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**HNB GRAMEEN FINANCE LIMITED**
**(FORMERLY KNOWN AS PRIME GRAMEEN MICRO FINANCE LIMITED)**

**FINANCIAL STATEMENTS**

**31 MARCH 2017**

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# Independent Auditor's Report

**EY**
**Building a better working world**

Ernst & Young
Chartered Accountants
201 De Saram Place
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Sri Lanka

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## TO THE SHAREHOLDERS OF HNB GRAMEEN FINANCE LIMITED

### Report on the Financial Statements

We have audited the accompanying financial statements of HNB Grameen Finance Limited, (the "Company"), which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Board's Responsibility for the Financial Statements

The Board of Directors (the "Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal 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 auditors consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 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:

a) The basis of opinion and scope and limitations of the audit are as stated above.

b) In our opinion:

- We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and

- The financial statements of the Company, comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

Ernst & Young

07th September 2017
Colombo

# Statement of Comprehensive Income

| | Note | 2017 LKR | 2016 LKR |
|---|---|---|---|
| Gross Income | 4 | 6,234,033,583 | 4,485,107,633 |
| Interest income | | 5,327,018,057 | 3,906,231,603 |
| Interest expenses | | (1,465,618,208) | (995,689,242) |
| Net Interest Income | 5 | 3,861,399,849 | 2,910,542,361 |
| Fee and commission income | | 670,219,063 | 485,813,442 |
| Fee and commission expenses | | (98,395,049) | (75,520,940) |
| Net Fee and Commission Income | 6 | 571,824,014 | 410,292,502 |
| Net Interest, Fee and Commission Income | | 4,433,223,863 | 3,320,834,863 |
| Other operating income | | 236,796,463 | 93,062,588 |
| Capital loss from trading | | - | (26,578,802) |
| Net mark to market valuation gain | | 81,840 | - |
| Total Operating Income | 7 | 4,670,102,166 | 3,387,318,649 |
| Impairment charges for loans and other losses | 8 | (707,508,300) | (110,452,151) |
| Net Operating Income | | 3,962,593,866 | 3,276,866,498 |
| Personnel expenses | 9 | (943,611,008) | (712,015,514) |
| Other expenses | 10 | (1,011,929,349) | (743,321,460) |
| Total Operating Expenses | | (1,955,540,357) | (1,455,336,974) |
| Operating Profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services | | 2,007,053,509 | 1,821,529,524 |
| Value added tax (VAT) on financial services | 11 | (331,394,045) | (234,120,096) |
| Nation building tax (NBT) on financial services | 12 | (49,278,589) | (42,567,290) |
| Operating Profit after Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services | | 1,626,380,875 | 1,544,842,138 |
| Income tax expenses | 13 | (567,546,689) | (434,748,933) |
| Profit for the Year | | 1,058,834,186 | 1,110,093,205 |
| Basic earnings per share | 14 | 0.62 | 0.65 |

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

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# Statement of Other Comprehensive Income

*Year ended 31 March*

| | Note | 2017<br>LKR | 2016<br>LKR |
|---|---|---|---|
| Profit for the Year | | 1,058,834,186 | 1,110,093,205 |
| Other Comprehensive Income for the Year, Net of Tax | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods | | | |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods | | | |
| Actuarial gain/(losses) on defined benefit plans | 32 | 8,793,209 | 12,921,679 |
| Deferred tax effect on actuarial gains/(losses) on defined benefit plans | 26 | (2,462,099) | (3,618,070) |
| Revaluation reserve of freehold Land & buildings | 25 | 166,240,013 | - |
| Deferred tax effect on revaluation of buildings | 26 | (44,069,830) | - |
| Other Comprehensive Income for the Year, Net of Tax | | 128,501,293 | 9,303,609 |
| Total Comprehensive Income for the Year | | 1,187,335,479 | 1,119,396,814 |

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

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# Statement of Financial Position

*As at 31 March*

| | Note | 2017 LKR | 2016 LKR |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 15 | 1,204,483,946 | 451,223,290 |
| Financial assets held for trading | 16 | 15,024,960 | 14,943,120 |
| Loans and advances to members | 17 | 13,260,731,825 | 8,759,039,215 |
| Loans and advances to others | 18 | 503,034,338 | 379,450,581 |
| Financial investments - loans & receivables | 19 | 307,112,770 | - |
| Financial investments - available-for-sale | 20 | 12,430,283 | 12,430,283 |
| Financial investments - held-to-maturity | 21 | 1,743,275,943 | 2,639,328,475 |
| Other assets | 22 | 210,611,575 | 196,666,654 |
| Investment properties | 23 | 1,049,600,000 | 904,500,000 |
| Intangible assets | 24 | 127,078,155 | 67,807,042 |
| Property, plant & equipment | 25 | 1,119,409,029 | 950,441,553 |
| Total Assets | | 19,552,792,824 | 14,375,830,213 |
| **LIABILITIES** | | | |
| Due to customers | 27 | 14,040,245,231 | 10,420,418,906 |
| Debt issued and other borrowed funds | 28 | 1,333,380,268 | 909,572,460 |
| Income tax payable | 29 | 353,447,803 | 278,240,026 |
| Value added tax payable | 30 | (6,263,276) | 41,305,715 |
| Other liabilities | 31 | 268,153,945 | 150,860,944 |
| Retiring benefit obligation | 32 | 157,508,878 | 134,383,355 |
| Deferred tax liability | 26 | 16,115,738 | 49,026,181 |
| Total Liabilities | | 16,162,588,587 | 11,983,807,587 |
| **SHAREHOLDERS' FUND** | | | |
| Stated capital | 33 | 223,545,481 | 223,545,481 |
| General reserve | 34 | 82,897,989 | 82,897,989 |
| Statutory reserve fund | 35 | 638,519,637 | 426,752,800 |
| Revaluation reserve | | 384,484,029 | 262,313,846 |
| Retained earnings | | 2,060,757,101 | 1,396,512,510 |
| Total Equity and Liabilities | | 19,552,792,824 | 14,375,830,213 |

The accounting policies and notes on pages 120 to 169 form an integral part of the financial statements.

I certify these financial statements are in compliance with the requirements of the companies act No. 07 of 2007.

**W.S.P. Arangala**
Chief Operating Officer

The board of directors are responsible for the preparation and presentation of these financial statements.
signed for and on behalf of the board by;

**A.J. Alles**
Chairman

**B.M.D.C. Prabhath**
Managing Director/CEO

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07th September 2017
Colombo

# Statement of Changes in Equity

*Year ended 31 March*

| | Stated Capital | General Reserves | Statutory Reserve | Investment Fund | Revaluation Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| | LKR | LKR | LKR | LKR | LKR | LKR | LKR |
| Balance as at 01 April 2015 | 3,895,806,240 | 82,897,989 | 204,734,159 | - | 262,313,846 | (3,173,126,422) | 1,272,625,812 |
| Profit for the year | - | - | - | - | - | 1,110,093,205 | 1,110,093,205 |
| Total comprehensive income for the year, net of tax | | | | | | | |
| Actuarial gain on defined benefit plans | | | | | | 12,921,679 | 12,921,679 |
| Deferred tax effect on actuarial gain on defined benefit plans | - | - | - | - | - | (3,618,070) | (3,618,070) |
| Total comprehensive income for the year | - | - | - | - | - | 1,119,396,814 | 1,119,396,814 |
| Transactions recorded directly in equity | | | | | | | |
| Transfer to statutory reserve fund | - | - | 222,018,641 | - | - | (222,018,641) | - |
| Capital reduction | (3,672,260,759) | | | | | 3,672,260,759 | |
| Balance as at 31 March 2016 | 223,545,481 | 82,897,989 | 426,752,800 | - | 262,313,846 | 1,396,512,510 | 2,392,022,626 |
| Profit for the year | - | - | - | - | - | 1,058,834,186 | 1,058,834,186 |
| Total comprehensive income for the year, net of tax | | | | | | | |
| Actuarial gain on defined benefit plans | - | - | - | - | - | 8,793,209 | 8,793,209 |
| Deferred tax effect on actuarial gain on defined benefit plans | - | - | - | - | - | (2,462,099) | (2,462,099) |
| Revaluation reserve of freehold Land & buildings | - | - | - | - | 166,240,013 | - | 166,240,013 |
| Deferred tax effect on revaluation of buildings | | | | | (44,069,830) | - | (44,069,830) |
| | - | - | - | - | 122,170,183 | 1,065,165,296 | 1,187,335,479 |
| Transactions recorded directly in equity | | | | | | | |
| Transferred to statutory reserve fund | - | - | 211,766,837 | - | - | (211,766,837) | - |
| Dividend paid | - | - | - | - | - | (189,153,868) | (189,153,868) |
| Balance as at 31 March 2017 | 223,545,481 | 82,897,989 | 638,519,637 | - | 384,484,029 | 2,060,757,101 | 3,390,204,237 |

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

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# Statement of Cash Flows

*Year ended 31 March*

| | Note | 2017 LKR | 2016 LKR |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 1,626,380,875 | 1,544,842,138 |
| Adjustments | | | |
| Interest expenses on borrowings | 5.2 | 24,503,761 | 8,511,811 |
| Interest expenses on debentures | 5.2 | 89,328,560 | 69,904,419 |
| Interest income from financial investments held to maturity | 5.1 | (143,357,077) | (124,404,108) |
| Interest income on treasury bond | 5.1 | (1,600,000) | (12,372,066) |
| Dividend income | 7.1 | (65,000) | (60,000) |
| Profit/(loss) on disposal of property, plant & equipment | 7.1 | 754,272 | (296,872) |
| Fair value gain on investment property | 7.1 | (149,300,000) | (14,000,000) |
| Impairment charge/(reversal) for loans and other assets | 8 | 712,008,300 | 110,452,151 |
| Provision for value added tax | 30 | 331,394,045 | 234,120,096 |
| Crop insurance levy | 10 | 11,601,542 | 11,349,144 |
| Provision for nation building tax | 12 | 49,278,589 | 42,567,290 |
| Ammortisation on intangible assests | 24 | 23,738,355 | 8,180,662 |
| Depreciation - on property, plant & equipment | 25 | 110,572,370 | 78,173,019 |
| Gratuity provision | 9 | 35,619,133 | 31,690,645 |
| (Gain)/loss on mark to market valuation of treasury bond | 7 | (81,840) | 1,787,152 |
| Disposal (gain)/loss from treasury bond | 7 | - | 26,578,802 |
| Provision for amount payable under sip saviya scheme | 31.1 | 1,200,000 | 1,100,000 |
| Staff loan fair value adjustment | 18.1 | (4,500,000) | 4,500,000 |
| Operating profit/(loss) before changes in operating assets and liabilities | | 2,717,475,885 | 2,022,624,283 |
| (Increase)/decrease in operating assets | | | |
| Loans & advances to members | 17 | (4,688,005,502) | (3,259,289,662) |
| Loans & advances to others | 18 | (119,076,674) | (195,023,753) |
| Other assets | 22 | (13,944,921) | (40,532,630) |
| Increase/(decrease) in operating liabilities | | | |
| Due to customers | 27 | 3,558,442,443 | 2,752,125,940 |
| Other liabilities | 31 | 117,293,001 | 54,065,373 |
| Cash flow from operating activities | | 1,572,184,232 | 1,333,969,551 |
| Gratuity paid | 32 | (3,700,400) | (3,582,213) |
| VAT paid | 30 | (378,963,036) | (307,532,596) |
| Income tax paid | 29 | (530,294,140) | (201,303,324) |
| WHT paid | 31 | (11,090,158) | (1,129,598) |

| | Note | 2017 LKR | 2016 LKR |
|---|---|---|---|
| Notional tax | | (9,489,647) | (12,172,457) |
| NBT paid | | (55,193,347) | (39,912,801) |
| Crop insurance levy paid | | (13,037,934) | (10,158,536) |
| ESC paid | | (22,880,212) | - |
| Dividend paid | | (189,153,868) | - |
| **Net Cash Flow from Operating Activities** | | 358,381,490 | 758,178,026 |
| | | | |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant & equipment | 25 | (113,828,308) | (148,402,241) |
| Purchase of intangible asset | 24 | (83,009,468) | (68,323,759) |
| Investment properties purchased/disposal | 23 | 4,200,000 | (4,200,000) |
| Proceeds from sale of property, plant & equipment | | 824,939 | 559,528 |
| Net of investment in government security | 20.1 | 440,069,336 | 342,324,589 |
| Investment on debentures | 20 | - | (150,000,000) |
| Net investment in fixed deposits | 20 | (290,000,000) | (984,467,991) |
| Investment in treasury bond | 21 | - | 182,107,650 |
| Fixed deposit interest received | 20 | 40,242,123 | 967,782 |
| Treasury bill interest received | 20.1 | 47,888,930 | 8,976,547 |
| Reverse repurchase interest received | 20.1 | - | 49,836,339 |
| Treasury bond Interest received | 21 | 1,440,000 | 17,520,000 |
| Dividend income | 7.1 | 65,000 | 60,000 |
| Debentures interest received | | 16,875,000 | - |
| **Net Cash Flow from Investing Activities** | | 64,767,552 | (753,041,556) |
| | | | |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Lease instalments paid | 29 | (5,363,379) | (4,074,608) |
| Interest payments on debentures | 6 | (88,771,246) | (61,902,416) |
| Interest payments on borrowings | 29 | (24,503,761) | (8,511,811) |
| Borrowings during the year | 29 | 500,000,000 | 131,237,876 |
| Loans repayments during the year | 29 | (51,250,000) | (15,003,000) |
| **Net Cash Flow from Financing Activities** | | 330,111,614 | 41,746,041 |
| | | | |
| Net increase/(decrease) in cash and cash equivalents | | 753,260,656 | 46,882,511 |
| Cash and cash equivalents at the beginning of the year | 15 | 451,223,290 | 404,340,779 |
| **Cash and Cash Equivalents at the end of the year** | 15 | 1,204,483,946 | 451,223,290 |

The Accounting Policies and Notes on pages 120 to 169 form an integral part of the Financial Statements.

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# Notes to the Financial Statements

*Year ended 31 March*

## 1. REPORTING ENTITY

### 1.1 Corporate Information

HNB Grameen Finance Limited, ("the Company") is a public limited liability Company and domiciled in Sri Lanka. The registered office and the principal place of business of the Company is located at No. 168, Nawala Road, Nugegoda.

On 17 February 2010, the Company was registered as a Finance Company by the Monetary Board of the Central Bank of Sri Lanka in terms of section 2 of the Finance companies Act No. 78 of 1988 and is permitted in terms of section 7 (1) of the said Act to carry on finance business.

The Company has been registered as a registered Finance Leasing Company establishment under Section 5 of the Finance Leasing Act No. 56 of 2000 and is permitted to carry on Finance Leasing Business with effect from 31 March 2014.

The name of the Company was changed from Prime Grameen Micro Finance Limited to HNB Grameen Finance Limited on 28 July 2015.

### 1.2 Principal Activities and Nature of Operations

The principal activities of the Company are the provision of micro finance facilities, primarily focusing on the lower income segment of the Community and mobilisation of public deposits.

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

### 1.3 Parent Enterprise & Ultimate Parent Enterprise

The Company's immediate and ultimate parent undertaking and controlling entity is Hatton National Bank PLC, which is incorporated in Sri Lanka. Hatton National Bank PLC which acquired a shareholding of 51% of the Company's voting ordinary shares on 07 November 2014.

### 1.4 Directors' Responsibility Statement

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

### 1.5 Date of Authorisation of Issue

The financial statements were authorised for issue by the Board of Directors on 07th September 2017

## 2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

#### 2.1.1 Statement of Compliance

The financial statements of the Company which comprise the Statement of Financial position, Income Statement, Statement of comprehensive income, Statement of changes in equity, Statement of Cash Flows and notes thereto have been prepared in accordance with Sri Lanka Accounting Standards prefixed both SLFRS and LKAS (here after known as "SLFRSs/LAKSs"), promulgated by the Institute of Chartered Accountants of Sri Lanka (CASL) and comply with the requirements of the Companies Act, No. 07 of 2007 and Finance Business Act No. 42 of 2011 and amendment thereto.

#### 2.1.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the financial statements, except for the following items in the Statement of Financial Position.

| Items | Measurement basis |
|---|---|
| Fair value through profit or loss financial assets | Fair value |
| Available-for-sale financial assets | Fair value |
| Freehold 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 |
| Investment property | Fair value |
| Net defined benefit assets/ (liabilities) | Actuarially valued and recognised at the present value |

#### 2.1.3 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis 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 42 to the financial statements.

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

Each material class of similar items is presented separately in the financial statements. Items of dissimilar mature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standards (LKAS 1) - Presentation of Financial Statements.

2.1.4 Functional and Presentation Currency

The financial Statement of the Company is presented in Sri Lankan Rupees (LKR), which is the currency of the primary economic environment in which Company operates (Company's functional currency). The financial statements are presented in Sri Lanka Rupees and all values are rounded to the nearest rupees, except where otherwise indicated.

2.1.5 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

2.1.6 Changes in Accounting Policies

There were no changes in accounting policies and the accounting policies adopted are consistent with those of the previous financial year.

2.1.7 Comparative Information

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

**2.2 Significant Accounting Judgments, Estimates and Assumptions**

The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the accounting policies, management has made various judgements. Those which management has assessed to have the most significant effect on the amounts recognised in the financial statements have been discussed in the individual notes of the related financial statement line items.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

2.2.1 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.

2.2.2 Fair value of financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 43 to the financial statements.

2.2.3 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when

# Notes to the Financial Statements

*Year ended 31 March*

determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, and the performance of different individual groups).

2.2.4 Impairment of Available for Sale Investments

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

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 judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2.2.5 Impairment Losses on Other Assets

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

2.2.6 Fair Value of Property, Plant and Equipment

The land and buildings of the Company is reflected at fair value. The Company engaged independent valuers to determine fair value of land and buildings in terms of Sri Lanka Accounting Standard (SLFRS 13) - Fair Value Measurement. When current market prices of similar assets are available, such evidence is considered in estimating fair values of these assets.

2.2.7 Useful Life Time of Property, Plant and Equipment and Intangible Assets

The Company review the residual values, useful lives and methods of depreciation of property, plant and equipment and intangible assets at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.2.8 Classification of Investment Property

Management requires using its judgment to determine whether a property qualifies as an investment property. The Company had developed criteria so it can exercise its judgment consistently.

A property that is held to earn rentals or for capital appreciation or both, and which generates cash flows largely independently of the other assets held by the Company is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Company assess on an annual basis, the accounting classification of its properties taking into consideration the current use of such properties.

2.2.9 Taxation

The Company is subject to income tax and judgment was required to determine the total provision for current, deferred and other taxes due to the uncertainties that exists with respect to the interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense amounts that were initially recorded, and deferred tax amounts in the period in which the determination is made.

2.2.10 Deferred Tax Assets

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

2.2.11 Defined Benefit Obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. 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 maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increment rate of the Company. Details of the key assumptions used in the estimates are contained in Note 32 to the financial statements.

2.2.12 Provisions for Liabilities and Contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies other than those stated above that have significant effects on the amounts recognised in the financial statements are described in Notes 38.

**2.3 Summary of Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in the financial statements, unless otherwise indicated.

2.3.1 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated into the functional currency, which is Sri Lankan Rupees (LKR), using the middle rates of exchange prevailing at the dates on which the transactions were affected.

Financial statements of the Company are presented in Sri Lankan Rupees, which is the functional and presentation currency of the Company. Transactions in foreign currencies are re-translated into Sri Lankan rupees at the spot rate of exchange prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial position date are re-translated into Sri Lanka rupees at the closing rate of exchange prevailing at the date. The foreign currency gain or loss on monetary items and all differences are taken to Other Operating Income in the income statement. Foreign currency differences arising on re-translation of available for sale financial instruments are recognised in Statement of Comprehensive Income. Non-monetary assets are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

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

2.3.2 Financial Instruments – Initial Recognition and Subsequent Measurement

**2.3.2.1 Non-Derivative Financial Assets**

**Initial recognition of financial assets**

***Date of recognition***

The Company initially recognises loans and receivables and deposits with other financial institutions on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

***Initial measurement of financial assets***

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial

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# Notes to the Financial Statements

*Year ended 31 March*

assets at fair value through profit or loss as per the Sri Lanka Accounting Standard (LKAS 39) - Financial Instruments: Recognition and Measurement.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the Statement of profit or loss.

***'Day 1' profit or loss on employee below market loans***

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 recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'.

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 the profit or loss when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter

***Classification of financial assets***

The Company classifies non-derivative financial assets into the following categories:

(a) financial assets at fair value through profit or loss;

(b) held-to-maturity financial assets;

(c) loans and receivables; and

(d) available-for-sale financial assets.

***Subsequent measurement of financial assets***

The subsequent measurement of financial assets depends on their classification.

***Financial assets at fair value through profit or loss***

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in Statement of profit or loss as incurred.

Financial assets at fair value through profit and loss are carried in the Statement of financial position at fair value with changes in fair value recognised in the Statement of profit or loss

Financial assets designated at fair value through profit or loss comprises of quoted equity instruments unless otherwise have been classified as available-for-sale.

***Held-to-maturity financial assets***

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition held to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortisation is included in interest income in the Statement of profit or loss and the Statement of comprehensive income. The losses arising from impairment are recognised as impairment cost in the Statement of profit or loss and the Statement of comprehensive income.

***Loans and receivables***

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, investments in REPOs, lease receivables, advances and other loans granted, and other receivables.

***(a) Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(b) ***Finance leases and hire purchase***

When the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised. Amounts receivable under finance leases are included under "Rentals receivable on leased assets". Leasing balances are stated in the Statement of financial position after deduction of initial rentals received, unearned lease income and the provision for impairment losses.

(c) ***Advances and other loans to customers***

Advances and other loans to customers comprised of revolving loans and loans with fixed instalment. Loans to customers are reflected in the Statement of financial position at amounts disbursed less repayments and provision for impairment losses.

***Available-for-sale financial assets***

Available-for-sale financial assets are financial assets that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments, are recognised in other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in Statement of comprehensive income is transferred to the Statement of profit or loss.

**2.3.2.2 Non-Derivative Financial Liabilities**

Classification and Subsequent Measurement of Financial Liabilities

The Company initially recognises non-derivative financial liabilities on the date that they are originated.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals and other payables:

***Bank overdrafts***

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of cash flows.

Deposits and bank borrowings - classified as other financial liabilities carried at amortised cost

Deposits and bank borrowings are the Company's sources of debt funding.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortised cost using the effective interest method.

**2.3.2.3 Reclassification of Financial Assets and Liabilities**

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

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

Reclassification is at the election of the 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 as at fair value through profit or loss.

No reclassifications of financial instruments were done during the year

**2.3.2.4 Derecognition of Financial Assets and Financial Liabilities**

***Financial assets***

The Company derecognises a financial asset when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either;

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(a) The Company has transferred substantially all the risks and rewards of the asset, or

(b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(a) The consideration received (including any new asset obtained less any new liability assumed), and

(b) Any cumulative gain or loss that had been recognised in comprehensive income is recognised in profit or loss.

**Financial liabilities**

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

**2.3.2.5 Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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

**2.3.2.6 Renegotiated Loans**

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

**2.3.2.7 Amortised Cost Measurement**

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

**2.3.2.8 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:

(a) In the principal market for the asset or liability, or

(b) In the absence of a principal market, in the most advantageous market for the asset or liability the principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

(a) **Level 1** - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

(b) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

(c) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable for the purpose of fair value disclosures.

The Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**2.3.2.9 Impairment**

***Non-derivative financial assets***

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security.

***Loans and receivables***

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an impairment allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

***Available-for-sale financial assets***

Impairment losses on available-for-sale financial assets are recognised by reclassifying losses accumulated in the AFS reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss.

Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income, If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss

***Reversal of Impairment***

If the amount of an impairment loss decreases in 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 the income statement.

***Write Off of Financial Assets Carried at Amortised Cost***

Financial Assets (and 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

# Notes to the Financial Statements

*Year ended 31 March*

2.3.3 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

2.3.4 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**2.3.4.1 Finance Leases**

***Finance leases – Company as a lessee***

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the Statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

***Finance leases – Company as a lessor***

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in "Rentals receivable on leased assets". The finance income receivable is recognised 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.

**2.3.4.2 Operating Leases**

Leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased items to the lessee are operating leases

***Operating leases – Company as a lessee***

Operating lease payments are recognised as an expense in the Statement of profit or loss on a straight line basis over the lease term. Contingent rent payable is recognised as an expense in the period in which they are incurred.

***Operating leases – Company as a lessor***

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

2.3.5 Property and equipment

**2.3.5.1 Basis of Recognition**

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

**2.3.5.2 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.

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

Carrying amount of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Cost Model

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

***Revaluation Model***

The Company applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Freehold land and buildings of the Company is revalued at least once in every three years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the income statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the income statement or debited in the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

**2.3.5.3 Subsequent Costs**

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 Group and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the income statement as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

**2.3.5.4 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 Group of the different types of assets, except for which are disclosed separately. 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 methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

The estimated useful lives for the current year are as follows;

| | | |
|---|---|---|
| (a) | Buildings | 40 years |
| (b) | Motor Vehicles | 05 years |
| (c) | Furniture & Fittings | 05 years |
| (d) | Computer & Accessories | 05 years |
| (e) | Machinery & Equipment | 05 years |
| (f) | Fixtures & Fittings | 05 years |

**2.3.5.5 De-recognition**

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 the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in the income statement 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.

**2.3.5.6 Capital Work-in-Progress**

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

2.3.6 Intangible assets

**2.3.6.1 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 Company and the cost of the assets can be measured reliably.

# Notes to the Financial Statements

*Year ended 31 March*

**2.3.6.2 Measurement**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

All computer software costs incurred, licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's 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.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised, and expenditure is charged against income statement in the year in which the expenditure is incurred.

**2.3.6.3 Amortisation and impairment**

The useful lives of intangible assets are assessed as either finite or infinite. Intangible assets, with finite lives, are amortised on a straight line basis in the income statement from the date when the asset is available for use, over the best estimate of the useful economic lives based on a pattern in which the asset's economic benefits are consumed by the Company, at 20% per annum, except for software licenses which is 6.67% per annum. Those assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with infinite useful lives such as license are not amortised, but are assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

**2.3.6.4 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.

**2.3.6.5 Derecognition**

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement.

2.3.7 Investment Properties

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

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

An item of investment Property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

2.3.8 Impairment of non–financial assets

The carrying amounts of the company's non-financial assets, other than, deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in the Statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), if any, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.3.9 Retirement benefits

**2.3.9.1 Short-Term Employee Benefits**

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

**2.3.9.2 Defined Contribution Plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

**2.3.9.3 Defined Benefit Plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs are deducted.

The calculation is performed every three years by a qualified actuary using the projected unit credit method. For the purpose of determining the charge for any period before the next regular actuarial valuation falls due, an approximate estimate provided by the qualified actuary is used.

When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Company recognises all actuarial gains and losses arising from the defined benefit plan in the Statement of comprehensive income (OCI) and all other expenses related to defined benefit plans are recognise as personnel expenses in Statement of comprehensive income. This retirement benefit obligation is not externally funded.

2.3.10 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.3.11 Income Tax Expense

**2.3.11.1 Current Tax Expense**

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

# Notes to the Financial Statements

*Year ended 31 March*

Management has used its judgment on the application of tax laws in determining the current tax liability including transfer pricing regulation involving identification of associated undertakings, estimation of the respective arm's length prices and selection of appropriate pricing mechanism.

**2.3.11.2 Deferred Taxation**

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

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses.

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

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

**2.3.11.3 Value Added Tax on Financial Services (VAT)**

Company's total value addition is subjected to a 11% Value Added Tax up to 01 May 2016, 15% from 02 May 2016, 11% from 12.07.2016 and 15% from 01 November 2016 up to 31.12.2016 as per section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

**2.3.11.4 Economic Service Charge (ESC)**

As per the provisions of the Economic Service Charge (Amendment) Act No. 11 of 2012, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set-off against the income tax payable in the four subsequent years.

**2.3.11.5 Crop Insurance Levy**

In terms of Section 14 of the Finance Act No. 12 of 2013 all institutions under the purview of Finance Companies Act No. 78 of 1988 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund Board effective from 01 April 2013.

**2.3.11.6 Nation Building Tax (NBT)**

The business of banking and finance will be liable for NBT at 2% of the liable turnover from 01 January 2014 onwards. The liable turnover with reference to any person engaged in business and finance will be the value addition as computed for the purpose of VAT on financial services.

2.3.12 Revenue Recognition

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.

**2.3.12.1 Interest Income and Expense**

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument 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. 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.

**2.3.12.2 Fee and Commission Income**

The Company earns fee and commission income from a diverse range of services it provides to its customers. Such income is recognised as revenue when the services are provided.

**2.3.12.3 Dividend Income**

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

**2.3.12.4 Rent Income**

Rent income is recognised on an accrual basis.

**2.3.12.5 Other Income**

Other income is recognised on an accrual basis.

## 3. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT THE 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. Analyses of the possible effect from those standards are given below.

Standards issued but not yet adopted which may have impact

### 3.1 SLFRS 9 Financial Instruments

***Summary of the Requirements***

SLFRS 9, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held-to-maturity, Loans and receivables and Available-for-sale are removed.

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL.

The model uses a dual measurement approach, under which the loss allowance is measured as either:

- 12 month expected credit loss; or

- Lifetime expected credit losses.

The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carries guidance on new general hedge accounting requirements.

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements. Effective date of SLFRS 9 is for period beginning on or after January 01, 2018.

***Possible Impact on Financial Statements***

The company has completed the initial high level assessment of the potential impact on its Financial Statements resulting from the application of SLFRS 9.

As the next step the company will establish a business model test and cash flow characteristics test to identify the categories of financial assets.

For the purpose of determining impairment the company needs to build a model with appropriate methodologies and controls to ensure that proper judgment is exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk. Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

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 model is expected to result in an increase in the overall level of impairment allowances.

### 3.2 SLFRS 15 Revenue from Contracts with Customers

***Summary of the Requirements***

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 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

***Possible Impact on Financial Statements***

The Company does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15

### 3.3 SLFRS 16 – 'Leases'

***Summary of the Requirements***

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead there will be a single on-balance sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.

***Possible Impact on Financial Statements***

The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16

# Notes to the Financial Statements

*Year ended 31 March*

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | | | LKR | LKR |
| **4.** | **GROSS INCOME** | | | |
| | Interest income | | 5,327,018,057 | 3,906,231,603 |
| | Fee and commission income | | 670,219,063 | 485,813,442 |
| | Other income | | 236,796,463 | 93,062,588 |
| | Total income | | 6,234,033,583 | 4,485,107,633 |
| **5.** | **NET INTEREST INCOME** | | | |
| | Interest income | 5.1 | 5,327,018,057 | 3,906,231,603 |
| | Interest expense | 5.2 | (1,465,618,208) | (995,689,242) |
| | Net interest income | | 3,861,399,849 | 2,910,542,361 |

Notional tax credit for withholding tax on government securities on secondary market transactions.

Section 137 of the Inland Revenue Act No. 10 of 2006 provide that a company which derives interest income from the secondary market transactions in government securities be entitled to a notional tax credit (being one ninth of the net interest income), provided such interest income forms part of the statutory income of the company for that year of assessment.

Accordingly, net income earned from secondary market transactions in government securities for the year by the company has been grossed up in the financial statements and the resulting notional tax credit amounted to 9.49 Mn.

| | | 2017 | 2016 |
|---|---|---|---|
| | | LKR | LKR |
| **5.1** | **Interest Income** | | |
| | Loans and advances given to members | 4,917,689,948 | 3,715,702,304 |
| | Loans and advances given to non members | 55,683,105 | 37,502,989 |
| | Financial Investments - held to maturity | 143,357,077 | 124,404,108 |
| | Financial Investment - fair value through profit and loss | 1,600,000 | 13,746,636 |
| | Savings deposits | 71,869,994 | 13,247,456 |
| | Finance leases | 136,817,933 | 1,628,110 |
| | Net interest income | 5,327,018,057 | 3,906,231,603 |
| **5.2** | **Interest Expense** | | |
| | Deposits from customers | 1,351,785,887 | 917,273,012 |
| | Debentures | 89,328,560 | 69,904,419 |
| | Other borrowings | 24,503,761 | 8,511,811 |
| | | 1,465,618,208 | 995,689,242 |

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | | | LKR | LKR |
| **6.** | **NET FEE AND COMMISION INCOME** | | | |
| | Trade related documentation charges | | 670,219,063 | 485,813,442 |
| | Fee and commission expenses | | (98,395,049) | (75,520,940) |
| | | | 571,824,014 | 410,292,502 |
| **7.** | **OTHER INCOME** | | | |
| | Other operating income | 7.1 | 236,796,463 | 93,062,588 |
| | Capital loss from trading | | - | (26,578,802) |
| | Net mark to market valuation gain | | 81,840 | - |
| | | | 236,878,303 | 66,483,786 |
| 7.1 | **Other Operating Income** | | | |
| | Rent income | | 45,044,775 | 43,917,700 |
| | Recovery of loan balance written-off | | 17,440,711 | 18,540,442 |
| | Revaluation of investment properties | | 149,300,000 | 14,000,000 |
| | Fair valuation on available-for-sale investments | | - | 12,196,283 |
| | Sundry income | | 25,700,249 | 4,051,291 |
| | Profit from disposal of property, plant & equipment | | (754,272) | 296,872 |
| | Dividend income | | 65,000 | 60,000 |
| | | | 236,796,463 | 93,062,588 |
| **8.** | **IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES** | | | |
| | Loans and receivable from members | 8.1 | 245,704,462 | 105,918,099 |
| | Loans and receivable from lease | 8.2 | 324,926 | - |
| | Other assets | 8.3 | (4,500,000) | 4,534,052 |
| | Impairment losses from financial investments - loans & receivables | 8.4 | 465,978,912 | - |
| | | | 707,508,300 | 110,452,151 |
| 8.1 | **Loans and Advances to Members** | | | |
| | Individual impairment losses | | 143,325,742 | 79,537,316 |
| | Collective impairment losses | | 102,378,720 | 26,380,783 |
| | | | 245,704,462 | 105,918,099 |
| 8.2 | **Loans and Receivable from Lease** | | | |
| | Individual impairment losses | | 324,926 | |
| | | | 324,926 | - |

# Notes to the Financial Statements

*Year ended 31 March*

| | | 2017 LKR | 2016 LKR |
|---|---|---|---|
| 8.3 | **Other Assets** | | |
| | Other impairment | (4,500,000) | 4,534,052 |
| | | (4,500,000) | 4,534,052 |
| 8.4 | **Financial Investments - loans & receivables** | | |
| | Impairment losses from financial investments - loans & receivables | 465,978,912 | - |
| | | 465,978,912 | - |
| 9. | **PERSONNEL COST** | | |
| | Salaries and bonus | 765,801,913 | 568,932,269 |
| | Other personnel cost | 54,535,719 | 45,099,845 |
| | Employer's contribution to employees' provident fund | 70,123,394 | 53,034,203 |
| | Employer's contribution to employees' trust fund | 17,530,849 | 13,258,552 |
| | Retirement benefit cost | 35,619,133 | 31,690,645 |
| | Total | 943,611,008 | 712,015,514 |
| 10. | **OTHER EXPENSES** | | |
| | Other operating expenses, among others Include the following: | | |
| | Depreciation on property, plant & equipment | 110,572,371 | 77,562,766 |
| | Advertising & publications | 45,687,622 | 47,292,737 |
| | Repairs & maintenance | 80,192,643 | 56,392,960 |
| | Crop insurance levy | 11,601,542 | 11,349,144 |
| | Amortisation of intangible assets | 23,738,354 | 8,790,909 |
| | Directors remuneration | 15,505,000 | 7,565,000 |
| | Auditors' remuneration | 4,175,000 | 4,156,000 |
| | Legal charges | 10,082,325 | 5,395,125 |
| | Donation | 3,288,237 | 4,205,029 |
| 11. | **PROVISION FOR VALUE ADDED TAX** | | |
| | Value added tax for the year | | |
| | Financial services | 331,394,045 | 234,120,096 |
| | | 331,394,045 | 234,120,096 |

***Value Added Tax***

Company's total value addition is subjected to a 11% Value Added Tax up to 01 May 2016, 15% from 02 May 2016, 11% from 12 July 2016 and 15% from 01 November 2016 up to 31 March 2017 as per section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

| | | 2017 | 2016 |
|---|---|---|---|
| | | LKR | LKR |
| **12.** | **PROVISION FOR NATION BUILDING TAX** | | |
| | Nation building tax for the year | | |
| | Financial services | 49,278,589 | 42,567,290 |
| | | 49,278,589 | 42,567,290 |
| **13.** | **INCOME TAX** | | |
| | Current Income Tax | | |
| | Current income tax charge | 665,720,164 | 383,361,840 |
| | Over provision during previous year | (18,731,103) | - |
| | Deferred Income Tax | | |
| | Deferred taxation charge / (reversal) | (79,442,372) | 51,387,093 |
| | Income tax expense reported in the statement of profit or loss | 567,546,689 | 434,748,933 |

**13.1** Reconcilation Between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate

| | 2017 | 2016 |
|---|---|---|
| Accounting profit before tax | 1,626,380,875 | 1,544,842,138 |
| At the statutory income tax rate of 28% (2016: 28%) | 455,386,645 | 432,555,799 |
| Tax Effect on; | | |
| Income exempt from tax | (18,200) | (16,800) |
| Non deductible expenses | 432,190.639 | 131,950,122 |
| Deductible expenses | (221,838,920) | (60,775,954) |
| Current tax on profits for the year | 665,720,164 | 503,713,167 |
| Tax effect on utilised tax losses | - | (120,351,327) |
| Current income tax charge | 665,720,164 | 383,361,840 |
| Over provision during previous year | (18,731,103) | - |
| Deferred taxation charge | (79,442,372) | 51,387,093 |
| Income tax expense at the effective income tax rate of 34.9% (2015: 28.1%) | 567,546,689 | 434,748,933 |
| Tax Losses Brought Forward and Utilised during the Year | | |
| Balance at the beginning of the year | - | 429,826,167 |
| Tax losses utilised during the year | - | (429,826,167) |
| Tax losses not utilised and carried forward | - | - |

HNB Finance Limited
True Copy
Authorized Signature

# Notes to the Financial Statements

*Year ended 31 March*

## 14. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | 2017 LKR | 2016 LKR |
|---|---|---|
| Net profit for the period | 1,058,834,186 | 1,110,093,205 |
| Profit attributable to ordinary shareholders | 1,058,834,186 | 1,110,093,205 |

| | 2017 Number | 2016 Number |
|---|---|---|
| Weighted average number of ordinary shares in issue | 1,719,580,624 | 1,719,580,624 |
| | 1,719,580,624 | 1,719,580,624 |
| Basic earnings per ordinary share | 0.62 | 0.65 |

| | | 2017 LKR | 2016 LKR |
|---|---|---|---|
| **15.** | **CASH AND CASH EQUIVALENTS** | | |
| | Cash in hand | 39,107,948 | 50,851,152 |
| | Balances with banks | 1,165,375,998 | 400,372,138 |
| | Total | 1,204,483,946 | 451,223,290 |
| **16.** | **FINANCIAL ASSETS HELD FOR TRADING** | | |
| | Cost of treasury bond investment | 16,250,272 | 16,250,272 |
| | Interest receivable | 480,000 | 480,000 |
| | | 16,730,272 | 16,730,272 |
| | Less: Loss from mark to market valuation | (1,705,312) | (1,787,152) |
| | | 15,024,960 | 14,943,120 |

| As at 31 March 2017 | Year of Maturity | Cost of Investment LKR | Face Value LKR | Carrying Value LKR |
|---|---|---|---|---|
| Treasury bond | 01.May.2021 | 16,250,272 | 16,000,000 | 14,943,120 |
| | | 16,250,272 | 16,000,000 | 14,943,120 |

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | | | LKR | LKR |
| **17.** | **LOANS AND ADVANCES TO MEMBERS** | | | |
| | At amortised cost: | | | |
| | Loans and advances to members | | 13,629,635,943 | 8,913,718,165 |
| | Less: Allowance for impairment losses | | (368,904,118) | (154,678,950) |
| | | | 13,260,731,825 | 8,759,039,215 |
| **17.1** | **Product-Wise Analysis of Loans And Advances To Members** | | | |
| | Loans | | 11,486,285,715 | 8,476,840,827 |
| | Leases | 17.1.1 | 1,703,990,476 | 114,417,229 |
| | Saving advance | 17.1.2 | 209,717,224 | 181,804,948 |
| | Loan against deposits | 17.1.3 | 229,642,528 | 140,655,161 |
| | | | 13,629,635,943 | 8,913,718,165 |

| | | 2017 | 2016 |
|---|---|---|---|
| | | LKR | LKR |
| 17.1.1 | Lease Receivables | | |
| | Rentals receivable | 2,421,338,589 | 159,217,756 |
| | Unearned lease income | (752,609,150) | (44,927,473) |
| | Rental in arrears - lease | 35,585,963 | 126,946 |
| | Gross lease rental receivable | 1,704,315,402 | 114,417,229 |
| | Less : Allowance for impairment losses | (324,926) | - |
| | Net receivables | 1,703,990,476 | 114,417,229 |
| | Net receivables within one year | 402,127,483 | 23,782,714 |
| | Net receivables from one to five years | 1,298,611,428 | 89,182,504 |
| | Net receivables after five years | 3,251,565 | 1,452,011 |
| | | 1,703,990,476 | 114,417,229 |
| 17.1.2 | Saving Advance | | |
| | Saving advance | 209,717,224 | 186,577,253 |
| | Less : Deferred interest on concessional lending | - | (4,772,305) |
| | | 209,717,224 | 181,804,948 |
| 17.1.3 | Loan against Deposits | | |
| | Loan against deposits | 225,547,198 | 139,511,612 |
| | Interest receivable on loan against deposits | 4,095,330 | 1,143,549 |
| | | 229,642,528 | 140,655,161 |

# Notes to the Financial Statements

*Year ended 31 March*

**17. LOANS AND ADVANCES TO MEMBERS (Contd...)**

| | | | Individual impairment | Collective impairment | Total |
|---|---|---|---|---|---|
| | | | LKR | LKR | LKR |
| **17.2** | **Allowance For Impairment Losses** | | | | |
| | Balance as at 01 April 2015 | | 52,892,896 | 23,472,503 | 76,365,399 |
| | Charge for the year- Loans | | 79,537,316 | 26,380,783 | 105,918,099 |
| | Written off during the year | | (27,604,548) | - | (27,604,548) |
| | Balance as at 31 March 2016 | | 104,825,664 | 49,853,286 | 154,678,950 |
| | Amount written off | | (31,479,294) | - | (31,479,294) |
| | Charge for the year - Loans | 8.1 | 143,325,742 | 102,378,720 | 245,704,462 |
| | Charge for the year - Lease | 8.2 | | 324,926 | 324,926 |
| | Balance as at 31 March 2017 | | 216,672,112 | 152,556,932 | 369,229,044 |

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | | | LKR | LKR |
| **18.** | **LOANS AND ADVANCES TO OTHERS** | | | |
| | Staff loans | 18.1 | 331,890,240 | 261,184,797 |
| | Mortgage loan | | 174,733,733 | 121,862,502 |
| | | | 506,623,973 | 383,047,299 |
| | Less: Allowance for impairment losses | 18.2 | (3,589,635) | (3,596,718) |
| | | | 503,034,338 | 379,450,581 |
| **18.1** | **Staff Loans** | | | |
| | At the beginning of the year | | 261,184,797 | 174,465,981 |
| | Loan granted during the year | | 217,584,000 | 158,249,500 |
| | Recovered during the year | | (146,878,557) | (67,030,684) |
| | | | 331,890,240 | 265,684,797 |
| | Less: Fair value gain | | - | (4,500,000) |
| | | | 331,890,240 | 261,184,797 |

| | Balance as at 31 March 2016 | Balance as at 01 April 2015 | Provision made during the year | Written Off during the year | Balance as at 31 March 2016 |
|---|---|---|---|---|---|
| 18.2 | **Allowance for impairment losses** | | | | |
| | Staff loan | 4,585,597 | 34,052 | (4,585,597) | 34,052 |
| | Loan to other entities | 105,949,420 | - | (105,949,420) | - |
| | Mortgage loan | 3,562,666 | - | - | 3,562,666 |
| | | 114,097,683 | 34,052 | (110,535,017) | 3,596,718 |

| | Balance as at 31 March 2017 | Balance as at 01 April 2016 | Provision made during the year | Written Off during the year | Balance as at 31 March 2017 |
|---|---|---|---|---|---|
| | Staff loans | 34,052 | - | (7,083) | **26,969** |
| | Mortgage loan | 3,562,666 | - | - | **3,562,666** |
| | | 3,596,718 | - | (7,083) | **3,589,635** |

| | | **2017** LKR | 2016 LKR |
|---|---|---|---|
| **19.** | **FINANCIAL INVESTMENT - LOANS & RECEIVABLES** | | |
| | Other loan & Receivable | 773,091,682 | - |
| | Impairment losses Financial Investments - Loans & Receivales | (465,978,912) | - |
| | | 307,112,770 | - |

| | | | **2017** LKR | 2016 LKR |
|---|---|---|---|---|
| **20.** | **FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE** | | | |
| | Unquoted equity securities | 20.1 | 12,430,283 | 12,430,283 |
| | | | 12,430,283 | 12,430,283 |

These investments are unquoted and has no active market from which a reliable fair value could be obtained. The different valuation methods used did not provide a reasonable range of values. As a result these investments are carried at cost since the fair value cannot be determined reliably.

| | | **2017** | | 2016 | |
|---|---|---|---|---|---|
| | | Number of Shares | Cost Rs. | Number of Shares | Cost Rs. |
| 20.1 | **Investments In Non Quoted Shares** | | | | |
| | Credit information bureau of sri lanka | 100 | 234,000 | 100 | 234,000 |
| | Standard credit lanka Ltd | 38,458,474 | 38,458,474 | 38,458,474 | 38,458,474 |
| | UB Finance Ltd | 1,742,326 | 12,196,283 | 1,742,326 | 12,196,283 |
| | | | 50,888,757 | | 50,888,757 |
| | Less: Allowance for impairment losses | | (38,458,474) | | (38,458,474) |
| | | | 12,430,283 | | 12,430,283 |

# Notes to the Financial Statements

*Year ended 31 March*

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | | | LKR | LKR |
| **21.** | **FINANCIAL INVESTMENTS - HELD-TO-MATURITY** | | | |
| | Fixed deposits | | 1,295,105,342 | 1,015,545,077 |
| | Debentures | | 150,000,000 | 150,000,000 |
| | Sri lanka government securities | 21.1 | 298,170,601 | 1,473,783,398 |
| | | | 1,743,275,943 | 2,639,328,475 |
| **21.1** | **Sri Lanka Government Securities** | | | |
| | Treasury bills | | 285,140,500 | 725,209,836 |
| | Repurchase agreement - REPO | | - | 703,104,335 |
| | | | 285,140,500 | 1,428,314,171 |
| | Interest receivable | | 13,030,101 | 45,469,227 |
| | | | 298,170,601 | 1,473,783,398 |

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | | | LKR | LKR |
| **22.** | **OTHER ASSETS** | | | |
| | Other financial assets | | 94,051,090 | 128,048,274 |
| | Other non financial assets | 22.1 | 116,560,485 | 68,618,380 |
| | | | 210,611,575 | 196,666,654 |
| **22.1** | **Other Non Financial Assets** | | | |
| | Other receivables | | 117,235,615 | 78,512,870 |
| | Less: Allowance for impairment losses | | (675,130) | (9,894,490) |
| | | | 116,560,485 | 68,618,380 |

| | | 2017 | 2016 |
|---|---|---|---|
| | | LKR | LKR |
| **23.** | **INVESTMENTS PROPERTIES** | | |
| | Land | | |
| | Balance at the beginning of the year | 334,155,169 | 315,638,224 |
| | Additions / disposal during the year | (4,200,000) | 4,200,000 |
| | Fair value adjustment for the period | 68,219,584 | 14,316,945 |
| | Balance at the end of the year | 398,174,753 | 334,155,169 |
| | Building | | |
| | Balance at the beginning of the year | 570,344,831 | 570,661,776 |
| | fair value adjustment for the period | 81,080,416 | (316,945) |
| | Balance at the end of the year | 651,425,247 | 570,344,831 |
| | Net Book Value | 1,049,600,000 | 904,500,000 |

The Company carries investment properties at fair value. Valuations of the above investment properties were carried out as at 31st December 2016 by R. S. Wijesuriya, Professional Independent Valuer. Company earned LKR 33.88 Mn as rental income for the financial year.

| | | 2017 | 2016 |
|---|---|---|---|
| | | LKR | LKR |
| **24.** | **INTANGIBLE ASSETS** | | |
| | Cost | | |
| | Balance at the beginning of the year | 92,527,926 | 27,255,398 |
| | Transfer during the year | - | (3,051,231) |
| | Additions during the year | 83,009,468 | 68,323,759 |
| | Balance at the end of the year | 175,537,394 | 92,527,926 |
| | Amortisation and Impairment | | |
| | Balance at the beginning of the year | 24,720,884 | 16,540,222 |
| | Transfers during the year | - | (943,664) |
| | Charge for the year | 23,738,355 | 9,124,326 |
| | Balance at the end of the year | 48,459,239 | 24,720,884 |
| | Net Book Value | 127,078,155 | 67,807,042 |

# Notes to the Financial Statements

*Year ended 31 March*

| | | Cost | Accumulated Amortisation | Net Book Value |
|---|---|---|---|---|
| **24.** | **INTANGIBLE ASSETS (Contd.)** | | | |
| **24.1** | **Intangible Assets by Class** | | | |
| | Balance as at 31 March 2016 | | | |
| | Software | 75,158,704 | 23,562,936 | 51,595,768 |
| | License | 17,369,222 | 1,157,948 | 16,211,274 |
| | | 92,527,926 | 24,720,884 | 67,807,042 |
| | Balance as at 31 March 2017 | | | |
| | Software | 119,321,847 | 41,474,342 | 77,847,505 |
| | License | 56,215,547 | 6,984,897 | 49,230,651 |
| | | 175,537,394 | 48,459,239 | 127,078,156 |

## 25. PROPERTY, PLANT & EQUIPMENT

### 25.1 Carried at cost/Valuation

#### 25.1.1 Cost/Fair Value

| | As at 01 April 2015 | Transfers during the year | Additions during the year | Disposals during the year | As at 31 March 2016 | Transfers during the year | Additions during the year | Transfer to Revaluation Reserve | Disposals during the year | As at 31 March 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Land | 183,654,358 | - | - | - | 183,654,358 | | - | 8,847,764 | - | 192,502,122 |
| Building | 500,945,642 | - | - | - | 500,945,642 | | - | 122,952,237 | - | 623,897,879 |
| Furniture & fittings - (free hold) | 44,201,343 | | 10,105,497 | (3,505,926) | 50,800,914 | | 12,835,917 | - | (2,890,968) | 60,745,863 |
| Office equipment - (free hold) | 68,329,048 | (1,211,444) | 39,698,376 | (1,247,160) | 105,568,820 | | 71,294,611 | - | (348,439) | 176,514,992 |
| Computer - (free hold) | 63,778,570 | 150,000 | 67,060,778 | (912,476) | 130,076,872 | | 10,141,734 | - | (10,363,917) | 129,854,689 |
| Computer - (lease hold) | 12,792,000 | (150,000) | | - | 12,642,000 | | - | - | (184,900) | 12,457,100 |
| Motor cycles - (free hold) | 450,000 | | | - | 450,000 | | - | - | (450,000) | - |
| Motor vehicles | 7,000,000 | | | - | 7,000,000 | | - | - | - | 7,000,000 |
| Motor vehicles - (lease) | 12,300,000 | | | - | 12,300,000 | | - | - | - | 12,300,000 |
| Machinery & equipment | 2,638,601 | | | - | 2,638,601 | | - | - | - | 2,638,601 |
| Fixtures & fittings | 47,036,062 | 1,211,444 | 17,044,419 | (287,140) | 65,004,785 | | 10,470,089 | - | (526,900) | 74,947,974 |
| Network accessories | 83,208,565 | | 14,493,171 | - | 97,701,736 | | 9,085,957 | - | (970,564) | 105,817,129 |
| | 1,026,334,189 | - | 148,402,241 | (5,952,702) | 1,168,783,728 | - | 113,828,308 | 131,800,001 | (15,735,688) | 1,398,676,349 |

#### 25.1.2 Accumulated Depreciation and Impairment

| | As at 01 April 2015 | Transfers during the year | Additions during the year | Disposals during the year | As at 31 March 2016 | Transfers during the year | Additions during the year | Transfer to Revaluation Reserve | Disposals during the year | As at 31 March 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Building | 12,523,641 | - | 12,523,641 | - | 25,047,282 | | 13,292,093 | (34,440,013) | - | 3,899,362 |
| Furniture & fittings - (free hold) | 32,251,155 | (117,090) | 4,094,060 | (3,464,932) | 32,763,193 | | 6,291,776 | | (2,877,851) | 36,177,118 |
| Office equipment - (free hold) | 23,591,717 | 146,199 | 15,408,389 | (1,247,157) | 37,899,148 | | 30,433,784 | | (326,388) | 68,006,544 |
| Computer - (free hold) | 40,885,614 | (145,644) | 10,086,235 | (891,815) | 49,934,390 | | 20,741,693 | | (10,344,006) | 60,332,077 |
| Computer - (lease hold) | 5,247,223 | (70,001) | 2,533,646 | - | 7,710,868 | | 2,522,545 | | (148,247) | 10,085,166 |
| Motor cycles - (free hold) | 450,000 | - | - | - | 450,000 | | - | | (450,000) | - |
| Motor vehicles | 233,333 | - | 1,400,000 | - | 1,633,333 | | 1,400,000 | | - | 3,033,333 |
| Motor vehicles - (lease) | 3,793,333 | - | 2,460,000 | - | 6,253,333 | | 2,460,000 | | - | 8,713,333 |
| Machinery & equipment | 2,202,143 | - | 407,991 | - | 2,610,134 | | 28,467 | | - | 2,638,601 |
| Fixtures & fittings | 15,258,303 | 197,775 | 11,579,832 | (86,143) | 26,949,767 | | 13,541,457 | | (375,557) | 40,115,667 |
| Network accessories | 9,422,741 | (11,239) | 17,679,225 | - | 27,090,727 | | 19,860,555 | | (685,163) | 46,266,119 |
| | 145,859,203 | - | 78,173,019 | (5,690,047) | 218,342,175 | - | 110,572,370 | (34,440,013) | (15,207,212) | 279,267,320 |

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# Notes to the Financial Statements

*Year ended 31 March*

## 25. PROPERTY, PLANT & EQUIPMENT (Contd...)

### 25.1 Carried at cost/Valuation

25.1.2 Written Down Value

| | 2017 LKR | 2016 LKR |
|---|---|---|
| Land | 192,502,122 | 183,654,358 |
| Building | 619,998,517 | 475,898,360 |
| Furniture & fittings - (free hold) | 24,568,745 | 18,037,721 |
| Office equipment - (free hold) | 108,508,448 | 67,669,672 |
| Computer - (free hold) | 69,522,612 | 80,142,482 |
| Computer - (fease hold) | 2,371,934 | 4,931,132 |
| Motor cycles - (free hold) | - | - |
| Motor vehicles | 3,966,667 | 5,366,667 |
| Motor vehicles - (lease) | 3,586,667 | 6,046,667 |
| Machinery & equipment | - | 28,467 |
| Fixtures & fittings | 34,832,307 | 38,055,018 |
| Network accessories | 59,551,010 | 70,611,009 |
| | 1,119,409,029 | 950,441,553 |

## 26. DEFERRED TAX LIABILITY/(ASSET)

| | 2017 LKR | 2016 LKR |
|---|---|---|
| Balance at the beginning of the period | 49,026,181 | (5,978,982) |
| Transfer from / (to) income statement | (79,442,372) | 51,387,093 |
| Transfer from / (to) other comprehensive income | 46,531,929 | 3,618,070 |
| Balance at the end of the year | 16,115,738 | 49,026,181 |
| Deferred tax assets, liabilities relates to the following | | |
| **Deferred tax liabilities** | | |
| Accelerated depreciation for tax purposes | 158,128,264 | 91,689,042 |
| Revaluation gain on buildings Investment Property | 22,702,516 | |
| Finance leases | 54,210,433 | (5,035,522) |
| **Other Comprehensive Income** | | |
| Revaluation surplus on buildings | 44,069,830 | |
| Deferred tax effect on actuarial gains/(loss) on defined benefit plans | 2,462,099 | - |
| **Deferred tax assets** | | |
| Retirement benefit obligation | (44,102,486) | (37,627,339) |
| Unutilised tax losses | (50,420,518) | - |
| Impairment losses for loans and other losses | (170,934,400) | |
| **Net deferred tax liabilities** | 16,115,738 | 49,026,181 |

| | | | 2017 LKR | 2016 LKR |
|---|---|---|---|---|
| **27.** | **DUE TO CUSTOMERS** | | | |
| | Fixed deposits | | 11,515,325,320 | 8,672,682,124 |
| | Deferred transaction cost | | (59,789,075) | (47,940,218) |
| | Interest payable on fixed deposits | | 318,180,703 | 244,947,964 |
| | | | 11,773,716,948 | 8,869,689,870 |
| | Savings deposits | | 2,266,528,283 | 1,550,729,036 |
| | | | 14,040,245,231 | 10,420,418,906 |
| **28.** | **DEBT ISSUED AND OTHER BORROWED FUNDS** | | | |
| | Redeemable debentures | 28.1 | 771,099,781 | 770,337,308 |
| | Borrowings | | 533,743,002 | 84,997,000 |
| | Finance leases | | 28,537,485 | 54,238,152 |
| | | | 1,333,380,268 | 909,572,460 |
| **28.1** | **Redeemable Debentures** | | | |
| | Balance at the beginning of the year | | 765,000,000 | 765,000,000 |
| | Interest payable to debenture holders | | 6,099,781 | 5,337,308 |
| | | | 771,099,781 | 770,337,308 |

28.1.1 Redeemable Debentures

| Year of Issue | Description | Certificate Number | Type of Debenture | Outstanding as at 31 March 2017 | Outstanding as at 31 March2016 |
|---|---|---|---|---|---|
| 2010 | Seylan bank PLC | 001 | Secured | 125,000,000 | 125,000,000 |
| 2010 | Seylan bank PLC | 002 | Secured | 200,000,000 | 200,000,000 |
| 2010 | Seylan bank PLC | 003 | Secured | 200,000,000 | 200,000,000 |
| 2010 | Seylan bank PLC | 004 | Secured | 140,000,000 | 140,000,000 |
| 2013 | Prime lands (private) limited | 001 | Unsecured | 100,000,000 | 100,000,000 |
| | | | | 765,000,000 | 765,000,000 |

The outstanding debentures amounting to LKR. 665,000,000 issued to Seylan bank is redeemable from 2020 to 2040 and with interest payments at annual average treasury bill rate as per the rescheduling terms agreed with Seylan bank.

During the year 2013/2014, The loan balance due to Prime Land (Private) Limited amounting to LKR, 100,000,000 has been converted to an unsecured subordinated non convertible debentures. This debenture is redeemable on 16 June 2018 with interest payments at the rate of 17% p.a as per the terms agreed with Prime Land (Private) Limited.

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# Notes to the Financial Statements

*Year ended 31 March*

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | | | LKR | LKR |
| **29.** | **PROVISION FOR INCOME TAX** | | | |
| | Balance at the beginning of the year | | 278,240,026 | 109,483,565 |
| | Provision for the year | | 665,720,164 | 383,361,840 |
| | Over provision during previous year | | (18,731,104) | - |
| | | | 925,229,086 | 492,845,405 |
| | Payment made during the year | | (530,294,140) | (201,303,324) |
| | WHT paid | | (11,090,158) | (1,129,598) |
| | Notional tax | | (9,489,646) | (12,172,457) |
| | ESC receivables | | (20,907,339) | - |
| | Balance at the end of the year | | 353,447,803 | 278,240,026 |
| **30.** | **VALUE ADDED TAX PAYABLE** | | | |
| | Balance at the beginning of the year | | 41,305,715 | 114,718,215 |
| | Provision made | | | |
| | VAT on financial services | | 331,394,045 | 234,120,096 |
| | | | 372,699,760 | 348,838,311 |
| | Payment made during the year | | (378,963,036) | (307,532,596) |
| | | | (6,263,276) | 41,305,715 |
| **31.** | **OTHER LIABILITIES** | | | |
| | Other financial liabilities | 31.1 | 236,020,182 | 120,332,406 |
| | Other non financial liabilities | 31.2 | 32,133,763 | 30,528,538 |
| | | | 268,153,945 | 150,860,944 |
| **31.1** | **Other Financial Liabilities** | | | |
| | Other payables | | 236,020,182 | 120,332,406 |
| | | | 236,020,182 | 120,332,406 |
| **31.2** | **Other Non Financial Liabilities** | | | |
| | NBT payable | | (739,435) | 5,038,079 |
| | WHT payable | | 1,901,413 | 1,499,027 |
| | Other payables | | 30,971,785 | 23,991,432 |
| | | | 32,133,763 | 30,528,538 |

| | | | 2017<br>LKR | 2016<br>LKR |
|---|---|---|---|---|
| **32.** | **RETIRING BENEFIT OBLIGATION** | | | |
| | Movements in present value of the the retirement benefit obligation are as follows. | | | |
| | Balance at the beginning of the year | | 134,383,355 | 119,196,601 |
| | Add : Retiring gratuity expenses | 32.1 | 26,825,923 | 18,768,967 |
| | | | 161,209,278 | 137,965,568 |
| | Less : Benefits paid during the year | | (3,700,400) | (3,582,213) |
| | Balance at the end of the year | | 157,508,878 | 134,383,355 |
| **32.1** | **Retiring Gratuity Expense** | | | |
| | Current service cost | | 21,508,880 | 18,377,698 |
| | Interest cost | | 14,110,252 | 13,312,948 |
| | | | 35,619,132 | 31,690,646 |
| | Actuarial (gain) / loss | | (8,793,209) | (12,921,679) |
| | | | 26,825,923 | 18,768,967 |

Gratuity liability is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31st March 2017 using "Projected Unit Credit method" as recommended by Sri Lanka Accounting Standards (LKAS 19) - Employee Benefits.

The principal assumptions used in the actuarial valuations are as follows:

| | | |
|---|---|---|
| Long term interest rate | 11.5% | 10.5% |
| Retirement age | 55 years | 55 years |
| Future salary increase rate | 10.0% | 9.5% |

Assumptions regarding future mortality is based on 1967-70 mortality table issued by the Institute of Actuaries, London. The define benefit obligation is not externally funded. Actuarial gain on defined benefit plan is recognised in other comprehensive income.

In order to illustrate the significance of the salary escalation rate and discount rates assumed in this valuation, a sensitivity analysis for all employees assuming the above is as follows;

| Discount rate | Present value of defined benefit obligation |
|---|---|
| 1% Less | 168,992,085 |
| 1% More | 147,376,721 |

| Salary escalation rate | Present value of defined benefit obligation |
|---|---|
| 1% Less | 147,635,425 |
| 1% More | 168,505,394 |

# Notes to the Financial Statements

*Year ended 31 March*

| | | Issued and Fully Paid Voting Ordinary Shares | Issued and Fully Paid Non Voting Ordinary Shares | Total |
|---|---|---|---|---|
| | | Number | Number | Number |
| **33.** | **STATED CAPITAL** | | | |
| | Balance on 01 April 2015 | 1,421,380,624 | 298,200,000 | 1,719,580,624 |
| | Share Issued during the year | - | - | - |
| | Balance on 31 March 2016 | 1,421,380,624 | 298,200,000 | 1,719,580,624 |
| | Share issued during the year | - | - | - |
| | Balance on 31 March 2017 | 1,421,380,624 | 298,200,000 | 1,719,580,624 |
| | | LKR | LKR | LKR |
| | Balance on 01 April 2015 | 913,806,240 | 2,982,000,000 | 3,895,806,240 |
| | Share issued during the year | 729,026,759 | 2,943,234,000 | 3,672,260,759 |
| | Balance on 31 March 2016 | 184,779,481 | 38,766,000 | 223,545,481 |
| | Share issued during the year | - | - | - |
| | Balance on 31 March 2017 | 184,779,481 | 38,766,000 | 223,545,481 |

The company carried out a capital reduction of LKR 3.6 Bn with the approval of shareholders, granted at the annual general meeting held 17 July 2015.

| | | **2017** | 2016 |
|---|---|---|---|
| | | LKR | LKR |
| **34.** | **GENERAL RESERVE** | | |
| | Balance at the beginning of the year | 82,897,989 | 82,897,989 |
| | Balance at the end of the year | 82,897,989 | 82,897,989 |

| | | Statutory Reserve Fund | Total |
|---|---|---|---|
| **35.** | **STATUTORY RESERVES FUND** | | |
| | Balance on 01 April 2015 | 204,734,159 | 204,734,159 |
| | Transferred during the year | 222,018,641 | 222,018,641 |
| | Balance on 31 March 2016 | 426,752,800 | 426,752,800 |
| | Transferred during the year | 211,766,837 | 211,766,837 |
| | Balance on 31 March 2017 | 638,519,637 | 638,519,637 |

**35.1 Statutory Reserve Fund**

20% of the net profits for the year is transferred to the reserve fund as required by direction (No. 01 of 2003 capital fund) issued by the central bank of Sri lanka.

## 36. CAPITAL COMMITMENTS

There are no capital commitments as at 31th March 2017.

## 37. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosure in these financial statements.

## 38. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31st March 2017.

## 39. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business with parties who are defined as "Related Parties " in Sri Lanka Accounting Standards (LKAS 24) - Related Party Disclosures. The Terms and Conditions of such transactions are disclosed under 39.1 and 39.2

**39.1 Transactions With Parent Company and Related Companies**

During the year ended 31 March 2017 and 2016, the Company has carried out transactions with it's related companies, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Company and was comparable with what was applied to transactions between the Company and its unrelated customers.

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# Notes to the Financial Statements

*Year ended 31 March*

## 39. RELATED PARTY TRANSACTIONS (Contd.)

39.1.1 Transactions with the Parent Company

Hatton National Bank PLC is the parent and the ultimate controlling party of the company.

| | 2017 LKR | 2016 LKR |
|---|---|---|
| Statement of Profit or Loss | | |
| Interest income - Financial investments - Held to Maturity | 16,875,000 | 16,045,082 |
| Interest income - Savings deposits | 43,023,335 | 2,647,292 |
| Interest income - Fixed deposits | 34,760,274 | |
| Interest expense - Other borrowings | 24,020,871 | 7,376,090 |
| Other expenses - Bank Charges | 1,164,216 | 424,868 |
| Statement of Financial Position | | |
| Cash And Cash Equivalents - Balances with banks | 600,548,285 | 116,603,679 |
| Financial Investments - Held-To-Maturity - Fixed Deposits | 750,000,000 | 1,000,000,000 |
| Financial Investments - Held-To-Maturity - Debentures | 150,000,000 | 150,000,000 |
| Debt Issued And Other Borrowed Funds - Borrowings | 533,743,002 | 84,997,000 |
| Debt Issued And Other Borrowed Funds - Finance leases | - | 24,606,557 |

39.1.2 Transactions with Related Companies

Transactions with Prime Lands (Pvt) Ltd

| | 2017 LKR | 2016 LKR |
|---|---|---|
| Statement of Profit or Loss | | |
| Other Operating Income - Rent income | - | 390,000 |
| Interest expense - Debentures | 17,000,000 | 17,046,575 |
| Fixed Deposit interest expenses | 2,244,510 | 3,144,086 |
| Other expenses - Vehicle rent | 2,358,790 | 2,721,096 |
| Statement of Financial Position | | |
| Debt Issued And Other Borrowed Funds - Redeemable debentures | 100,000,000 | 100,000,000 |
| Due To Customers - Fixed deposits | 3,360,986 | 33,360,986 |
| Debt Issued And Other Borrowed Funds - Other Borrowings | - | - |

Transactions with HNB Assurance

| | 2017 LKR | 2016 LKR |
|---|---|---|
| Statement of Profit or Loss | | |
| Commission Income | 8,278,958 | 5,211,475 |
| Statement of Financial Position | | |
| Commission Receivable | 2,089,631 | |
| Claim Receivable | 12,310,082 | - |
| HNB Assurance Premium | 7,039,058 | 7,259,132 |

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### 39.2 Transactions With The Key Management Personnel of The Company or Their Close Family Members

According to Sri Lanka Accounting Standards (LKAS 24) - Related Party Disclosures, Key Management Personnel are those having authority and responsibility for planning, directing, and controlling the activities of the entity. Accordingly, the Key Management personnel of the Company are the members of its Board of Directors and that of its Parent.

| | | 2017 | 2016 |
|---|---|---|---|
| | | LKR | LKR |
| 39.2.1 | Compensation Paid To Key Management Personnel of The Company | | |
| | Balance as at 31 March | | |
| | The following represents the compensation paid to Key Management Personnel of the company | | |
| | Short-term Benefits | 17,915,000 | 9,925,000 |
| | | 17,915,000 | 9,925,000 |

39.2.2 Transactions With The Key Management Personnel of The Company or Their Close Family Members

The Company enters in to transactions, arrangements and agreements with Key Management Personnel and the close family Members of Key Management Personnel in the ordinary course of business. The Transactions listed below were made in the ordinary course of business and on substantially the same terms, including interest/Commission rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The Transactions didn't involve more than the normal risk of repayment or present other unfavourable features.

| | 2017 | 2016 |
|---|---|---|
| | LKR | LKR |
| Statement of Profit or Loss | | |
| Interest expense - Deposits From Customers | 18,407,200 | 6,207,805 |
| Statement of Financial Position | | |
| Due To Customers - Fixed Deposits | 259,696,440 | 121,728,379 |
| Due to customers - Interest Payable | 8,594,485 | - |

### 40. PLEDGED ASSETS

| Nature of Assets | Nature of Liability | Carrying Amount Pledged 2017 | 2016 | Included under |
|---|---|---|---|---|
| | | LKR | LKR | |
| Immovable Properties | First mortgage for loans and borrowings | 886,300,000 | 886,300,000 | Investment Properties |
| Leased Assets | Charged over leased assets on finance lease liabilities | 5,958,602 | 10,977,799 | Property, Plant & Equipment |

# Notes to the Financial Statements

*Year ended 31 March*

## 41. FINANCIAL RISK MANAGEMENT

### 41.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

### 41.2 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 established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### 41.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivable from customers and investment in debt securities.

#### a) *Allowances for Impairment*

Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of customer receivables. The Company policy on impairment consists of allowance for individual impairment that identified based on specific loss event and a collective impairment established for similar receivables in term of their Credit risk on product basis where the loss event have incurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

#### b) *Write-off Policy*

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure as the last resort after considering the legal recoveries. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

Micro Finance Concept works with the Group Peer Pressure where members being pressurised by the other members to pay installments without any defaults. Some loans advance requires guarantees from third parties. There are two types of guarantees obtained by the company. Immovable assets are taken as securities for high valued loan disbursements such as Abhilasha. Other Securities such as personal guarantees are taken for Diriya and Swashakthi Loan facilities. In this context group members will be cross-guarantors each other by which they are pressurised to maintain the non-default of the particular group. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2017 (2016: no collaterals held).

***c) Management of Credit Risk***

The Board of Directors has delegated responsibility for the oversight of credit risk to its Company Internal Credit Committee. Internal Credit Committee, reporting to the Board Credit Committee, is responsible for management of the Company's credit risk, including:

1 Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

2 Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Head Office Credit Committee which consists of two directors.

3 Reviewing and assessing credit risk. Company Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned.

4 Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

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# Notes to the Financial Statements

*Year ended 31 March*

**FINANCIAL RISK MANAGEMENT (Contd.)**

| | As at 31 March 2017 | Current LKR | Overdue LKR | Impaired LKR | Total LKR |
|---|---|---|---|---|---|
| 41.3.1 | Credit Quality by Class of Financial Assets | | | | |
| | Cash and cash equivalents | 1,204,483,946 | - | - | 1,204,483,946 |
| | Financial Assets Held for Trading | 15,024,960 | - | - | 15,024,960 |
| | Loans and advances to members | 13,002,226,475 | 627,734,394 | (369,229,044) | 13,260,731,825 |
| | Loans and advances to others | 502,900,627 | 3,723,346 | (3,589,635) | 503,034,338 |
| | Financial investments - loans & receivables | 773,091,682 | - | (465,978,912) | 307,112,770 |
| | Financial investments - available-for-sale | 12,430,283 | - | - | 12,430,283 |
| | Financial investments - held-to-maturity | 1,743,275,943 | - | - | 1,743,275,943 |
| | Other financial assets | 94,051,089 | - | - | 94,051,089 |
| | Total financial assets | 17,347,485,005 | 631,457,740 | (838,797,591) | 17,140,145,154 |

| As at 31 March 2017 | Overdue | | | | Total |
|---|---|---|---|---|---|
| | Less than 30 Days | 30 to 60 Days | 60 to 90 Days | More than 90 Days | |
| Loans and advances to members | 353,516,352 | 56,101,985 | 37,865,032 | 180,251,025 | 627,734,394 |
| Loans and advances to others | 124,320 | 137,676 | 2,893,555 | 567,794 | 3,723,346 |
| | 353,640,672 | 56,239,661 | 40,758,587 | 180,818,819 | 631,457,740 |

| As at 31 March 2016 | Current LKR | Overdue LKR | Impaired LKR | Total LKR |
|---|---|---|---|---|
| Cash and cash equivalents | 451,223,290 | - | - | 451,223,290 |
| Financial Assets Held for Trading | 14,943,120 | - | - | 14,943,120 |
| Loans and advances to members | 8,608,100,975 | 305,617,190 | (154,678,950) | 8,759,039,215 |
| Loans and advances to others | 379,847,299 | 3,200,000 | (3,596,718) | 379,450,581 |
| Financial investments - Available-For-Sale | 12,430,283 | - | - | 12,430,283 |
| Financial investments - Held-To-Maturity | 2,639,328,475 | - | - | 2,639,328,475 |
| Other financial assets | 128,048,274 | - | - | 128,048,274 |
| Total financial assets | 12,233,921,716 | 308,817,190 | (158,275,668) | 12,384,463,238 |

| As at 31 March 2016 | Overdue | | | | Total |
|---|---|---|---|---|---|
| | Less than 30 Days | 30 to 60 Days | 60 to 90 Days | More than 90 Days | |
| Loans and advances to members | 114,954,289 | 30,323,207 | 19,093,733 | 141,245,961 | 305,617,190 |
| Loans and advances to others | - | - | 3,200,000 | - | 3,200,000 |
| | 114,954,289 | 30,323,207 | 22,293,733 | 141,245,961 | 308,817,190 |

41.3.2 Maximum Exposure Disclosure of Financial Assets

| As at 31 March 2017 | Gross carrying amount (Net of provision) | Net exposure |
|---|---|---|
| Cash and cash equivalents | 1,204,483,946 | 1,204,483,946 |
| Financial assets held for trading | 15,024,960 | - |
| Loans and advances to members | 13,260,731,825 | 12,730,379,415 |
| Loans and advances to others | 503,034,338 | 310,921,094 |
| Financial investments - loans & receivables | 307,112,770 | 307,112,770 |
| Financial investments - available-for-sale | 12,430,283 | - |
| Financial investments - held-to-maturity | 1,743,275,943 | - |
| Other financial assets | 94,051,090 | 94,051,090 |
| Total financial assets | 17,140,145,154 | 14,646,948,314 |

| As at 31 March 2016 | Gross carrying amount (Net of provision) | Net exposure |
|---|---|---|
| Cash and cash equivalents | 451,223,290 | 451,223,290 |
| Financial assets held for trading | 14,943,120 | - |
| Loans and advances to members | 8,759,039,215 | 8,322,161,877 |
| Loans and advances to others | 379,450,581 | 260,788,078 |
| Financial investments - available-for-sale | 12,430,283 | - |
| Financial investments - held-to-maturity | 2,639,328,475 | 735,428,906 |
| Other financial assets | 128,048,274 | 128,048,274 |
| Total financial assets | 12,384,463,238 | 9,897,650,425 |

### 41.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company uses the maturity analysis of all the financial instruments to manage the liquidity risk.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements. The treasury manages the liquidity position as per the treasury policies and procedures.

The treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at Company ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to Monthly ALCO meetings.

The Company relies on Fixed Deposits, savings and debt facility by banks were main primary sources of funding. Company actively manages this risk through maintaining competitive pricing and constant.

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# Notes to the Financial Statements

*Year ended 31 March*

## 41. FINANCIAL RISK MANAGEMENT (Contd.)

### 41.4 Liquidity Risk (Contd...)

41.4.1 The maturity analysis of financial assets and liabilities based on undiscounted gross inflow and outflow is reflected below.

| As at 31st March 2017 | Carrying mounts | Gross nominal outflow/(inflow) | Up to 3 Months | 3 to 12 Months | More than 1 Year |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,204,483,946 | 1,204,483,946 | 1,204,483,946 | - | - |
| Financial assets held for trading | 15,024,960 | 16,250,272 | - | - | 16,250,272 |
| Loans and advances to members | 13,260,731,825 | 16,204,210,818 | 5,854,997,336 | 7,865,431,530 | 2,483,781,952 |
| Loans and advances to others | 503,034,338 | 637,552,840 | 31,141,644 | 96,314,551 | 510,096,645 |
| Financial investments - loans & receivables | 307,112,770 | 401,627,212 | - | 66,937,869 | 334,689,343 |
| Financial investments - available-for-sale | 12,430,283 | 12,430,283 | - | - | 12,430,283 |
| Financial investments - held-to-maturity | 1,743,275,943 | 1,841,046,613 | 964,906,849 | 659,379,490 | 216,760,274 |
| Other financial assets | 94,051,089 | 94,051,089 | 35,654,897 | 30,476,983 | 27,919,207 |
| | 17,140,145,154 | 20,411,653,072 | 8,091,184,675 | 8,718,540,423 | 3,601,927,976 |
| Due to customers | 14,040,245,231 | 16,477,704,512 | 4,556,206,198 | 3,852,125,900 | 8,069,372,415 |
| Debt issued and other borrowed funds | 1,333,380,268 | 2,850,570,752 | 12,876,279 | 32,425,016 | 2,805,269,457 |
| Other Financial Liabilities | 236,020,182 | 236,020,182 | 202,866,863 | 15,767,987 | 17,385,332 |
| | 15,609,645,681 | 19,564,295,446 | 4,771,949,340 | 3,900,318,902 | 10,892,027,203 |
| Liquidity gap related period | - | 847,357,626 | 3,319,235,334 | 4,818,221,521 | (7,290,099,227) |
| Liquidity gap cumulative | - | - | 3,319,235,334 | 8,137,456,853 | 847,357,626 |

| As at 31st March 2016 | Carrying mounts | Gross nominal outflow/(inflow) | Up to 3 Months | 3 to 12 Months | More than 1 Year |
|---|---|---|---|---|---|
| Cash and cash equivalents | 451,223,290 | 451,223,290 | 451,223,290 | - | - |
| Financial assets held for trading | 14,943,120 | 24,170,272 | 720,000 | 720,000 | 22,730,272 |
| Loans and advances to members | 8,759,039,215 | 10,357,833,260 | 3,938,123,440 | 5,985,666,228 | 434,043,593 |
| Loans and advances to others | 379,450,581 | 495,883,702 | 16,393,591 | 66,864,676 | 412,625,434 |
| Financial investments - Available-For-Sale | 12,430,283 | 12,430,283 | - | - | 12,430,283 |
| Financial investments - Held-To-Maturity | 2,639,328,475 | 2,754,709,875 | 1,962,626,080 | 574,583,795 | 217,500,000 |
| Other financial assets | 128,048,274 | 128,048,274 | 128,048,274 | - | - |
| | 12,384,463,238 | 14,224,298,956 | 6,497,134,675 | 6,627,834,699 | 1,099,329,582 |
| Due to customers | 10,420,418,907 | 11,664,733,816 | 2,977,762,297 | 3,610,631,624 | 5,076,339,895 |
| Debt issued and other borrowed funds | 909,572,460 | 1,816,661,910 | 39,649,821 | 100,035,474 | 1,676,976,615 |
| Other Financial Liabilities | 120,332,406 | 120,332,406 | 120,332,406 | - | - |
| | 11,450,323,773 | 13,601,728,132 | 3,137,744,524 | 3,710,667,098 | 6,753,316,510 |
| Liquidity gap related period | - | 622,570,824 | 3,359,390,151 | 2,917,167,601 | (5,653,986,928) |
| Liquidity gap cumulative | - | - | 3,359,390,151 | 6,276,557,752 | 622,570,824 |

### 41.5 Market Risk

The Company is exposed to market risk due to changes in interest rates.

The Company ensures the mix of variable and fixed rate borrowings to manage the exposure due to interest rate movement in the market. These are monitored by the treasury division which get advises from the ALCO meetings.

41.5.1 Sensitivity Analysis

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows;

| | Up to 3 Months | 4 to 12 Months | 1 to 5 Years | More than 5 Years | Total as at 31 March 2017 |
|---|---|---|---|---|---|
| Interest earning assets | | | | | |
| Cash and cash equivalents | 1,204,483,946 | - | - | - | 1,204,483,946 |
| Financial assets held for trading | 15,024,960 | - | - | - | 15,024,960 |
| Financial investments - held-to-maturity | 942,858,918 | 650,417,025 | 150,000,000 | - | 1,743,275,943 |
| Loans and advances to members (gross) | 4,967,622,864 | 6,738,024,795 | 1,920,726,034 | 3,358,454 | 13,629,732,147 |
| Loans and advances to others (gross) | 22,246,782 | 62,580,093 | 352,526,618 | 69,499,204 | 506,852,697 |
| Financial investments - loans & receivables | - | 128,848,614 | 515,394,455 | 128,848,613 | 773,091,682 |
| Total interest earning assets | 7,152,237,470 | 7,579,870,527 | 2,938,647,107 | 201,706,271 | 17,872,461,374 |
| Interest bearing liabilities | | | | | |
| Due to customers | 4,328,376,113 | 3,561,433,334 | 5,975,125,470 | 175,115,869 | 14,040,050,786 |
| Debt issued and other borrowed funds | 48,550,088 | 121,983,413 | 497,846,736 | 665,000,000 | 1,333,380,237 |
| Total interest bearing liabilities | 4,376,926,202 | 3,683,416,747 | 6,472,972,206 | 840,115,869 | 15,373,431,024 |
| Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities) | 2,775,311,268 | 3,896,453,780 | (3,534,325,098) | (638,409,599) | 2,499,030,351 |
| Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualised effect | 27,753,113 | 38,964,534 | (35,343,251) | (6,384,096) | - |
| Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualised effect | (27,753,113) | (38,964,534) | 35,343,251 | 6,384,096 | - |

# Notes to the Financial Statements

*Year ended 31 March*

## 41. FINANCIAL RISK MANAGEMENT (Contd.)

| | Up to 3 Months | 4 to 12 Months | 1 to 5 Years | More than 5 Years | Total as at 31 March 2016 |
|---|---|---|---|---|---|
| Interest earning assets | | | | | |
| Cash and cash equivalents | 451,223,290 | - | - | - | 451,223,290 |
| Financial assets held for trading | 14,943,120 | - | - | - | 14,943,120 |
| Financial investments - held-to-maturity | 1,954,113,933 | 535,214,542 | 150,000,000 | - | 2,639,328,475 |
| Loans and advances to members (gross) | 3,266,139,961 | 5,259,780,186 | 386,346,007 | 1,452,011 | 8,913,718,165 |
| Loans and advances to others (gross) | 10,019,859 | 38,373,324 | 277,381,238 | 57,272,876 | 383,047,297 |
| Total interest earning assets | 5,696,440,163 | 5,833,368,052 | 813,727,245 | 58,724,887 | 12,402,260,347 |
| Interest bearing liabilities | | | | | |
| Due to customers | 2,745,784,899 | 3,118,993,134 | 4,478,211,761 | 77,429,113 | 10,420,418,907 |
| Debt issued and other borrowed funds | 16,408,228 | 33,409,981 | 194,754,251 | 665,000,000 | 909,572,460 |
| Total interest bearing liabilities | 2,762,193,127 | 3,152,403,115 | 4,672,966,012 | 742,429,113 | 11,329,991,367 |
| Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities) | 2,934,247,036 | 2,680,964,937 | (3,859,238,767) | (683,704,226) | 1,072,268,980 |
| Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualised effect | 29,342,470 | 26,809,649 | (38,592,388) | (6,837,042) | - |
| Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualised effect | (29,342,470) | (26,809,649) | 38,592,388 | 6,837,042 | - |

## 42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

| As at 31 March 2017 | Less than 3 month | 3-6 Months | 6-12 Months | 12-36 Months | 36-60 Months | Over 60 Months | Unclassified | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 1,204,483,946 | | | | | | | 1,204,483,946 |
| Financial assets held for trading | 15,024,960 | - | - | - | - | - | - | 15,024,960 |
| Loans and advances to members | 4,692,417,770 | 3,396,649,715 | 3,255,843,978 | 1,328,133,541 | 584,329,793 | 3,357,028 | - | 13,260,731,824 |
| Loans and advances to others | 18,428,423 | 19,520,162 | 43,059,931 | 225,679,204 | 126,847,415 | 69,499,204 | - | 503,034,338 |
| Financial investments - loans & receivables | - | - | 51,185,462 | 102,370,923 | 102,370,923 | 51,185,462 | - | 307,112,770 |
| Financial investments - Available-For-Sale | - | - | - | - | - | - | 12,430,283 | 12,430,283 |
| Financial investments - Held-To-Maturity | 1,287,937,076 | 205,811,382 | 99,527,485 | - | 150,000,000 | - | - | 1,743,275,943 |
| Other assets | 121,858,703 | 36,021,779 | 20,442,235 | 27,454,658 | 2,532,049 | 2,302,150 | - | 210,611,574 |
| Investment properties | | | | | | | 1,049,600,000 | 1,049,600,000 |
| Intangible assets | | | | | | | 127,078,155 | 127,078,155 |
| Property, plant & equipment | | | | | | | 1,119,409,029 | 1,119,409,028 |
| | 7,340,150,878 | 3,658,003,039 | 3,470,059,091 | 1,683,638,326 | 966,080,180 | 126,343,843 | 2,308,517,467 | 19,552,792,824 |
| **Liabilities** | | | | | | | | |
| Due to customers | 4,328,570,558 | 1,069,776,415 | 2,491,656,919 | 4,504,692,330 | 1,470433,140 | 175,115,869 | - | 14,040,245,231 |
| Debt issued and other borrowed funds | 48,550,119 | 41,697,699 | 80,285,713 | 399,115,742 | 98,730,994 | 665,000,000 | - | 1,333,380,268 |
| Income Tax payable | 90,162,428 | 263,285,375 | | | | | | 353,447,803 |
| Value Added Tax payable | (6,263,276) | - | - | - | - | - | - | (6,263,276) |
| Other liabilities | 226,545,070 | 11,655,556 | 12,567,987 | 4,472,827 | 1,667,185 | 11,245,320 | - | 268,153,945 |
| Retiring benefit obligation | - | - | - | - | - | - | 157,508,878 | 157,508,878 |
| Shareholder's Fund | - | - | - | - | - | - | 3,390,204,237 | 3,390,204,237 |
| Deferred tax liability | | | | | | | 16,115,738 | 16,115,738 |
| | 4,687,564,899 | 1,386,415,045 | 2,584,510,619 | 4,908,280,899 | 1,570,831,319 | 851,361,189 | 3,563,828,853 | 19,552,792,824 |

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## 42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Contd.)

| As at 31 March 2016 | Less than 3 month | 3-6 Months | 6-12 Months | 12-36 Months | 36-60 Months | Over 60 Months | Unclassified | Total |
|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | |
| Cash and cash equivalents | 451,223,290 | - | - | - | - | - | - | 451,223,290 |
| Financial assets held for trading | 14,943,120 | - | - | - | - | - | - | 14,943,120 |
| Loans and advances to members | 3,143,047,194 | 2,669,185,141 | 2,561,177,767 | 334,555,939 | 49,629,284 | 1,443,890 | - | 8,759,039,215 |
| Loans and advances to others | 6,423,142 | 11,986,693 | 26,386,632 | 149,946,326 | 127,434,912 | 57,272,876 | - | 379,450,581 |
| Financial investments - Available-For-Sale | - | - | - | - | - | - | 12,430,283 | 12,430,283 |
| Financial investments - Held-To-Maturity | 1,954,113,933 | 19,631,477 | 515,583,065 | - | 150,000,000 | - | - | 2,639,328,475 |
| Other assets | 88,006,791 | 35,799,694 | 18,675,527 | 41,852,563 | 5,821,396 | 6,510,683 | - | 196,666,654 |
| Investment properties | - | - | - | - | - | - | 904,500,000 | 904,500,000 |
| Intangible assets | - | - | - | - | - | - | 67,807,042 | 67,807,042 |
| Property, plant & equipment | - | - | - | - | - | - | 950,441,553 | 950,441,553 |
| | 5,657,757,470 | 2,736,603,005 | 3,121,822,991 | 526,354,828 | 332,885,592 | 65,227,449 | 1,935,178,878 | 14,375,830,213 |
| Liabilities | | | | | | | | |
| Due to customers | 2,745,784,896 | 946,793,068 | 2,172,200,067 | 3,763,159,491 | 715,052,271 | 77,429,113 | - | 10,420,418,906 |
| Debt issued and other borrowed funds | 16,408,228 | 11,103,119 | 22,306,862 | 168,457,751 | 26,296,500 | 665,000,000 | - | 909,572,460 |
| Income Tax payable | - | 278,240,026 | - | - | - | - | - | 278,240,026 |
| Value Added Tax payable | 41,305,715 | - | - | - | - | - | - | 41,305,715 |
| Other liabilities | 150,860,944 | - | - | - | - | - | - | 150,860,944 |
| Retiring benefit obligation | - | - | - | - | - | - | 134,383,355 | 134,383,355 |
| Shareholder's Fund | - | - | - | - | - | - | 2,392,022,626 | 2,392,022,626 |
| Deferred tax liability | - | - | - | - | - | - | 49,026,181 | 49,026,181 |
| | 2,954,359,783 | 1,236,136,213 | 2,194,506,929 | 3,931,617,242 | 741,348,771 | 742,429,113 | 2,575,432,162 | 14,375,830,213 |

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## 43. FAIR VALUE OF ASSETS AND LIABILITIES

### 43.1 Assets and Liabilities Measured at Fair Value

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques is summarised below which incorporates the Company's estimate of assumptions that a market participant would make when valuing the instruments.

43.1.1 Financial Investments – Available-For-Sale

Available-For-Sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted investment securities.

43.1.2 Financial Assets at Fair Value through Profit or Loss - Held for Trading

Financial assets held for trading consist of government debt securities. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka as at the reporting date.

43.1.3 Property, Plant and Equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 43.4.1. The independent valuers provide the fair value of the company's freehold land and buildings at least once in every three years.

43.1.4 Investment Properties

The independent valuers provide the fair value of the company's investment properties annually as per Sri Lanka Accounting Standards (LKAS 40) - Investment Properties. Details of the valuations are disclosed in Note 43.4.1 and 43.4.2.

### 43.2 Fair Value of Financial Assets and Liabilities not Measured at Fair Value

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below.

43.2.1 Loans and Receivables to Customers

The estimated fair value of loans and receivables with a residual maturity of more than one year is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables.

43.2.2 Financial Investments Held to Maturity

Financial assets held to maturity consist of government debt securities. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka as at the reporting date.

43.2.3 Due to Customers

The fair value of customer deposits which are repayable on demand or have a remaining contractual maturity of less than one year approximates to the carrying value of such deposits.

The fair value of customer deposits with a contractual maturity of more than one year is estimated as the present value of future cash flows expected from such deposits calculated based on interest rates at the reporting date for similar types of deposits.

43.2.4 Debt Securities Issued

The fair value of debt securities issued has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

## 43. FAIR VALUATION (Contd.)

### 43.3 Fair value of Financial Assets and Liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument.

| As at 31 March 2017 | Fair Value through Profit and Loss | Available for Sale | Amortised cost Loans and Receivable | Total carrying amount | Fair Value | "Increase/ Decrease) in Fair Value" | Fair Value Hierarchy |
|---|---|---|---|---|---|---|---|
| Cash & Cash Equivalents | | - | 1,204,483,946 | 1,204,483,946 | 1,204,483,946 | - | |
| Investment Securities | | - | | - | - | - | |
| - Measured at Fair Value | 15,024,960 | - | - | 15,024,960 | 15,024,960 | - | |
| - Measured at Amortised Cost | - | - | 298,170,601 | 298,170,601 | 298,170,601 | - | |
| Investment in Shares | - | 12,430,283 | - | 12,430,283 | 12,430,283 | - | |
| Investment Fixed deposits | - | - | 1,295,105,342 | 1,295,105,342 | 1,295,105,342 | - | |
| Finance Lease Receivables | | - | 1,704,446,462 | 1,704,446,462 | 1,717,595,462 | 13,149,000 | Level II |
| Advances & Other Loans | - | - | 12,621,462,914 | 12,621,462,914 | 12,704,570,044 | 83,107,131 | Level II |
| Financial investments - loan & receivables | - | - | 307,112,770 | 307,112,770 | 307,112,770 | | |
| Other Financial Assets | | - | 94,021,922 | 94,021,922 | 94,021,922 | - | |
| Due To Customers - Fixed deposits | - | - | 5,092,059,583 | 5,092,059,583 | 4,744,511,719 | (347,547,864) | Level II |
| Debt issued & Other borrowed Funds | - | - | 1,327,326,382 | 1,327,326,382 | 1,329,333,700 | 2,007,318 | Level II |
| Trade & Other Payables | - | - | 236,020,182 | 236,020,182 | 236,020,182 | - | |

## 43.3 Fair value of Financial Assets and Liabilities

| As at 31 March 2016 | Fair Value through Profit and Loss | Available for Sale | Amortised cost Loans and Receivable | Total carrying amount | Fair Value | "Increase/ Decrease) in Fair Value" | Fair Value Hierarchy |
|---|---|---|---|---|---|---|---|
| Cash & Cash Equivalents | | | 451,223,290 | 451,223,290 | 451,223,290 | - | |
| Investment Securities | | | | - | | | |
| - Measured at Fair Value | 14,943,120 | | 14,943,120 | 14,943,120 | | | Level-1 |
| - Measured at Amortised Cost | | | 1,473,783,398 | 1,473,783,398 | 1,473,783,398 | - | |
| Investment Fixed deposits | | | 1,165,545,077 | 1,165,545,077 | 1,165,469,465 | (75,612) | Level II |
| Investment in Shares | | 12,430,283 | | 12,430,283 | 12,430,283 | - | |
| Finance Lease Receivables | | | 114,417,229 | 114,417,229 | 116,922,599 | 2,505,370 | Level II |
| Advances & Other Loans | | | 9,138,489,796 | 9,138,489,796 | 8,722,948,341 | (415,541,455) | Level II |
| Other Financial Assets | | | 128,048,274 | 128,048,274 | 128,048,274 | | |
| Due To Customers - Fixed deposits | | | 10,420,418,906 | 10,420,418,906 | 10,418,220,834 | (2,198,072) | Level II |
| Debt issued & Other borrowed Funds | | | 909,572,460 | 909,572,460 | 897,267,738 | (12,304,722) | Level II |
| Trade & Other Payables | | | 120,332,406 | 120,332,406 | 120,332,406 | - | |

### 43.4 Valuation of Non-Financial Assets

43.4.1 Changes in Value of Non-Financial Assets

| As at 31 March 2017 | | | Cost/Carring Amount | | | Fair Value | | |
|---|---|---|---|---|---|---|---|---|
| | Building Sq.ft | Extent Perches | Land | Building | Total | Land | Building | Total |
| **Property, Plant & Equipment** | | | | | | | | |
| No. 94 96/1, Kandy Rd, Kurunegala. | 5,755 | 7.05 | 19,600,266 | 63,999,734 | 83,600,000 | 20,350,515 | 66,449,485 | 86,800,000 |
| No. 46/A, Thangalle Rd, Hambanthota. | 2,113 | 9.26 | 6,605,752 | 11,394,248 | 18,000,000 | 6,605,752 | 11,394,248 | 18,000,000 |
| No. 677, William Gopallawa Mw, Kandy. | 5,400 | 9.26 | 18,642,581 | 54,357,419 | 73,000,000 | 22,062,259 | 55,937,741 | 78,000,000 |
| No. 168, Nawala Rd , Nugegoda. | 30,887 | 25.9 | 138,805,759 | 371,194,241 | 510,000,000 | 143,483,594 | 490,116,406 | 633,600,000 |
| | | | 183,654,358 | 500,945,642 | 684,600,000 | 192,502,121 | 623,897,879 | 816,400,000 |
| **Investment Properties** | | | | | | | | |
| No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda. | 24,952 | 39.6 | 156,474,658 | 407,525,342 | 564,000,000 | 205,133,851 | 482,366,149 | 687,500,000 |
| Vihara Road, Rankewatte, Matale. | Land | 15 | 9,000,000 | - | 9,000,000 | 9,000,000 | - | 9,000,000 |
| No. 44/1, Service Road, Puttalam. | Land | 25.6 | 12,800,000 | - | 12,800,000 | 15,400,000 | - | 15,400,000 |
| No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita. | 20,494 | 182.59 | 54,740,871 | 70,259,129 | 125,000,000 | 56,755,335 | 72,844,665 | 129,600,000 |
| No. 67/1, Mahinda Place, Kirulapone, Colombo 05. | 5,786 | 8 | 28,439,640 | 92,560,360 | 121,000,000 | 33,785,567 | 96,214,433 | 130,000,000 |
| No. 06, Abaya Place, 7 th Lane, Anuradapura. | Land | 13.52 | 20,000,000 | - | 20,000,000 | 25,000,000 | - | 25,000,000 |
| No. 10/11, Galle Road Katubedda, Moratuwa. | Land | 23 | 34,500,000 | - | 34,500,000 | 36,800,000 | - | 36,800,000 |
| Adampodaivayal, Adampodaimalaikadu, Trincomalee. | Land | 724 | 14,000,000 | - | 14,000,000 | 16,300,000 | - | 16,300,000 |
| | | | 329,955,169 | 570,344,831 | 900,300,000 | 398,174,753 | 651,425,247 | 1,049,600,000 |

| As at 31 March 2016 | | | Cost/Carring Amount | | | Fair Value | | |
|---|---|---|---|---|---|---|---|---|
| | | Extent Perches | Land | Building | Total | Land | Building | Total |
| **Property, Plant & Equipment** | | | | | | | | |
| No. 94 96/1, Kandy Rd, Kurunegala. | 5,755 | 7.05 | 19,600,266 | 60,799,747 | 80,400,013 | 19,600,266 | 60,799,747 | 80,400,013 |
| No. 46/A, Thangalle Rd, Hambanthota. | 2113 | 9.26 | 6,605,752 | 10,824,536 | 17,430,288 | 6,605,752 | 10,824,536 | 17,430,288 |
| No. 677, William Gopallawa Mw, Kandy. | 5,400 | 9.26 | 18,642,581 | 51,639,548 | 70,282,129 | 18,642,581 | 51,639,548 | 70,282,129 |
| No. 168, Nawala Rd , Nugegoda. | 30,887 | 25.9 | 138,805,759 | 352,634,529 | 491,440,288 | 138,805,759 | 352,634,529 | 491,440,288 |
| | | | 183,654,358 | 475,898,360 | 659,552,718 | 183,654,358 | 475,898,360 | 659,552,718 |
| **Investment Properties** | | | | | | | | |
| No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda. | 24,952 | 39.6 | 151,063,000 | 407,937,000 | 559,000,000 | 156,474,658 | 407,525,342 | 564,000,000 |
| Vihara Road, Rankewatte, Matale. | Land | 15 | 9,000,000 | | 9,000,000 | 9,000,000 | | 9,000,000 |
| No. 44/1, Service Road, Puttalam. | Land | 25.6 | 12,800,000 | | 12,800,000 | 12,800,000 | | 12,800,000 |
| No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita. | 20,494 | 182.59 | 49,008,000 | 71,992,000 | 121,000,000 | 54,740,871 | 70,259,129 | 125,000,000 |
| No. 67/1, Mahinda Place, Kirulapone, Colombo 05. | 5,786 | 8 | 25,267,000 | 90,733,000 | 116,000,000 | 28,439,640 | 92,560,360 | 121,000,000 |
| No. 06, Abaya Place, 7 th Lane, Anuradapura. | Land | 13.52 | 20,000,000 | | 20,000,000 | 20,000,000 | | 20,000,000 |
| No. 10/11, Galle Road Katubedda, Moratuwa. | Land | 23 | 34,500,000 | | 34,500,000 | 34,500,000 | | 34,500,000 |
| Adampodaivayal, Adampodaimalaikadu, Trincomalee. | Land | 724 | 14,000,000 | | 14,000,000 | 14,000,000 | | 14,000,000 |
| Nalluruwa, Panadura. | Land | 17.8 | 4,200,000 | | 4,200,000 | 4,200,000 | | 4,200,000 |
| | | | 319,838,000 | 570,662,000 | 890,500,000 | 334,155,169 | 570,344,831 | 904,500,000 |

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**43.4 Valuation of Non-Financial Assets (Contd..)**

43.4.2 Valuation details of Non-Financial Assets

| | | Range of estimates for unobservable inputs | | | | |
|---|---|---|---|---|---|---|
| | Valuation Method | Value per Perch (Land) | Value per sq. ft. (Building) | Estimated rent per month | Discount Rate | Rate per perch for land |
| **Property, Plant & Equipment** | | | | | | |
| No. 94 96/1, Kandy Rd, Kurunegala. | Cost approach | 2,500,000 | 10000 | 335,000 | - | - |
| No. 46/A, Thangalle Rd, Hambanthota. | Cost approach | 350,000 | 4000 | 73,000 | - | - |
| No. 677, William Gopallawa Mw, Kandy. | Cost approach | 2,300,000 | 10000 | 300,000 | - | - |
| No. 168, Nawala Rd , Nugegoda. | Income approach | 4,750,000 | 12000 | 2,000,000 | 20% | - |
| **Investment Properties** | | | | | | |
| No.67/1, Mahinda Place, Kirulapone, Colombo-05. | Income Approach | | | 450,000 | 20% | |
| No.249, Stanly Thilakarathna Mw, Nugegogda. | Income Approach | | | 1,700,000 | 20% | |
| No.465/1, Old Police Station Road , Kahathuduwa, Polgasovita. | Income Approach | | | 450,000 | 20% | |
| No.64 , Abaya Place , Anuradapura. | Market Comparable method | | | | | 1,850,000 |
| No. 37, Vihara Mw, Matale. | Market Comparable method | | | | | 600,000 |
| No. 340, Galle Road, Katubedda , Moratuwa. | Market Comparable method | | | | | 1,600,000 |
| No.56 ,Sewa Mw, Puttalam . | Market Comparable method | | | | | 600,000 |
| Adampodaivayal, Adampodaimalaikadu, Trincomalee | Market Comparable method | | | | | 22,500 |

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# Notes to the Financial Statements

*Year ended 31 March*

## 44. SEGMENT REPORTING

An operating segment is a component of the company that engages in business activities from which it may earn revenue 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.

HNB Grameen has three main segments, namely finance, leasing and others, based on the business activities that each unit is engaged in for purpose of reviewing the operating results of the company as well as to make decisions about resource allocation.

Management monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the financial statements.

There are no inter-segment transactions occurred during the year.

Income taxes are allocated to specific segments. Other expenses which cannot be directly identified against a particular business segment have been treated as consolidated adjustments.

No revenue from transactions with a single external customer or counter party amounted to 10% or more of HNB Grameen Finance Limited's total revenue in 2015/16 and 2016/17 financial years.

## 44. SEGMENT REPORTING (Contd.)

| | Financial | | Leasing | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Net Interest Income | 3,685,455,325 | 2,757,899,776 | 72,949,776 | 1,244,385 | 102,994,750 | 151,398,200 | 3,861,399,851 | 2,910,542,361 |
| Net Fee and Commision Income | 577,254,372 | 409,498,264 | (5,430,358) | 794,238 | | | 571,824,014 | 410,292,502 |
| Net Gain /(Loss) from Trading | | | | | 81,840 | (24,791,650) | 81,840 | (24,791,650) |
| Net Gain /(Loss) from Financial Investments | | | | | | (1,787,152) | - | (1,787,152) |
| Other operating income | 61,731,214 | 18,454,352 | | 86,090 | 175,065,249 | 74,522,146 | 236,796,463 | 93,062,588 |
| Total Operating Income | 4,324,440,910 | 3,185,852,392 | 67,519,418 | 2,124,713 | 278,141,839 | 199,341,544 | 4,670,102,167 | 3,387,318,649 |
| Impairment charges for Loan & Other Losses | (241,204,462) | (110,452,151) | (324,926) | | (465,978,912) | | (707,508,300) | (110,452,151) |
| Net Operatig Income | 4,083,236,448 | 3,075,400,241 | 67,194,492 | 2,124,713 | (187,837,073) | 199,341,544 | 3,962,593,868 | 3,276,866,498 |
| Operating Profit/(Loss) | 1,802,971,491 | 1,347,112,837 | 11,246,456 | (1,612,243) | (187,837,073) | 199,341,544 | 1,626,380,875 | 1,544,842,138 |
| Income Tax Expenses | (563,753,094) | (378,654,222) | (3,793,595) | | - | (56,094,711) | (567,546,689) | (434,748,933) |
| Profit/(Loss) for the Year | 1,239,218,397 | 968,458,615 | 7,452,862 | (1,612,243) | (187,837,073) | 143,246,833 | 1,058,834,186 | 1,110,093,205 |
| Total Assets | 15,743,297,427 | 11,537,130,808 | 1,744,081,723 | 118,322,268 | 2,065,413,674 | 2,720,377,138 | 19,552,792,824 | 14,375,830,213 |
| Total Liabilities | 13,066,746,966 | 10,784,016,556 | 1,734,412,729 | 119,934,511 | 1,361,428,892 | 1,079,856,522 | 16,162,588,587 | 11,983,807,587 |

# Share Information

### Ten Largest Shareholders - Voting

| No | Shareholders Name | 31st March 2017 | | 31st March 2016 | |
|---|---|---|---|---|---|
| | | No of Shares | % | No of Shares | % |
| 1 | Hatton National Bank PLC | 724,904,118 | 51.00 | 724,904,118 | 51.00 |
| 2 | Prime Lands (Private) Limited | 562,391,533 | 39.57 | 675,091,533 | 47.50 |
| 3 | DWM Funds S.C.A, SICAV - SIF | 112,700,000 | 7.93 | - | - |
| 4 | B. M. D. C. Prabhath | 1,000,000 | 0.07 | 1,000,000 | 0.07 |
| 5 | H. M. U. Senevirathna | 150,000 | 0.01 | 150,000 | 0.01 |
| 6 | W. S. P. Arangala | 110,000 | 0.01 | 110,000 | 0.01 |
| 7 | S. L. Y. Liyanawatte | 102,500 | 0.01 | 102,500 | 0.01 |
| 8 | S. T. D. Peris | 101,000 | 0.01 | 101,000 | 0.01 |
| 9 | J. S. B. Galagoda | 101,000 | 0.01 | 101,000 | 0.01 |
| 10 | W. B. A. Fernando | 100,500 | 0.01 | 100,500 | 0.01 |
| | Sub Total | 1,401,660,651 | 98.61 | 1,401,660,651 | 98.61 |
| | Others | 19,719,973 | 1.39 | 19,719,973 | 1.39 |
| | Total | 1,421,380,624 | 100.00 | 1,421,380,624 | 100.00 |

### Largest Shareholders - Non Voting

| No | Shareholders Name | 31st March 2017 | | 31st March 2016 | |
|---|---|---|---|---|---|
| | | No of Shares | % | No of Shares | % |
| 1 | Seylan Bank PLC | 233,200,000 | 78.20 | 233,200,000 | 78.20 |
| 2 | Prime Lands (Private) Limited | 37,772,148 | 12.67 | 37,772,148 | 12.67 |
| 3 | Prime Grameen Class A Non-Voting Share Trust | 27,227,852 | 9.13 | 27,227,852 | 9.13 |
| | Total | 298,200,000 | 100.00 | 298,200,000 | 100.00 |

### Distribution of Shareholders - Voting

| Shareholding Range | As at 31st March 2017 | | | | As at 31st March 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | No. of shareholders | % | No. of Shares | % | No. of shareholders | % | No. of Shares | % |
| 1 - 1,000 | 99,530 | 99.156 | 16,997,804 | 1.20 | 99,530 | 99.157 | 16,997,804 | 1.20 |
| 1,001 - 10,000 | 810 | 0.807 | 1,573,143 | 0.11 | 810 | 0.807 | 1,573,143 | 0.11 |
| 10,001 - 100,000 | 25 | 0.025 | 948,426 | 0.07 | 25 | 0.025 | 948,426 | 0.07 |
| 100,001 - 1,000,000 | 9 | 0.009 | 1,865,600 | 0.13 | 9 | 0.009 | 1,865,600 | 0.13 |
| Over 1,000,000 | 3 | 0.003 | ,399,995,651 | 98.50 | 2 | 0.002 | ,399,995,651 | 98.50 |
| Total | 100,377 | 100.00 | 1,421,380,624 | 100.00 | 100,376 | 100.00 | 1,421,380,624 | 100.00 |