriyarachchi	Loan interest charged	(72,969,057)	(52,326,889)	-	-
			Loan repayment made during the year	539,218,215	(200,400,000)	-	-
			Deposits/Advances held at the end of the year	-	-	82,417,785	79,013,384
			Interest on Deposits/Advances	8,611,558	1,147,005	-	-
			Bank Charges	(584,069)	(189,240)	-	-
			Building Rent	918,360	688,770	-	-

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37 RISK MANAGEMENT

INTRODUCTION

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring. 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 has exposure to the following risks arising from financial instruments.

- 1 CREDIT RISK
- 2 LIQUIDITY RISK
- 3 MARKET RISK
- 4 OPERATIONAL RISK

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Integrated Risk Management Committee (IRMC) which is responsible for developing and monitoring Company's risk management policies. The Committee is headed by a non-executive director and comprises non-executive directors. Meetings of IRMC are held regularly, and the Board of Directors is duly updated of its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor adherence to established limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

Senior Management involvement in Risk Management

The Business units (i.e. Credit Departments, Collection & Recovery Departments, Branches/Centers and Finance & Treasury etc.) have primary responsibility for Risk Management. The Senior management team comprising CEO/ General Manager, Deputy General Manager and Assistant General Manager, provides an independent oversight function, acting as the 2nd line of defence.

Risk Measurement & Reporting

The Company's Risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Company also carries out procedures to identify the effect of extreme events/worst case scenarios in most of the major types of risks and the results are reported to IRMC on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept. The Senior Management team meets every week and deliberate on matters of interest in risk management arising from operations. The monthly risk management meeting is held to shortlist matters to be forwarded to IRMC.

Credit Committee

Credit Committee is chaired by the CEO/General Manager and comprises representatives from Credit Department and Finance Department. The Committee meets regularly to monitor and manage the Company's lending portfolio, asset quality and recovery actions. Committee also periodically reviews Company's credit policy and lending rates to different business segments, in light of prevailing market conditions and industry dynamics.

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37 RISK MANAGEMENT (Contd.)

37.1 CREDIT RISK

Credit risk is the risk of financial loss to the Company if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers/other Companies and investments in debt securities.

Credit risk constitutes the Company's largest risk exposure category. This can be broadly categorized into two types; default and concentration risk.

Default risk is the risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the company's loans and advances to customers.

Concentration risk is the credit exposure being concentrated as a result of excessive build up of exposure to a single counterparty, industry, product, geographical location or insufficient diversification.

37.1.1 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

As at 31 March 2017	Neither past due nor individually impaired Rs.	Past due but not individually impaired Rs.	Individually impaired Rs.	Total Rs.
Assets				
Cash and cash equivalents	19,291,649	-	-	19,291,649
Financial investments - Available-for-sale	71,888,216	-	-	71,888,216
Securities purchased under resale agreements	82,128,414	-	-	82,128,414
Loans and receivables	3,086,719,766	2,344,322,591	-	5,431,042,357
Total financial assets	3,260,028,045	2,344,322,591	-	5,604,350,636

As at 31 March 2016	Neither past due nor individually impaired Rs.	Past due but not individually impaired Rs.	Individually impaired Rs.	Total Rs.
Assets				
Cash and cash equivalents	4,563,249	-	-	4,563,249
Financial investments - Available-for-sale	17,886,559	-	-	17,886,559
Securities purchased under resale agreements	78,680,438	-	-	78,680,438
Loans and receivables	2,256,133,391	1,156,633,343	-	3,412,766,734
Total financial assets	2,357,263,637	1,156,633,343	-	3,513,896,980

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37 RISK MANAGEMENT (Contd.)

37.1 CREDIT RISK (Contd.)

37.1.2 ANALYSIS OF RISK CONCENTRATION

37.1.2.1 INDUSTRY ANALYSIS

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

Sector wise breakdown	Cash and bank balances	Financial investments - Available for sale	Lease rentals receivable and stock out on hire **	Securities purchased under resale agreements	Total financial assets
31 March 2017	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	-	-	196,511,665	-	196,511,665
Manufacturing	-	-	47,695,343	-	47,695,343
Construction	-	-	77,839,415	-	77,839,415
Financial services	19,291,649	-	129,177,063	-	148,468,712
Trading	-	-	1,749,797,161	-	1,749,797,161
Transport	-	-	86,437,353	-	86,437,353
Government	-	71,888,216	-	82,128,414	154,016,630
Other	-	-	3,583,346,832	-	3,583,346,832
Total	19,291,649	71,888,216	5,870,804,832	82,128,414	6,044,113,111
31 March 2016					
Agriculture	-	-	176,329,824	-	176,329,824
Manufacturing	-	-	19,242,877	-	19,242,877
Construction	-	-	51,418,837	-	51,418,837
Financial services	4,563,249	-	63,798,451	-	68,361,700
Trading	-	-	722,036,036	-	722,036,036
Transport	-	-	89,514,183	-	89,514,183
Government	-	17,886,559	-	78,680,438	96,566,997
Other	-	-	2,290,426,526	-	2,290,426,526
Total	4,563,249	17,886,559	3,412,766,734	78,680,438	3,513,896,980

**Provincial breakdown for (01) loans and receivable (02) lease rentals receivable and stock out on hire from customers within Sri Lanka is as follows.

Province	Lease rentals receivable & stock out on hire	
	2017 Rs.	2016 Rs.
Central	2,325,347,435	1,348,889,958
Eastern	-	-
North Central	410,982,826	196,324,586
North Western	433,745,865	297,043,752
Northern	-	-
Sabaragamuwa	607,139,822	308,712,501
Southern	330,220,087	200,091,054
Uva	165,471,646	150,165,483
Western	1,597,897,151	911,539,400
Total	5,870,804,832	3,412,766,734

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37 RISK MANAGEMENT (Contd.)

37.2 LIQUIDITY RISK

Liquidity risk refers to the possibility of Company not having sufficient cash to meet its payment obligations. This arises primarily due to mismatches in the maturity profile of Company's assets and liabilities. Adequate liquidity is critical to meet the Company's financial commitment and to accommodate additional funding needs of the growing business volumes.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the asset and liability management committee (ALCO) analyses and monitors liquidity risk and maintains an adequate margin of safety in liquid assets.

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control daily liquidity risk.

37.2.1 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities.

As at 31 March 2017	On demand	Less than 03 months	03-12 Months	01-05 Years	Over 05 years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and cash equivalents	19,291,649	-	-	-	-	19,291,649
Financial investments - available-for-sale	-	-	71,764,516	-	123,700	71,888,216
Securities purchased under resale agreements	-	-	82,128,414	-	-	82,128,414
Loans and receivables	-	779,849,471	1,922,546,367	2,712,075,030	16,571,489	5,431,042,357
Total financial assets	19,291,649	779,849,471	2,076,439,297	2,712,075,030	16,695,189	5,604,350,636
Financial Liabilities						
Due to banks	-	854,286,034	969,258,422	3,039,735,125	-	4,863,279,581
Debentures	-	-	-	-	-	-
Other liabilities	2,847,810	38,479,597	7,828,647	-	-	49,156,054
Total financial liabilities	2,847,810	892,765,631	977,087,069	3,039,735,125	-	4,912,435,635
Total net financial assets/(liabilities)	16,443,839	(112,916,160)	1,099,352,228	(327,660,095)	16,695,189	691,915,001
As at 31 March 2016	On demand	Less than 03 months	03-12 Months	01-05 Years	Over 05 years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and cash equivalents	4,563,249	-	-	-	-	4,563,249
Financial investments - available for sale	-	-	17,762,859	-	123,700	17,886,559
Securities purchased under resale agreements	-	-	78,680,438	-	-	78,680,438
Loans and receivables	-	379,784,487	854,145,289	1,671,885,759	83,397,304	2,989,212,839
Total financial assets	4,563,249	379,784,487	950,588,586	1,671,885,759	83,521,004	3,090,343,085
Financial Liabilities						
Due to banks	-	453,742,630	847,968,791	1,162,944,276	-	2,464,655,697
Debentures	-	-	15,000,000	-	-	15,000,000
Other liabilities	6,916,953	69,395,035	32,278,805	-	-	108,590,793
Total financial liabilities	6,916,953	523,137,665	895,247,596	1,162,944,276	-	2,588,246,490
Total net financial assets/(liabilities)	(2,353,704)	(143,353,178)	55,340,990	508,941,483	83,521,004	502,096,595

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37 RISK MANAGEMENT (Contd.)

37.3 MARKET RISK

Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, and equity prices. Among them, interest rate risk has been identified as the most critical risk given Company's business profile.

37.3.1 INTEREST RATE RISK

Interest rate risk is a key constituent of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate and arises from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities, and basis risk which is the threat to income arising from differences in the bases of interest rates.

Excessive movements in market interest rates could result in severe volatility to Company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;

- Repricing risk arising from a fixed rate borrowing portfolio where repricing frequency is different to that of the lending portfolio.
- Yield curve risk arising from unanticipated shifts of the market yield curve.

37.3.1.1 INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS AND LIABILITIES

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

As at 31 March 2017	Up to 03 months Rs	03-12 Months Rs	01-03 Years Rs	03-05 Years Rs	Over 05 years Rs	Non interest bearing Rs	Total as at 31 March 2017 Rs
Financial Assets							
Cash and cash equivalents	19,291,649	-	-	-	-	-	19,291,649
Financial investments - available-for-sale	-	71,764,516	-	-	-	123,700	71,888,216
Securities purchased under resale agreements	-	82,128,414	-	-	-	-	82,128,414
Loans and receivables	779,849,471	1,922,546,367	1,759,598,358	952,476,672	16,571,489	-	5,431,042,357
Total financial assets	799,141,120	2,076,439,297	1,759,598,358	952,476,672	16,571,489	123,700	5,604,350,636
Percentage	14%	37%	31%	17%	0%	0%	100%
Financial liabilities							
Due to banks	854,286,034	969,258,422	1,494,364,323	1,545,370,802	-	-	4,863,279,581
Other liabilities	41,327,407	7,828,647	-	-	-	-	49,156,054
Total financial liabilities	895,613,441	977,087,069	1,494,364,323	1,545,370,802	-	-	4,912,435,635
Percentage	18%	20%	30%	31%	0%	0%	100%
INTEREST SENSITIVITY GAP	(96,472,321)	1,099,352,228	265,234,035	(592,894,130)	16,571,489	123,700	691,915,001
Percentage	-14%	159%	38%	-86%	2%	0%	100%

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37 RISK MANAGEMENT (Contd.)

37.3 MARKET RISK (Cont.)

37.3.1.1 INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS AND LIABILITIES (Cont.)

As at 31 March 2016	Up to 03 months Rs	03-12 Months Rs	01-03 Years Rs	03-05 Years Rs	Over 05 years Rs	Non interest bearing Rs	Total as at 31/03/2016 Rs
Assets							
Cash and cash equivalents	4,563,249	-	-	-	-	-	4,563,249
Financial investments - available-for-sale	-	17,762,859	-	-	-	123,700	17,886,559
Securities purchased under resale agreements	-	78,680,438	-	-	-	-	78,680,438
Loans and receivables	379,784,487	854,145,289	1,282,119,861	389,765,898	83,397,304	-	2,989,212,839
Total financial assets	384,347,736	950,588,586	1,282,119,861	389,765,898	83,397,304	123,700	3,090,343,085
Percentage	12%	31%	41%	13%	3%	0%	100%
Financial liabilities							
Due to banks	453,742,630	847,968,791	527,149,975	635,794,301	-	-	2,464,655,697
Debentures	-	15,000,000	-	-	-	-	15,000,000
Other liabilities	76,311,989	32,278,805	-	-	-	-	108,590,794
Total financial liabilities	530,054,619	895,247,596	527,149,975	635,794,301	-	-	2,588,246,491
Percentage	20%	35%	20%	25%	0%	0%	100%
INTEREST SENSITIVITY GAP	(145,706,883)	55,340,990	754,969,886	(246,028,403)	83,397,304	123,700	502,096,594
Percentage	-29%	11%	150%	-49%	17%	0%	100%

37.3.1.2 INTEREST RATE EXPOSURE – SENSITIVITY ANALYSIS

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and financial liabilities to various interest rate scenarios.

The following table demonstrates the sensitivity of the Company's Income Statement as at Reporting date to a reasonable possible change in interest rates, with all other variables held constant.

Net Interest Income	2017		2016	
	Increase in 100 bp Rs.	Decrease in 100 bp Rs.	Increase in 100 bp Rs.	Decrease in 100 bp Rs.
As at March 31,	4,358,058	(4,358,058)	2,136,073	(2,136,500)
Average for the period	5,040,509	(5,040,509)	2,648,380	(2,648,909)
Maximum for the period	5,984,118	(5,984,118)	2,696,984	(2,697,524)
Minimum for the period	4,291,246	(4,291,246)	1,766,692	(1,767,046)

37.4 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk events which include legal and regulatory implications could lead to financial and reputation losses to the Company.

The Operational Risk Management Framework of the Company has been defined under the Board approved Operational Risk Management Policy. Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Company, and a detailed testing and verification of the Company's overall operational systems, and achieving a full harmony between internal and external systems and establishing a fully independent back-up facility for Business Continuity Planning.

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38 CAPITAL ADEQUACY AND MANAGEMENT

Capital adequacy measures the Company's aggregate capital in relation to the risk, which may arise from its assets and off balance sheet transactions, its dealing operations and its human activities, technology and natural incidents. The Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital effective from January 2006. This guidelines required Company to maintain minimum core capital ratio of 5% and minimum total risk weighted capital of 10%.

Capital and risk weighted assets	Minimum Requirement		2017	2016
As at 31 March				
Capital to risk weighted assets ratio				
Tier I			13.22%	18.75%
Deduction - Tier I			0.00%	0.00%
Core capital	5%		13.22%	18.75%
Tier II			13.22%	18.75%
Deduction - Tier II			-	-
Total capital base	10%		13.22%	18.75%

38.1 Capital Management

The primary objective of Company's capital management policy is 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' value.

39 SEGMENTAL INFORMATION

	Leasing		Hire Purchases		Loans and Advances		Others		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Revenue										
Interest	398,240,075	288,434,125	26,885,714	58,330,640	308,929,479	39,120,356	14,455,905	2,687,654	748,511,173	388,572,775
Fees & Commissions	46,319,140	36,376,085	5,062,618	8,091,640	23,632,779	2,806,766	-	7,651,161	75,014,537	54,925,652
Dividends	-	-	-	-	-	-	58,500	54,000	58,500	54,000
Other income	-	-	-	-	-	-	2,210,277	3,527,307	2,210,277	3,527,307
Total revenue	444,559,215	324,810,210	31,948,332	66,422,280	332,562,258	41,927,122	16,724,682	13,920,122	825,794,487	447,079,734
Profit before tax									184,063,783	(75,079,771)
Taxation									(56,616,919)	(8,677,804)
Profit after tax									127,446,864	(83,757,575)
Segment assets	3,136,469,848	2,412,277,777	225,402,998	493,300,349	2,346,304,968	311,381,421	117,996,566	103,380,990	5,826,174,381	3,320,340,536
Segment liabilities	2,699,408,494	1,924,340,466	193,993,502	393,519,284	2,019,351,649	248,397,541	101,553,960	82,469,865	5,014,307,604	2,648,727,155

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40 COMMITMENTS AND CONTINGENCIES

The Company has recorded 289 contracts that were repossessed and undergoing litigation as settled contracts, indicating a wrong status, in the CRIB database due to a technical limitation.

The Company has taken many steps towards rectifying these incorrect information by duly communicating with CRIB on 15th December 2015. The Board of the Bureau has requested the Company on 3rd November 2016 to furnish a letter of undertaking absolving CRIB from and against all actions, suits, proceedings, claims and demands arising from using the inaccurate data provided by the Company pertaining to the said borrowers.

Based on the internal assessment and advice obtained from the lawyers, the Company is of the view that, such indemnity is not necessary as there is a statutory indemnity afforded to CRIB under section 24 of the CRIB Act to cover any fallout from this situation. The Company is currently discussing the matter with the CRIB. Accordingly, no provision has been made in the financial statements.

There were no other commitments and contingent liabilities as at the reporting date, which require adjustments to or disclosures in the Financial Statements.

41 LITIGATION AND CLAIMS

There have been no material events litigations and claims that require adjustments or disclosures in the financial statements.

42 EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the financial statements.

43 RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and presentation of the Financial Statements in accordance with Sri Lanka Accounting Standards.