

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

**FINANCIAL STATEMENTS**

**31 MARCH 2017**



# Independent Auditor's Report

HNB Finance Limited  
**True Copy**

Authorized Signature



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:

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion:
  - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and
  - The financial statements of the Company, comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

07th September 2017  
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W I B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Principal T P M Ruberu FCMA FCCA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

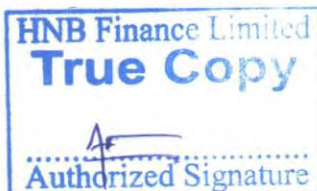
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## Statement of Comprehensive Income

		2017	2016
	Note	LKR	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.





# Statement of Other Comprehensive Income

Year ended 31 March

		2017	2016
	Note	LKR	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

		2017	2016
	Note	LKR	LKR
<b>ASSETS</b>			
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
<b>Total Assets</b>		<b>19,552,792,824</b>	<b>14,375,830,213</b>
<b>LIABILITIES</b>			
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
<b>Total Liabilities</b>		<b>16,162,588,587</b>	<b>11,983,807,587</b>
<b>SHAREHOLDERS' FUND</b>			
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
<b>Total Equity and Liabilities</b>		<b>19,552,792,824</b>	<b>14,375,830,213</b>


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.

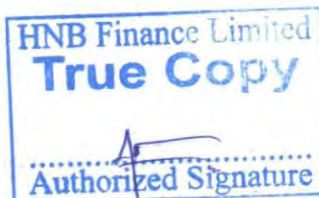
  
**W.S.P. Arangala**  
Chief Operating Officer

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. Prabhat**  
Managing Director/CEO

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
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
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)

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		2017	2016
	Note	LKR	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)	-
<b>Net Cash Flow from Operating Activities</b>		<b>358,381,490</b>	<b>758,178,026</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
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	-
<b>Net Cash Flow from Investing Activities</b>		<b>64,767,552</b>	<b>(753,041,556)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
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)
<b>Net Cash Flow from Financing Activities</b>		<b>330,111,614</b>	<b>41,746,041</b>
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
<b>Cash and Cash Equivalents at the end of the year</b>	<b>15</b>	<b>1,204,483,946</b>	<b>451,223,290</b>

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.

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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 nature 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

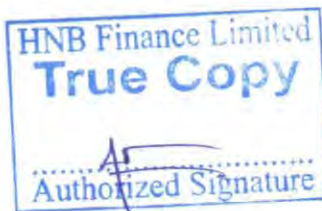
Where the fair values of financial assets and financial liabilities recorded on the Statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from 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

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## 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.

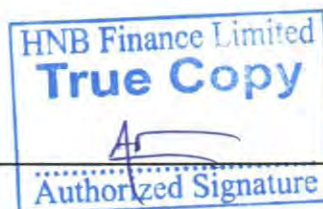
A property that is held to earn rentals or for capital appreciation or both, and which generates cash flows largely independently of the other assets held by the Company is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing 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

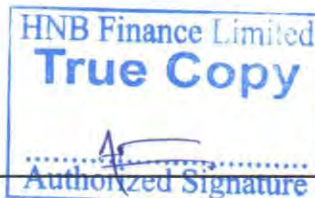
###### Date of recognition

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





## 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.

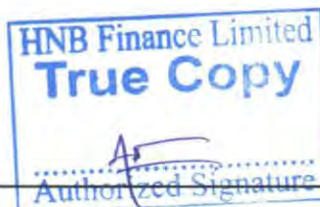
No reclassifications of financial instruments were done during the year

**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;





## Notes to the Financial Statements

Year ended 31 March

- (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.

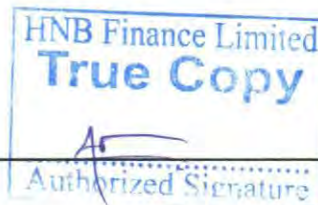
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

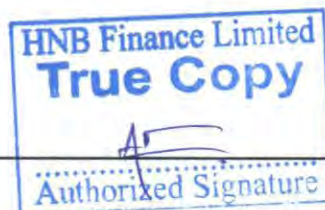
#### *Reversal of Impairment*

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.

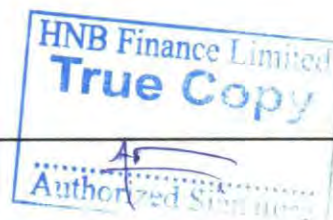
##### **Cost Model**

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

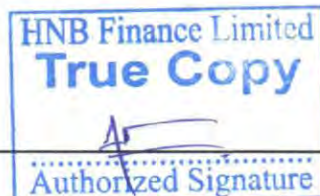
These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition 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 or 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.

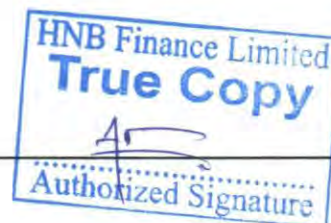
An item of investment Property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised 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

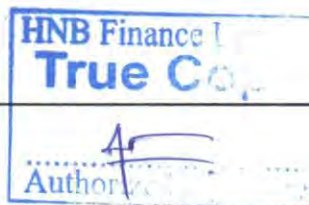
#### 2.3.11.1 Current Tax Expense

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 recognised to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

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

### 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*

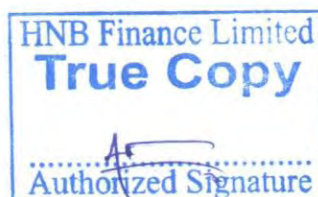
SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead there will be a single on-balance sheet accounting model that is similar to current finance lease accounting.

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
<b>4. GROSS INCOME</b>			
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
<b>5. NET INTEREST INCOME</b>			
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.

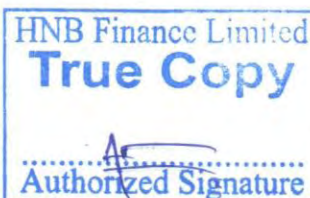
Accordingly, net income earned from secondary market transactions in government securities for the year by the company has been grossed up in the financial statements and the resulting notional tax credit amounted to 9.49 Mn.

		2017	2016
		LKR	LKR
<b>5.1 Interest Income</b>			
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
<b>5.2 Interest Expense</b>			
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 LKR	2016 LKR
<b>6. NET FEE AND COMMISSION INCOME</b>			
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
<b>7. OTHER INCOME</b>			
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
<b>7.1 Other Operating Income</b>			
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
<b>8. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES</b>			
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
<b>8.1 Loans and Advances to Members</b>			
Individual impairment losses		143,325,742	79,537,316
Collective impairment losses		102,378,720	26,380,783
		245,704,462	105,918,099
<b>8.2 Loans and Receivable from Lease</b>			
Individual impairment losses		324,926	-
		324,926	-





## Notes to the Financial Statements

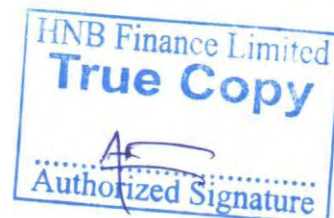
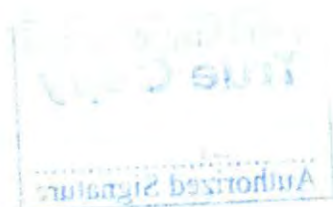
Year ended 31 March

	2017	2016
	LKR	LKR
<b>8.3 Other Assets</b>		
Other impairment	(4,500,000)	4,534,052
	(4,500,000)	4,534,052
<b>8.4 Financial Investments - loans &amp; receivables</b>		
Impairment losses from financial investments - loans & receivables	465,978,912	-
	465,978,912	-
<b>9. PERSONNEL COST</b>		
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
<b>10. OTHER EXPENSES</b>		
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
<b>11. PROVISION FOR VALUE ADDED TAX</b>		
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.



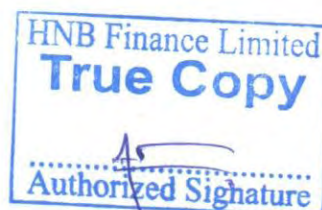


	2017	2016
	LKR	LKR
<b>12. PROVISION FOR NATION BUILDING TAX</b>		
Nation building tax for the year		
Financial services	49,278,589	42,567,290
	49,278,589	42,567,290
<b>13. INCOME TAX</b>		
Current Income Tax		
Current income tax charge	665,720,164	383,361,840
Over provision during previous year	(18,731,103)	-
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 Reconciliation Between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate**

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	-	-





## 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	2016
	LKR	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	2016
	Number	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	2016
	LKR	LKR
<b>15. CASH AND CASH EQUIVALENTS</b>		
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
<b>16. FINANCIAL ASSETS HELD FOR TRADING</b>		
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	Face Value	Carrying Value
		LKR	LKR	LKR
Treasury bond	01.May.2021	16,250,272	16,000,000	14,943,120
		16,250,272	16,000,000	14,943,120

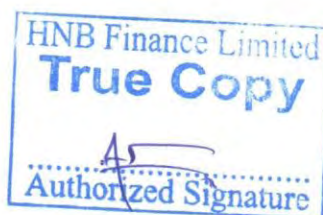




		2017 LKR	2016 LKR
<b>17. LOANS AND ADVANCES TO MEMBERS</b>			
At amortised cost:			
Loans and advances to members		13,629,635,943	8,913,718,165
Less: Allowance for impairment losses		(368,904,118)	(154,678,950)
		13,260,731,825	8,759,039,215
<b>17.1 Product-Wise Analysis of Loans And Advances To Members</b>			
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 LKR	2016 LKR
<b>17.1.1 Lease Receivables</b>			
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
<b>17.1.2 Saving Advance</b>			
Saving advance		209,717,224	186,577,253
Less : Deferred interest on concessional lending		-	(4,772,305)
		209,717,224	181,804,948
<b>17.1.3 Loan against Deposits</b>			
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 LKR	Collective impairment LKR	Total LKR
<b>17.2 Allowance For Impairment Losses</b>				
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 LKR	2016 LKR
<b>18. LOANS AND ADVANCES TO OTHERS</b>			
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
<b>18.1 Staff Loans</b>			
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
<b>18.2 Allowance for impairment losses</b>					
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

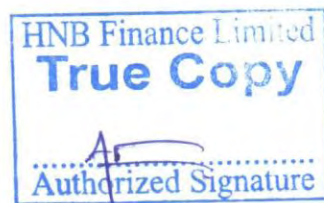
	2017 LKR	2016 LKR
<b>19. FINANCIAL INVESTMENT - LOANS &amp; RECEIVABLES</b>		
Other loan & Receivable	773,091,682	-
Impairment losses Financial Investments - Loans & Receivables	(465,978,912)	-
	307,112,770	-

	2017 LKR	2016 LKR
<b>20. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE</b>		
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.
<b>20.1 Investments In Non Quoted Shares</b>				
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
<b>21. FINANCIAL INVESTMENTS - HELD-TO-MATURITY</b>			
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
<b>21.1 Sri Lanka Government Securities</b>			
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
<b>22. OTHER ASSETS</b>			
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
<b>22.1 Other Non Financial Assets</b>			
Other receivables		117,235,615	78,512,870
Less: Allowance for impairment losses		(675,130)	(9,894,490)
		116,560,485	68,618,380

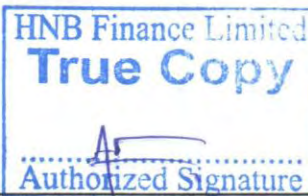


	2017	2016
	LKR	LKR
<b>23. INVESTMENTS PROPERTIES</b>		
Land		
Balance at the beginning of the year	334,155,169	315,638,224
Additions / disposal during the year	(4,200,000)	4,200,000
Fair value adjustment for the period	68,219,584	14,316,945
Balance at the end of the year	398,174,753	334,155,169
Building		
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
<b>24. INTANGIBLE ASSETS</b>		
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
<b>24. INTANGIBLE ASSETS (Contd.)</b>				
<b>24.1 Intangible Assets by Class</b>				
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

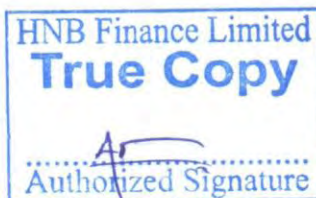
	As at				As at				As at	
	01 April 2015	Transfers during the year	Additions during the year	Disposals during the year	31 March 2016	Transfers during the year	Additions during the year	Transfer to Revaluation Reserve	Disposals during the year	31 March 2017
Land	183,654,358	-	-	-	183,654,358	-	-	8,847,764	-	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				As at				As at	
	01 April 2015	Transfers during the year	Additions during the year	Disposals during the year	31 March 2016	Transfers during the year	Additions during the year	Transfer to Revaluation Reserve	Disposals during the year	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


  
 HNB Finance Limited  
 True Copy  
 Authorized Signature





## 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	2016
	LKR	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
<b>26. DEFERRED TAX LIABILITY/(ASSET)</b>		
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	2016
		LKR	LKR
<b>27. DUE TO CUSTOMERS</b>			
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
<b>28. DEBT ISSUED AND OTHER BORROWED FUNDS</b>			
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
<b>28.1 Redeemable Debentures</b>			
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

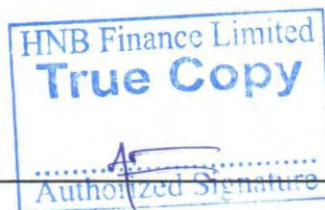
28.1.1 Redeemable Debentures

Year of	Description	Certificate	Type of	Outstanding	Outstanding
Issue		Number	Debenture	as at	as at
				31 March 2017	31 March 2016
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.





## Notes to the Financial Statements

Year ended 31 March

		2017 LKR	2016 LKR
<b>29. PROVISION FOR INCOME TAX</b>			
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
<b>30. VALUE ADDED TAX PAYABLE</b>			
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
<b>31. OTHER LIABILITIES</b>			
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
<b>31.1 Other Financial Liabilities</b>			
Other payables		236,020,182	120,332,406
		236,020,182	120,332,406
<b>31.2 Other Non Financial Liabilities</b>			
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 LKR	2016 LKR
<b>32. RETIRING BENEFIT OBLIGATION</b>			
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
<b>32.1 Retiring Gratuity Expense</b>			
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:

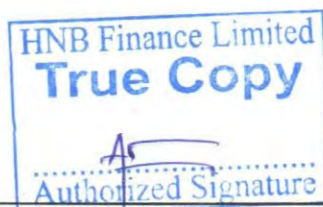
Long term interest rate	11.5%	10.5%
Retirement age	55 years	55 years
Future salary increase rate	10.0%	9.5%

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
<b>33. STATED CAPITAL</b>			
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
<b>34. GENERAL RESERVE</b>		
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
<b>35. STATUTORY RESERVES FUND</b>		
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 31st 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.

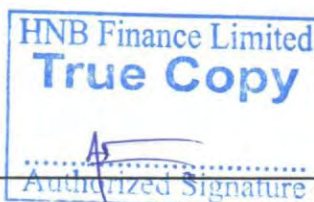
**39. RELATED PARTY TRANSACTIONS**

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 its 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.





## 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	2016
	LKR	LKR
<b>Statement of Profit or Loss</b>		
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
<b>Statement of Financial Position</b>		
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
<b>39.1.2 Transactions with Related Companies</b>		
Transactions with Prime Lands (Pvt) Ltd		
<b>Statement of Profit or Loss</b>		
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
<b>Statement of Financial Position</b>		
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		
<b>Statement of Profit or Loss</b>		
Commission Income	8,278,958	5,211,475
<b>Statement of Financial Position</b>		
Commission Receivable	2,089,631	
Claim Receivable	12,310,082	-
HNB Assurance Premium	7,039,058	7,259,132



### 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
<b>39.2.1 Compensation Paid To Key Management Personnel of The Company</b>		
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

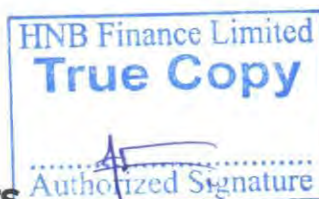
The Company enters in to transactions, arrangements and agreements with Key Management Personnel and the close family Members of Key Management Personnel in the ordinary course of business. The Transactions listed below were made in the ordinary course of business and on substantially the same terms, 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
<b>Statement of Profit or Loss</b>		
Interest expense - Deposits From Customers	18,407,200	6,207,805
<b>Statement of Financial Position</b>		
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	Included under
		2017	2016
		LKR	LKR
Immovable Properties	First mortgage for loans and borrowings	886,300,000	886,300,000
Leased Assets	Charged over leased assets on finance lease liabilities	5,958,602	10,977,799
			Investment Properties 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.





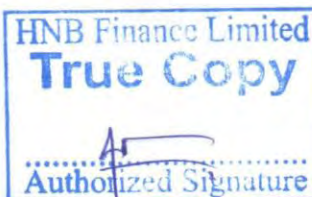
Micro Finance Concept works with the Group Peer Pressure where members being pressurised by the other members to pay installments without any defaults. Some loans advance requires guarantees from third parties. There are two types of guarantees obtained by the company. Immovable assets are taken as securities 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.





# Notes to the Financial Statements

Year ended 31 March

## FINANCIAL RISK MANAGEMENT (Contd.)

As at 31 March 2017		Current	Overdue	Impaired	Total
		LKR	LKR	LKR	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	Overdue	Impaired	Total
		LKR	LKR	LKR	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
	<b>Total financial assets</b>	<b>17,140,145,154</b>	<b>14,646,948,314</b>

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
	<b>Total financial assets</b>	<b>12,384,463,238</b>	<b>9,897,650,425</b>

#### 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.

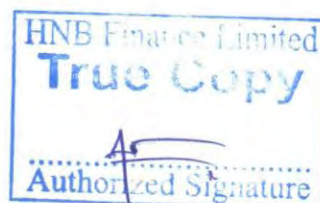
The treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements,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





## 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.

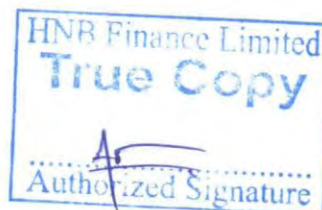
The Company ensures the mix of variable and fixed rate borrowings to manage the exposure due to interest rate movement in the market. These are monitored by the treasury division which get advises from the ALCO meetings.

##### 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
<b>Interest earning assets</b>					
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
<b>Total interest earning assets</b>	<b>7,152,237,470</b>	<b>7,579,870,527</b>	<b>2,938,647,107</b>	<b>201,706,271</b>	<b>17,872,461,374</b>
<b>Interest bearing liabilities</b>					
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
<b>Total interest bearing liabilities</b>	<b>4,376,926,202</b>	<b>3,683,416,747</b>	<b>6,472,972,206</b>	<b>840,115,869</b>	<b>15,373,431,024</b>
<b>Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)</b>	<b>2,775,311,268</b>	<b>3,896,453,780</b>	<b>(3,534,325,098)</b>	<b>(638,409,599)</b>	<b>2,499,030,351</b>
<b>Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualised effect</b>	<b>27,753,113</b>	<b>38,964,534</b>	<b>(35,343,251)</b>	<b>(6,384,096)</b>	<b>-</b>
<b>Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualised effect</b>	<b>(27,753,113)</b>	<b>(38,964,534)</b>	<b>35,343,251</b>	<b>6,384,096</b>	<b>-</b>





## 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
<b>Interest earning assets</b>					
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
<b>Total interest earning assets</b>	<b>5,696,440,163</b>	<b>5,833,368,052</b>	<b>813,727,245</b>	<b>58,724,887</b>	<b>12,402,260,347</b>
<b>Interest bearing liabilities</b>					
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
<b>Total interest bearing liabilities</b>	<b>2,762,193,127</b>	<b>3,152,403,115</b>	<b>4,672,966,012</b>	<b>742,429,113</b>	<b>11,329,991,367</b>
<b>Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)</b>	<b>2,934,247,036</b>	<b>2,680,964,937</b>	<b>(3,859,238,767)</b>	<b>(683,704,226)</b>	<b>1,072,268,980</b>
<b>Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualised effect</b>	<b>29,342,470</b>	<b>26,809,649</b>	<b>(38,592,388)</b>	<b>(6,837,042)</b>	<b>-</b>
<b>Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualised effect</b>	<b>(29,342,470)</b>	<b>(26,809,649)</b>	<b>38,592,388</b>	<b>6,837,042</b>	<b>-</b>



**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
<b>Assets</b>								
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
<b>Liabilities</b>								
Due to customers	4,328,570,558	1,069,776,415	2,491,656,919	4,504,692,330	1,470,433,140	175,115,869	-	14,040,245,231
Debt issued and other borrowed funds	48,550,119	416,976,999	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

HNB Finance Limited  
 True Copy  
 Authorized Signature



**Notes to the Financial Statements**  
Year ended 31 March

**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
<b>Assets</b>								
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
<b>Liabilities</b>								
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





### **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	-	

  
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#### 43.4 Valuation of Non-Financial Assets

##### 43.4.1 Changes in Value of Non-Financial Assets

As at 31 March 2017								
	Building Sq.ft	Extent Perches	Land	Cost/Carring Amount		Fair Value		
				Building	Total	Land	Building	Total
<b>Property, Plant &amp; Equipment</b>								
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
<b>Investment Properties</b>								
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								
		Extent Perches	Land	Cost/Carring Amount		Fair Value		
				Building	Total	Land	Building	Total
<b>Property, Plant &amp; Equipment</b>								
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.	2,113	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
<b>Investment Properties</b>								
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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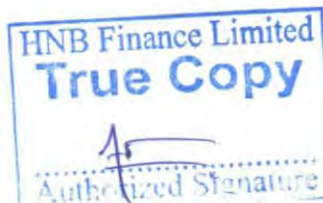
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#### 43.4 Valuation of Non-Financial Assets (Contd..)

##### 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





## 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.

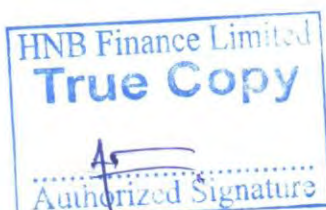


**44. SEGMENT REPORTING (Contd.)**

	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 Commission 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 Operating 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

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## 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