

# ASCENDING HEIGHTS

ANNUAL REPORT 2016/17



COLOMBO TRUST FINANCE PLC

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Colombo Trust Finance PLC has yet again demonstrated considerable resolve in the year under review in our quest to be a force to be reckoned with in the financial services industry by providing dependable and innovative total financial solutions. Your Company has upheld the excellence that has come to be expected of its service and of its repute as one of the nation's emerging financial institutions. We want the best for our loyal customers which is why our rates have remained competitive and we have continued to provide the best possible service for each of our offerings be they fixed deposits, lease facilities, hire purchase, margin trading facilities, loans, cheque discounting and factoring, and any other credit-related facilities.

With every passing year, our dedication towards remaining innovative and raising the bar in the provision of financial services grows stronger, fuelled by the trust we have retained with our customers over the course of our journey thus far. It is this trust that is the driving force behind our strength and motivation to constantly and consistently progress and ascertain the security, success and prosperity of all those who have put their trust in us, since inception. We anticipate a promising future ahead that will see your Company ascend to even greater heights in its bid to be one of the nation's foremost providers of financial solutions.

# ASCENDING HEIGHTS

# Our Vision

To be a force in the financial services industry by providing dependable and innovative total financial solutions.

# Our Mission

To provide innovative financial solutions with differentiated value added customer services whilst maintaining service excellence.

# Core Values of CTF

The age-old traditions based on trust still prevail in our country. They give us the strength and stability to progress, ensuring security, success and prosperity. These are also the core values of Colombo Trust Finance PLC.

# About Us

Colombo Trust Finance PLC is a subsidiary of Cargills Bank Limited.

Formed in 1981 as Silvereen Finance Company Limited, the Company has deep roots in Kandy. The Company was owned by a reputed family in Kandy, which focused on lending to help clients in the area.

In March 2009, Silvereen was acquired along with ABC Credit Card Company by the state-run People's Merchant Bank PLC. The name was changed to People's Merchant Finance Company Limited thereafter.

In May 2011, Capital Alliance bought 99 percent stake of the Company and changed the name to Capital Alliance Finance PLC in September 2011.

In August 2014 Cargills Bank Limited acquired 73 percent stake of the Company and currently holds 80 per cent and changed the name to Colombo Trust Finance PLC in December 2015.

The Company is primarily involved in the business of accepting deposits and also offers finance leasing, hire purchase facilities, business loans and also introduced short term working capital financing products, namely factoring, cheque discounting and trade financing facilities as a part of its product diversification strategy. Colombo Trust Finance PLC is one of the few players who offer margin trading facilities.

We are 3 decades old and registered with the Central Bank of Sri Lanka.

# Financial Highlights

	2017 Rs.	2016 Rs.	Change %
<b>Financial performance</b>			
Interest income	172,194,811	163,871,924	5
Net interest income	96,714,183	91,626,037	6
Profit/(Loss) for the year	4,745,085	(3,094,422)	253
<b>Financial position</b>			
Loan and advances	1,127,385,511	916,688,860	23
Total assets	1,297,776,847	1,118,598,271	16
Shareholders' funds	447,185,989	442,345,408	1
Total deposits	577,660,468	617,229,310	(6)
<b>Information per ordinary share</b>			
EPS (Rs.)	0.10	(0.07)	243
Net assets (Rs.)	9.61	9.51	1
Market value as of end (Rs.)	10.00	10.10	(1)
Price earning (P/E) ratio	100	-	100
<b>Ratios</b>			
Return on average assets	0.4%	-0.5%	180
Return on equity	1%	-1%	200
Net interest margin (NIM) on average assets	8%	8%	-
<b>Compliance ratios</b>			
Core capital to risk weighted assets (minimum 5%)	37%	45%	(18)
Total capital to risk weighted assets (minimum 10%)	37%	45%	(18)
Liquid assets to deposits	11%	17%	(35)
Equity to total assets	34%	40%	(15)

**Rs. 181 Million** Revenue

Net Interest **Rs. 97 Million**

**Rs. 1,298 Million** Total Assets

# Chief Executive Officer's Review

During the year under review, Colombo Trust Finance PLC (CTF) was able to further consolidate its position as it was under many restraints and as its growth was hindered due to regulatory concern and was managed to overcome only during the latter part of the financial year 2015/16.

After fulfilling co-capital requirement as per CBSL guidelines and also effecting the name change to CTF, it was a major challenge for the Company to exist and continue with the same performance level in a highly competitive market during 2016/17.

However CTF managed to turnaround its loss making position of Rs.3.09 million to positive profit after tax of Rs.4.74 million with a higher VAT on financial services of Rs.6.6 million and income tax expense of Rs.4.2 million for the year.

During the year CTF managed to significantly reduce its impairment charge on loans and advances from Rs.22.89 million to just a mere of Rs.0.1 million due to efficient recovery methods and carefully assessed new advances granted.

As a result of the above the Company's operating profit rose significantly to Rs.15.6 million from loss of Rs.2.6 million.

The Company's interest income has increased from Rs.163.8 million to Rs.172.1 million in the year under review and achieving higher net interest income of Rs.96.7 million compared to Rs.91.6 million in the previous year due to slight growth in the loans and advances and mainly due to growth in the working capital loans such as factoring, cheque discounting and revolving loan facilities commenced before 3 years ago and in 2017 it represent 32% of total lending portfolio.

During the period under review it was noted that interest rates were highly volatile during the period under review and on an increasing trend. In spite, management of CTF was prudent to focus on the short term advances base and was able to mitigate the high cost up to a certain level by achieving higher net interest income compared to the previous year.

At present, the Company's shareholder funds stands at Rs.447.1 million which increased from Rs.442.3 million and total loan advances at Rs.1,127.3 million which increased from Rs.916.7 million mainly due to the increased bottom line and the increasing of the short term advance base respectively.

*“Colombo Trust Finance PLC is now poised to grow after a notable turnaround in the financial year 2016/17.”*

Nevertheless, compared to the previous year, CTF managed to significantly reduce its Non-Performing Loan (NPL) to 6.09% from 10% and maintained operating expenses without significant increase during the year under review.

Now as the Company has turn around its financial position to a positive note the company will poise to grow and will make a significant change within the next financial year.

## Appreciation

It is a pleasure to work under the leadership of Mr. Rajendra Theagarajah, veteran banker who spear head the number of large commercial banks in Sri Lanka. We warmly welcome him as the Chairman of the Company who took over from Mr. Mangala Boyagoda.

My sincere appreciation to the Board of Directors, former Chairman Mr. Mangala Boyagoda who is a veteran banker who he is credited with introducing many innovative financial instruments to the Sri Lankan financial market, Management team and all our staff for their dedication and hard work in guiding the Company in the right direction . I look forward to their continued commitment and support.

I thank the Governor of the Central Bank, Directors and other officials of the Central Bank, the General Manager and staff of the Credit Information Bureau for their support for the growth of the Financial sector.

I also thank all our Shareholders for their continued trust in the Board of Directors and our Management team.



W. L. S. Fonseka  
Chief Executive Officer

29 May 2017



# Board of Directors

## **Mr. Rajendra Theagarajah**

*Non-Independent Non-Executive Director / Chairman*

Mr. Rajendra Theagarajah is a veteran banker with a wealth of experience in the Banking and Financial Services sector. He counts over 33 years in banking both locally and overseas.

Mr. Theagarajah served as Director / Chief Executive Officer (CEO) of National Development Bank PLC (NDB) from August 2013 till November 30, 2016. Prior to that, he served as CEO/ Managing Director at Hatton National Bank PLC for 9 years. Mr. Theagarajah was also a past Chairman of Sri Lanka Bankers' Association (Guarantee) Ltd, Financial Ombudsman Sri Lanka (Guarantee) Ltd, former Director of Colombo Stock Exchange and former Chairman of the Asian Bankers Association. He has also served as a Council Member of the Sri Lanka Institute of Directors.

He currently serves as the Chairman of the Ceylon Chamber of Commerce, is a past Chairman of the Chartered Institute of Management Accountants (UK) Sri Lanka Governing Board. He also serves as an Independent Non-Executive Director of Carson Cumberbatch PLC and serves as the Joint Deputy Chairman position of Cargills Bank Ltd.

## **Mr. P. S. Mathavan**

*Non-Independent Non-Executive Director*

Prabhu Mathavan is an Associate Member of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka. He also holds a Bachelor's Degree in Commerce. He possesses over 24 years of experience in the fields of Finance, Auditing, Accounting and Taxation. He is the Managing Director/CEO of Cargills Bank Limited. He serves in the Boards of several companies of Cargills Group including

Cargills (Ceylon) PLC. He is also a Director of Lanka Clear (Private) Limited.

## **Mr. Priyan Edirisinghe**

*Independent Non-Executive Director*

Mr. Priyan Edirisinghe presently Partner of Baker Tilly Edirisinghe & Co. Chartered Accountants with over 19 years' of experience in finance field. He is a fellow member of CA Sri Lanka, and Associate of the Chartered Institute of Marketing UK. He also holds an MBA. He started his career at Ernst & Young, with industry experience in Sri Lanka and overseas.

## **Mr. R. Hettiaratchi**

*Independent Non-Executive Director*

Mr. Roshan Hettiaratchi is an Attorney-at-Law by profession, having a wide practice in the Original Courts as well as the Appellate Courts, specialised in commercial law, business law and intellectual property law for which he counts over 16 years of experience. He holds a Master's degree in Intellectual Property Law and Information Technology. He also serves as an Independent Director at State Mortgage & Investment Bank as well as a Director in several other unlisted companies.

## **Ms. W. K. F. De Silva**

*Non-Independent Non-Executive Director (Appointed on 15th June 2017)*

Ms. De Silva is an Attorney-at-Law and she is the former Secretary to the Ministry of Justice, Sri Lanka.

Ms. De Silva a lawyer by profession who joined the Justice Ministry as an Assistant Secretary in 1984. During her career at the Justice Ministry, she showed a commitment to the process of dispute resolution by mediation and was greatly responsible for making mediation an effective dispute resolution mechanism in Sri Lanka.

Ms. De Silva has over the years also contributed to the conduct of legal literacy programmes for children and has worked specifically on child rights and protection issues. She has also negotiated on behalf of the Government of Sri Lanka on mutual legal assistance with several foreign governments.

She was a member of the Legal Aid Commission, National Child Protection Authority, National Tobacco and Alcohol Authority, Prisons License Board and the National Task Force on Trafficking Human Beings. She presently serves as Executive Director/Company Secretary at Cargills Bank Ltd.

## **Mr. Mangala Boyagoda**

*Non-Independent Non-Executive Director (Resigned on 5th June 2017)*

Mr. Mangala Boyagoda is a senior banker, possessing over 35 years' experience holding key positions in the field of Financial Services. He is the former CEO of Standard Chartered Bank. He is the present Chairman of Wealth Lanka Management (Pvt) Ltd., Director Safe Holdings (Pvt) Ltd., Wealth Trust Securities Ltd., Asset Trust Management (Pvt) Ltd., Ceylon Hotels Corporation PLC, Sierra Constructions (Pvt) Ltd., Dankotuwa Porcelain PLC. Sri Lanka Gateway Industries (Pvt) Ltd., CA Crushing (Pvt) Ltd., Ceylinco Insurance General (Pvt) Ltd., Maskeliya Plantation PLC, Colombo Trust Finance PLC, Royal Fernwood Porcelain (Pvt) Ltd., Faber Capital (Pvt) Ltd., United Hotels Ltd & Virginia International Investments Ltd. He has served as a Consultant to the Asian Development Bank (ADB), World Bank, Central Bank of Sri Lanka and Securities and Exchange Commissions of Sri Lanka and Bangladesh. He is a former president of the Forex Association of Sri Lanka. He holds a Master's Degree in Business Administration from the Irish International University (European Union).

# Management Team

## **Mr. W L S Fonseka**

*Chief Executive Officer (CEO)*

Mr. Lohika Fonseka possesses BA (Hons) in Business Accounting – UK, Diploma in Banking from the Bankers Institute of Sri Lanka and the Investment Advisor Certificate of Securities Exchange Commission of Sri Lanka. He Holds an MBA from University of Wales, Cardiff-UK. Mr. Fonseka is also an Associate Member of the Chartered Institute of Marketing (UK) and a member of the Certified Management Accountant (Australia). He counts over 23 years of experience in the Banking and Financial Services sector. He commenced his career at Hatton National Bank followed by Seylan Bank, Mercantile Leasing Limited and Orient Finance PLC and have been in the senior management for more than 13 years specialized in Credit, Marketing and Operations. He has served as the CEO of Colombo Trust Finance PLC since October 2013.

## **Mr. Sulochana Munasinghe**

*Senior Manager – Business Development and Credit*

Mr. Sulochana counts over 24 years of experience in the Banking and Financial Services sector out of which 12 years at Senior Management level. He began his career at Seylan Bank PLC in 1994, followed by Nations Trust Bank PLC and Union Bank of Colombo PLC. He is specialised in Credit, Marketing, Customer Service and Operations and joined Colombo Trust Finance PLC as Senior Manager – Business Development in 2012. He holds an MBA from Cardiff Metropolitan University, UK. He also holds an AIB and a Diploma in Credit Management from the Institute of Bankers of Sri Lanka. He was also able to secure a Merit Pass in the management course “Developing Managers for the Future” conducted by the Post Graduate Institute of Management in 2011.

## **Mr. Ashok Vitanachy**

*Senior Manager Operations/ Recoveries*

Mr. Ashok is currently our Senior Manager operations responsible for operations, Recoveries and legal. He joined us from Aureos Lanka Advises (Pvt) Limited (formerly Ayojana Fund Management (Pvt) Ltd) with over 15 years of experience in Financial Accounting and IT. He also counts over 7 years of experience in finance operations of the Manufacturing Industry & Garment sector having served Polypack Secco (Pvt) Ltd and Unichela (Pvt) Ltd. He is a Certified Accounting Technician of the Association of Chartered Certified Accountants.

# Management Discussion and Analysis

## Industry Overview

Performance of Non-Banking Financial Institutions / Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) Sector

The LFCs/SLCs sector recorded a strong performance in terms of asset growth and branch network expansion during 2016 amidst a challenging business environment, while placing emphasis on gradually moving out from its core business of vehicle financing to other loan products.

The growth in the sector was mainly funded through domestic borrowings. While maintaining the growth, risk remained under control, as reflected in healthy level of NPLs and comfortable liquidity and capital levels. However, as risks emanating from few LFCs with weak financial positions could cause macro prudential concerns on financial system stability of the country, the Central Bank continued to adopt prudential measures with a specific focus on reviving the aforementioned weak companies to maintain stability of the sector.

## Business Expansion

### a) Outreach:

By end 2016, this sector comprised of 46 LFCs, 7 SLCs and 1,313 branches, out of which 886 branches were located outside the Western Province.

### (b) Assets:

During 2016, the LFCs/SLCs sector was able to expand their asset base exceeding the one trillion rupee mark while maintaining marginally lower growth than in previous year. The total asset base of the sector grew by 21.7 per cent (Rs. 215.8 billion) in 2016 to Rs. 1,211.9 billion compared to a growth of 22.3 per cent (Rs. 181.6 billion) in 2015. The 77.3 per cent growth of assets was mainly led by lending activities. The increased assets were funded mainly through borrowings by 57.6 per cent and the balance by deposits, equity capital and other liabilities which represented 23.3, 10.6 and 8.4 percent, respectively. Credit growth of the LFCs/SLCs sector moderated during the first quarter of 2016 as a result of macro prudential measures implemented with respect to the lending on motor vehicles mainly in the form of a loan to value ratio (LTV). However, with the increased exposure to other lending products, the credit growth accelerated during the second half of 2016 resulting in an overall expansion of credit of 21.0 per cent (Rs. 166.8 billion) to Rs. 962.7 billion as at end 2016, compared to a high growth rate of 31.8 per cent (Rs. 192.1 billion) during 2015. Around 73.1 per cent of this

credit growth was mainly through other loan products such as term loans, revolving loans, microfinance, factoring and draft loans, while 23.7 per cent was through finance leases and hire purchases. The investment portfolio comprises of investments in equities, corporate debt instruments, government securities and investment properties and recorded a growth of 12.1 per cent in 2016 compared to a negative growth of 9.2 per cent in 2015. This was mainly on account of increased investments in short-term government securities. Other assets comprised of cash, balances with banks and financial institutions, trading stocks and fixed assets, showed an increase of 36.6 per cent in 2016 largely due to increased placements in banks and financial institutions.

### (c) Liabilities:

The sector's reliance on retail deposits has gradually shifted towards bank borrowings over the past two years considering the flexibility and cost factor. This has changed the overall funding structure of the sector by increasing the share of borrowings to 36.2 per cent in 2016 from 31.6 per cent in 2015, while the share of deposits decreased to 43.8 per cent in 2016 from 48.3 per cent in 2015. During 2016, the borrowings increased by 39.6 per cent or Rs. 124.4 billion to Rs. 438.7 in absolute terms compared to a growth of 44.6 per cent recorded in 2015. The borrowings are predominantly from the banking and finance sector (58.5 per cent) followed by debenture issues (16.5 per cent), foreign borrowings (4.9 per cent) and overdraft facilities (4.5 per cent). The deposits recorded a moderate growth of 10.5 per cent or Rs. 50.3 billion to Rs. 531.0 billion in 2016, compared to a 16.1 per cent growth in 2015. The deposit mobilisation was mainly through time deposits accounting for 95.6 per cent of the total deposits, whilst the residual was mainly from savings deposits. The capital elements of the sector increased by 18.7 per cent to Rs. 146.1 billion as at end 2016, mainly on account of internally generated profits.

## Profitability and Capital Resources

### (a) Profitability:

Greater business expansion of the LFCs/SLCs sector in to new areas of lending during the year enabled the sector to post increased level of profits. Accordingly, the sector posted a profit after tax of Rs. 31.5 billion compared to that of Rs. 15.2 billion in 2015 reporting a more than two fold increase. Increased business volumes, improved other income and improved operational efficiency were the main contributory factors for increased profits. The net interest income of the sector increased at a slower rate of 12.0 per cent to

# Management Discussion and Analysis (Contd.)

Rs. 92.1 billion compared to 32.0 per cent increase in the previous year, mainly due to increased funding cost, while this affected the net interest margin of the sector negatively as it declined to 7.9 per cent from 8.7 per cent in 2015. The non-interest income recorded an increase in comparison to 2015 mainly on account of default and service charges, while The non-interest expenses decreased marginally leading to an improved efficiency ratio. The loan loss provisions made against NPLs was lower by Rs. 1.9 billion during 2016 when compared to Rs. 9.5 billion reported for 2015. The profitability indicators of the sector, ROA and ROE, increased to 4.0 per cent and 23.1 per cent, respectively, in 2016 compared to 3.0 per cent and 12.4 per cent, respectively, in 2015.

## b) Capital:

The total regulatory capital of the sector improved by 25.1 per cent to Rs. 116.2 billion mainly due to retained profits. The regulatory capital was composed of Tier I and Tier II capital of which, the Tier I capital contributed to 97.2 per cent of the total regulatory capital. The core capital and total risk weighted capital ratios of the sector increased to 11.4 and 11.7 per cent, respectively, as at end 2016 from 10.5 and 11.2 per cent, respectively, as at end of 2015. However, there were few companies operating below the minimum required capital levels due to weak financial position, requiring the Central Bank to adopt certain measures to rectify such issues

## Supervisory and Regulatory Developments

Throughout 2016, the Central Bank closely monitored the developments in the LFCs/SLCs sector especially the gradual movement of business concentration towards other loan products as a result of policy measures taken to curtail vehicle importation since 2015. Further, in view of strengthening the regulatory framework of LFCs/SLCs, a detailed review was conducted on the existing regulatory framework. This was conducted to keep the pace with international and local developments in the financial industry, emerging international best practices guided by the Basel Committee on Banking Supervision and other standard setting bodies. Accordingly, the Central Bank is in the process of introducing new regulations along with the consultation with stakeholders of the sector. In addition, LFCs and SLCs were given guidance to focus more on their branch expansion strategies in view of balancing the financial inclusion objective and internal strengths through business efficiency. Hence, a new framework on branch openings, closure and relocation was

introduced by streamlining the existing policies and practices. Further, a policy was implemented to encourage LFCs/SLCs to open only branches instead of other outlets in view of streamlining the branch expansion process. The methodology used in setting the maximum upper limit of interest rates on deposits and debt instruments was revised to neutralise the impact of sudden changes in the interest rates.

## Operations Review

Other than Leasing, Hire Purchase and Margin Trading, Company diversified in to Working Capital Loans such as Factoring, Cheque Discounting and Revolving Loan Facilities commenced before 3 years ago and in 2017 it represent 32% of total lending portfolio. Our performance in all these areas has been significant, with Leasing and Working Capital Loans being the leading income earners. At present, the Company offers these facilities through its two branches. Our reach will gradually expand the business by opening new branches with the 3 year corporate plan which will take place in the near future.

We provide Leasing and Hire Purchase facilities for all types of motor vehicles and equipment. Our Margin Trading operations, which commenced 4 years back has now reached a steady position and is expected to further expand by attracting a larger clientele. Our lending portfolio has consisted following products and Leasing, Business Loans and Working Capital Loans recorded a substantial increase during the year, growing by 14%, 43% and 38% respectively. Due to favorable market conditions the Margin Trading portfolio has increased from Rs. 113 Million to Rs. 171 Million.

- Leasing
- Business Loans
- Trade Financing Products-Pledge Loans
- Revolving Loans
- Factoring
- Cheque Discounting
- Margin Trading
- Hire Purchases

## Deposits

Our deposit base reduced from Rs. 617 Million to Rs.577 Million, which is a fall of 6.41%. Our Fixed Deposit portfolio consists of institutional investors, individuals as well as senior citizens.

### Shareholders' Funds

The shareholders' funds have been increased from Rs.442 Million to Rs.447 Million. The increase in bottom line was the main reason for this slight improvement.

### Operating Expenses

Our operating expenses increased by 8.68% of which the personnel cost increased by 13% due to annual increments of salaries and the other benefits, to retain current employees.

Furthermore Value Added Tax (VAT) on financial services has been increased by 101% due to rate changes and increase of liable profit, it adversely impacted by 3.36 million to profit before income tax.

Income tax expense has been increased by 247% compared to last year due to reversal of deferred tax asset, the expense income tax is 4.2Million.

### Financial Achievements

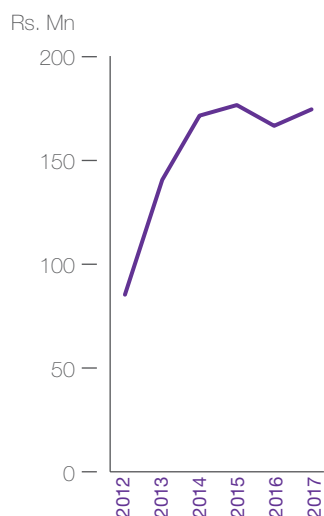
We are fully compliant with Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards(LKAS). During the year under review, the Company's profit after tax (PAT) rose to Rs 4.75Million from the loss of Rs.3.09Million recorded in 2015/2016 making it a notable turnaround.

Interest income recorded a growth of 5% and net operating income increased by 32%.

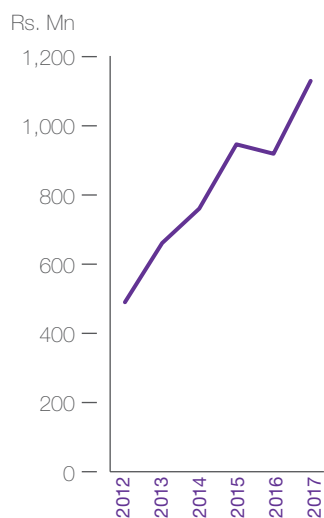
### Information Technology

CTF currently functions on industry leading specialized data base system for the modules of Leasing, Hire Purchase, Fixed Deposits, General Ledger and for Factoring and Margin Trading business a browser based system. CTF is continuously improving its infrastructure to cater to the dynamic growth of the Company. In this context a new MIS System was implemented to streamline the Credit Review Process. Disaster Recovery and Backup Strategy was strengthened and is reviewed on routine basis to ensure business continuation.

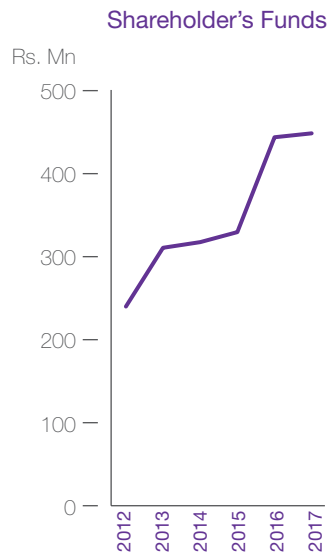
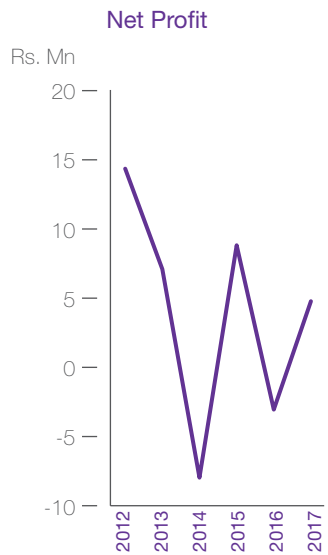
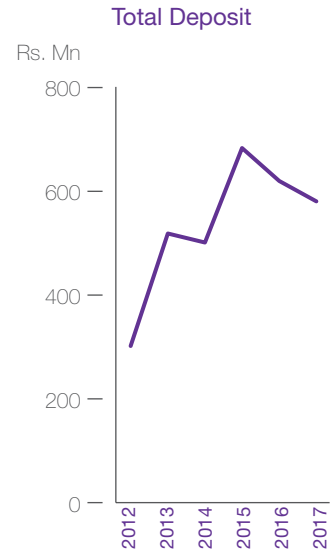
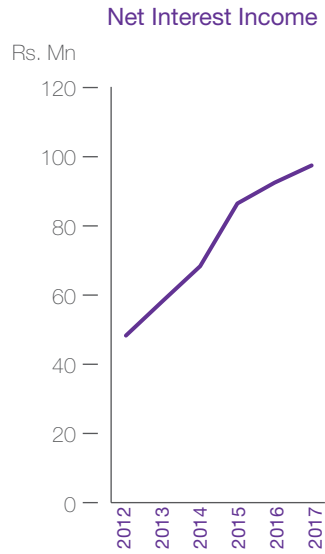
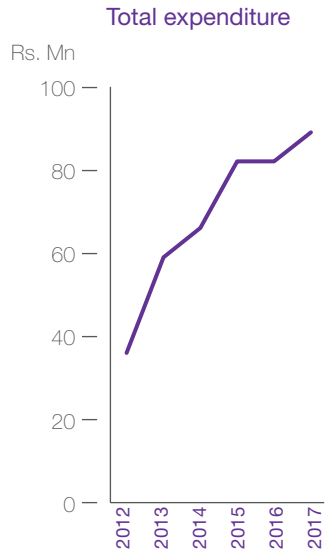
Total Income/Turnover



Total Advances



# Management Discussion and Analysis (Contd.)



# Corporate Governance

Corporate Governance is the system by which Companies are directed and controlled in the proper manner. The Board of Directors is responsible for the governance of the Company. Your Board has placed considerable emphasis on developing rules, structures and processes to ensure integrity and transparency in all of the Company's dealings and in making the best effort in achieving performance and quality profits. We have continuously refined our structure and system to ensure governance to be in line as defined, aware all the time that we are accountable to our stakeholders and the general public.

This statement describes the application of the Corporate Governance practices within the Company during the year under review.

## Compliance with the Code of Best Practice

The Company currently complies with the requirements set out in the Code of Best Practice for Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Rules on Corporate Governance contained in the Listing Rules of the Colombo Stock Exchange.

## Board of Directors

The Board is the topmost body of Colombo Trust Finance PLC that carries the responsibilities of directing the Company and of supervision. The responsibilities of the Board include making an accurate assessment of the Company's position, making strategic decisions, attending Board meetings and Board sub-committees, ensuring good governance and overseeing the risk management of the Company.

## Board Sub-Committees

Complying with the CBSL directions, the Company has appointed the following Board Committees reporting to the Board.

- Audit Committee
- Integrated Risk Management Committee
- Remuneration Committee
- Related Party Transactions Review Committee
- Nomination Committee.

The above Committees consist of a majority of Non-Executive Directors and their names are given on pages 35, 36, 37 and 38. The Compliance Officer ensures the compliance with the regulatory and statutory requirements and the laws and regulations governing Finance Companies, Public Listed Companies and generally in business activities undertaken

by the Company. Besides, the Company has identified Committees in-house for recoveries, credit, assets and liability management to regulate the relevant areas thereby ensuring that decision-making is on a participatory basis. The Reports of the Audit Committee and Remuneration Committee are given on pages 35 and 36.

## Composition

The Board comprises five (5) members including the Chairman. All Directors are Non-Executive Directors with skills and experience in financial sector. The Board has determined that two (2) Non-Executive Directors are 'independent' as per the criteria set out in the Listing Rules of the Colombo Stock Exchange.

The names of the Directors who served during the year under review are disclosed in the Annual Report of the Board of Directors on the Affairs of the Company on pages 39 to 41.

## Board Meeting

The performance of the Company reviewed and monitored against the budgets at Board meetings together with any other matters that require the attention of the Board. The Board meets once a month, and Special Board Meetings are arranged on requirement basis. Accordingly during the year ended 31 March 2017, thirteen (13) Board meetings were held. The attendance at the meetings as follows.

Name of Director	Non-Executive / Independent Non-Executive	Attendance
Mr. R . Theagarajah	Non-Independent Non-Executive Director ( <i>Appointed w.e.f 01 February 2017 / Chairman w.e.f 01 February 2017</i> )	02
Mr. E. M. M. Boyagoda	Non-Independent Non-Executive Director ( <i>Appointed on 17 November 2014</i> )	12
Mr. P. S. Mathavan	Non-Independent Non-Executive Director ( <i>Appointed on 16 February 2015</i> )	13
Ms. S. M. G. Dunuwille	Non-Independent Non-Executive Director ( <i>Resigned on 01 February 2017</i> )	08

# Corporate Governance (Contd.)

Name of Director	Non-Executive / Independent Non-Executive	Attendance
Mr. P. P. Edirisinghe	Senior Director / Independent Non-Executive (Appointed on 19 January 2016)	13
Mr. L. D. R. Hettiaratchi	Independent Non-Executive Director (Appointed on 9th February 2016)	13

## The Management

The day-to-day operations of the Company are entrusted to the Corporate and Senior Management headed by the Chief Executive Officer. They ensure that risk and opportunities are identified and steps are taken to achieve targets within defined time frame and budgets.

## Financial Disclosure and Transparency

Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, the Companies Act, the Finance Business Act and the directions and rules issued thereunder. The unaudited provisional quarterly statements of accounts are released to the Colombo Stock Exchange (CSE) in compliance with the Listing Rules of the CSE. Messrs. KPMG acts as External Auditors of the Company. The Auditors are allowed to act independently and without intervention from the Management or the Board of the Company to express an opinion on the Financial Statements of the Company. All the required information is provided for examination to the Auditors.

## Ethical Standards

The Company requires that all its employees maintain the highest standards of integrity in the performance of their duties and dealings on behalf of the Company. The Company focuses on the training and career development of employees for the creation of an empowered and committed group of employees, who will drive the Company to higher levels of achievement in keeping with its mission, vision and values.

## Statutory Payments

All statutory payments due to the Government, other regulatory institutions and those payments related to employees, have been made on time or provided in accordance with the Sri Lanka Accounting Standards.

## Compliance with Central Bank Regulations

As a registered Finance Company and a registered Finance Leasing Establishment, the Company is governed by the Non-Banking Financial Institutions Directions & Rules issued by the Monetary Board of the Central Bank of Sri Lanka. Accordingly, the Company has to carry out and maintain business activities in compliance with the Directions from time to time issued by the Central Bank of Sri Lanka.

## Accountability and Disclosure

In the year ended 31 March 2017, the members of the Board of Directors have reviewed in detail the Quarterly Financial Statements and Annual Financial Statements in order to satisfy themselves that they present a true and fair view of the Company's affairs, and these practices have been further strengthened as per the Code of Best Practices on Corporate Governance, Listing Rules of the Colombo Stock Exchange and Directions issued under the Finance Companies Act. A summary of Directors' Responsibilities in respect of Finance Statements are given on page 44.

## Investor Rights and Relations

The Company is bound to safeguard the rights of all shareholders and secure equal treatment for all shareholders. The Company provides its Annual Financial Statements within the mandatory period to all shareholders and the unaudited provisional Financial Statements are released to the Colombo Stock Exchange (CSE) in accordance with the Listing Rules of CSE. All shares carry equal voting rights and the shareholders are informed of the Annual General Meeting before the mandatory period. The Board, Senior Management and the Auditors attend the Annual General Meeting to answer the questions of shareholders.

By Order of the Board.



R. Theagarajah  
Chairman  
Non-Independent Non-Executive Director

29 May 2017



Adherence with the principles of Finance Companies (Corporate Governance) Direction No. 03 of 2008, No. 04 of 2008 and No. 06 of 2013 issued under Finance Business Act No. 42 of 2011 is tabulated below.

Rule Reference	Rule Description	Compliance Status
<b>2. The Responsibilities of The Board of Directors</b>		
2. (1) a,b,c,d,e, f,j,h,i,j,k, l,m	Strengthening the safety and soundness of the Company	<b>Complied</b> The Board formulates the business strategy and ensures that the CEO and management team possesses the skills, experience and knowledge to implement the strategy. It also ensures that effective systems are in place to secure the integrity of the information, internal controls and risk management and compliance with all applicable laws and regulations.
2. (1) .g	Areas of authority of Board and Key Management Personal	<b>Partially complied with</b> Company is in the process of preparing Board charter.
2. (2)	Chairman and CEO	<b>Complied</b> The Chairman and the CEO of the company have been appointed by the Board to ensure an appropriate balance of power, increased accountability and grater capacity of the board for independent decision making.
2. (3)	Independent professional advice to Board Members	<b>Complied</b> The Board members are permitted to obtain independent professional advice from a third party, including the Company's external auditors and lawyers, at the expense of the Company since the Board collectively, and Directors individually, must act in accordance with the laws of the Country, as applicable to the business enterprise.
2. (4)	Conflict of Interests	<b>Complied</b> The Company secretaries obtained disclosure of Related Party Transactions from Directors annually and conflict of interest (if any) is managed based on this statement.
2. (5)	Formal schedule of matters	<b>Complied</b> The Board has a formal schedule of matters reserved to it.
2. (6)	Situation of Insolvency	<b>Complied</b> No such situation has arisen during the year 2016/17.
2. (7)	Corporate Governance Report	<b>Complied</b> This report addresses this requirement.
2. (8)	Annual self-assessment by the Directors	<b>Complied</b>
<b>3. Meeting of the Board</b>		
3. (1)	Board Meeting	<b>Complied</b> Board Meetings were held at monthly intervals. Board met 13 times during the year 2016/17.
3. (2)	Inclusion of proposals by all Directors in the agenda	<b>Complied</b> The Company Secretary facilitates any requests made by the Directors at the meetings or otherwise and ensures that the said matters and proposals are included in the agenda for the next meeting for discussion.

# Corporate Governance (Contd.)

Rule Reference	Rule Description	Compliance Status
3. (3)	Notice of Meetings	Complied
3. (4)	Attendance to Meetings	Complied A Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding 3 consecutive meetings held, shall cease to be a director. Provided that participation at the Directors' meetings through an Alternate Director shall, however, be acceptable as attendance.
3. (5)	Board Secretary	Complied Please refer section A.1.4. Of the ICASL Code compliance table.
3. (6)	Agenda and Minutes of the Meetings	Complied The Secretary prepares the agenda.
3. (7)	Access to Secretary by Directors	Complied All the Directors have access to the Company Secretary.
3. (8)	The Company Secretary shall maintain the minutes of Board Meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director	Complied The Company Secretary maintains the minutes of Board Meetings, which are available for inspection by any Director.
3. (9)	Minutes of Board Meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties.	Complied The Company Secretary records the proceedings of the meetings and the decisions taken thereon in sufficient detail.
<b>4. The Board's Composition</b>		
4. (1)	Number of Directors	Complied The Board comprises of 5 Directors
4. (2)	Period of service of a Director	Complied
4. (3)	Appointment of an employee as a Director	Complied The company does not have any Executive Directors
4. (4)	Independent Non-Executive Director	Complied 2 out of 5 Directors are Independent Non-Executive Directors.
4. (5)	Alternate Director	Complied No Alternate Directors appointed during the year 2016/17.
4. (6)	Credibility, skills and experience of Non-Executive Directors	Complied Profiles of the Non-Executive Directors describe the required qualities.
4. (7)	Presence of Non-Executive Directors at Board Meetings	Complied All of the Directors of the company during the year 2016/17 were Non-Executive Directors.
4. (8)	Details of Directors	Complied Details of Directors are included in this Annual Report.

Rule Reference	Rule Description	Compliance Status
4. (9)	Appointment of new Directors	<b>Complied</b> The Board collectively assesses the composition of the Board and makes appointments as necessary.
4. (10)	Appointment to fill a casual vacancy	<b>Complied</b> There were no casual vacancies during the year.
4. (11)	Resignation/removal of a Director	<b>Complied</b>
<b>5. Criteria to assess the fitness and propriety of Directors</b>		
5. (1)	Directors over 70 years of age	<b>Complied</b> The Board does not consist of any Directors over the age of 70 years.
5. (2)	Holding in office in more than 20 companies	<b>Complied</b> No Director holds such number of positions.
<b>6. Management function delegated by the Board</b>		
6. (1) & 6. (2)	Delegation of work to the management and review of delegation process	<b>Complied</b> The Board evaluates the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its functions.
<b>7. The Chairman and Chief Executive Officer</b>		
7. (1)	Division of responsibilities of the Chairman and CEO	<b>Complied</b> The posts of the Chairman and the Chief Executive Officer (CEO) of the company are separated and ensured the balance of power and authority.
7. (2)	Chairman shall be an Independent Non-Executive Director and if not designate a Senior Director.	<b>Complied</b> Chairman is a Non-Independent Non-Executive Director. Thereby designated a Senior Director
7. (3)	Relationship between Chairman and CEO and other Directors	<b>Complied</b> There are no material relationships between the Chairman / CEO and other members of the Board which will impair their respective roles.
7. (4)	Role of the Chairman	<b>Complied</b> Please refer section A.3 of the ICASL Code compliance table.
7. (5)	Meeting Agenda	<b>Complied</b> Board Secretary prepares the agenda for Board meetings under direct supervision of the Chairman.
7. (6)	Meeting Minutes	<b>Complied</b> All Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.
7. (7)	Board Members' Responsibility	<b>Complied</b> Chairman ensures full and active contribution of all members of the Board and also ensures the Board acts in the best interests of the Company.

# Corporate Governance (Contd.)

Rule Reference	Rule Description	Compliance Status
7. (8)	Contribution of Non-Executive Directors	<b>Complied</b> The Chairman facilitated the effective contribution of Non-Executive Directors.
7. (9)	Refrain from direct supervision of Key Management Personal or Executive Directors by Chairman	<b>Complied</b> Subject to the transitional provisions contained herein, the Chairman, has not engaged in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.
7. (10)	Communication with Shareholders	<b>Complied</b> The Chairman ensures that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.
7. (11)	CEO's Role	<b>Complied</b> The Chief Executive Officer functioned as the apex Executive-In-Charge of the day-to-day-management of the relevant establishment's operations and business.
<b>8. Board Appointed Committees</b>		
8. (1)	Board appointed five Sub Committees	<b>Complied</b> Audit Committee, Remuneration Committee, Nomination Committee, Related Party Transaction Review Committee and Integrated Risk Management Committee have been appointed as required by the direction.
<b>8. (2) Audit Committee</b>		
8.2.a	The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	<b>Complied</b>
8.2.b	The Board members appointed to the Committee shall be Non-Executive Directors.	<b>Complied</b>
8.2.c	Committee recommendations	<b>Complied</b>
8.2. d,e,f,g,h, i,j,k,l	External and Internal Auditors	<b>Complied</b> The committee has met three times with external auditors and two times with internal auditors during the year.
8.2.m	Power of Committee	<b>Complied</b> The committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.

Rule Reference	Rule Description	Compliance Status
8.2.n	Meeting of Committee	<b>Complied</b> The Committee has met 5 times during the year. The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.
8.2.o	Disclosure of Audit Committee in Annual Report	<b>Complied</b>
8.2.p	Meeting Minutes of the Audit Committee	<b>Complied</b>
8.2.q	Whistle Blowing Policy	<b>Not Complied</b> At present the Company is in the process of setting a proper whistle blowing policy by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.
<b>8.3 Integrated Risk Management Committee</b>		
8.3.a,b,c, d,f,h	Integrated Risk Management Committee	<b>Complied</b>
8.3.e	Risk Committee meetings	<b>Complied</b> During the year Risk Management Committee has met 4 times.
8.3.g	Risk Report	<b>Partially Complied</b>
<b>9. Related Party Transactions</b>		
9. (2) to 9. (4)	Avoiding conflict of interest in related party transactions and favourable treatment	<b>Complied</b> Compliance steps have been taken by the Board to avoid any conflict of interests that may arise in transacting with related parties as per the definition of this Direction. Further, the Board ensures that no related party benefits from favourable treatment and company is further strengthening this process.
<b>10. Disclosures</b>		
10. (1)	Financial reporting, statutory and regulatory reporting	<b>Complied</b>
10. (2)	Minimum disclosure in the Annual Report	<b>Complied</b>

# Corporate Governance (Contd.)

Adherence with the principles of Code of Best Practice on Corporate Governance issued jointly by the ICASL and the SEC is tabulated below.

Rule Reference	Rule Description	Compliance Status
<b>A. Directors</b>		
<b>A.1. The Board</b>		
Board should direct, lead and control the Company		
A.1.1	<b>Meetings</b> The Board should meet regularly. Board meetings should be held at least once every quarter of a financial year.	Complied
A.1.2	<b>The Board Responsibility</b> The Board should be responsible for the following <ul style="list-style-type: none"> <li>• Ensuring the formulation and implementation of a sound business strategy.</li> <li>• Ensuring that the Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy.</li> <li>• Ensuring the adoption of an effective CEO and senior management succession strategy.</li> <li>• Ensuring effective systems to secure integrity of information, internal controls and risk management.</li> <li>• Ensuring compliance with laws, regulations and ethical standards.</li> <li>• Ensuring all stakeholder interests are considered in corporate decisions.</li> <li>• Ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations.</li> <li>• Recognizing suitable business development in corporate strategy, decisions and activities.</li> </ul>	Complied The Board is collectively responsible for the success of the Company. The Board formulates the business strategy and ensures that the CEO and Management Team possess the skills, experience and knowledge to implement the strategy. It also ensures that effective systems are in place to secure the integrity of the information, internal controls and risk management and compliance with all applicable laws and regulations. The Independent Directors are responsible for bringing independent judgement to decisions made by the Board.
A.1.3	<b>Access to Independent Professional Advice</b> There should be a procedure agreed to by the Board of Directors to obtain independent professional advice, where necessary, at the Company's expense.	Complied The Board Members are permitted to obtain independent professional advice from a third party including the Company's external auditors and lawyers at the expense of the Company since the Board is collectively, and Directors are individually, must act in accordance with the laws of the country, as applicable to the business enterprise.

Rule Reference	Rule Description	Compliance Status
A.1.4	<b>Company Secretary</b> All Directors should have access to the advice and services of the Company Secretary.	<b>Complied</b> All Directors have access to the Company Secretary. The Secretary ensures that all Board procedures as per the Board Terms of Reference are followed and applicable rules and regulations are adhered to. The Secretary possesses the required qualifications as set out in the Companies Act. The consent of all the Board members are required for the removal of the Company Secretary.
A.1.5	<b>Independent Judgement of Directors</b> All Directors should bring Independent judgements.	<b>Complied</b> Directors bring independent judgement to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct.
A.1.6	<b>Adequate Time and Effort of Directors</b>	<b>Complied</b> The Board members dedicate adequate time for the affairs of the Company by attending Board meetings, Board sub-committee meetings, making decisions and adopting resolutions via circular. The additional meetings and discussions are held with the management whenever the need arises.
A.1.7	<b>Training of Directors</b> Every Director should receive appropriate training when first appointed to the Board of a company, and subsequently as necessary.	<b>Complied</b> Adequate knowledge sharing opportunities are available to new and existing members of the Board on company and industry related matters on a continuous basis, and the experience of the Directors further guides the continuous training and an expansion of the knowledge and skills required to effectively perform their duties.
<b>A.2. Chairman and Chief Executive Officer (CEO)</b>		
There are 2 key tasks at the top of every public company - conducting of the business of the Board,		
A.2.1.	<b>Separation of Duties of Chairman and CEO</b> There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.	<b>Complied</b> The Chairman and CEO roles are conducted separately and there is a clear division of duties of the Chairman and CEO. The Chairman is responsible for the leadership of the Board, the management of Board meetings and the business undertaken. It is also the duty of the Chairman, together with the Company Secretary, to ensure that all relevant issues are on the Board agenda, that Directors receive all appropriate and timely documentation and are enabled and encouraged to play their full part in relevant discussions and debate. The CEO is responsible for the day-to-day operations of the Company in accordance with the policies and objectives laid down by the Board. He is also accountable for the achievement of the financial and non-financial objectives agreed annually by the Board and contained within the Company's Business Plan. This ensures the balance of power in strategic and operational decisions.

# Corporate Governance (Contd.)

Rule Reference	Rule Description	Compliance Status
<b>A.3 Chairman's Role</b>		
The Chairman's role in preserving good corporate governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.		
A.3.1	<b>Role of Chairman</b> The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that the effective participation of both Executive and Non-Executive Directors are secured.	<b>Complied</b> The Chairman's main role is to lead and manage the Board, ensuring that it discharged its legal and regulatory responsibilities effectively and fully, and all Directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the Company; a balance of power between Executive and Non-Executive Directors are maintained.
<b>A.4. Financial Acumen</b>		
A.4.	Availability of Sufficient Financial Acumen and Knowledge.	<b>Complied</b> The Board comprises three members of the Institute of Chartered Accountants. This blend of members enables the Board to provide proper guidance on financial matters of the Company.
<b>A.5. Board Balance</b>		
It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.		
A.5.1	<b>Non-Executive Directors</b> The Board should include at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one third of the total number of Directors, whichever is higher.	<b>Complied</b> All Directors are Non-Executives. All Non-Executive Directors have the necessary skills and experience to give an objective judgement towards the overall performance of the Company.
A.5.2	Where the constitution of the Board of Directors includes only two Non-Executive Directors, both such Non-Executive Directors should be 'Independent'. In all other instances, two or one third of Non-Executive Directors appointed to the Board of Directors whichever is higher Should be 'Independent'.	<b>Complied</b>
A.5.3	<b>Independence Evaluation Review</b> Director should be independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.	<b>Complied</b> The Board evaluate the Non-Executive Directors' independence on an annual basis.



Rule Reference	Rule Description	Compliance Status
A.5.4	<b>Signed Declaration of Independence</b> Each Non-Executive Director should submit a signed and dated declaration annually of their independence.	<b>Complied</b> All Non-Executive Directors of the Company have made written submission of their independence.
A.5.5	<b>The Determination of Independence of the Directors by the Board</b> The Board should make a determination annually as to the independence or non-independence of each Non-Executive Director and should set out in the Annual Report the names of Directors determined to be 'Independent.'	<b>Complied</b> The Board has determined the submission of declaration by the Non-Executive Directors to their independence. The following Directors are Independent Non-Executive Directors. Mr. P. P. Edirisinghe Mr. L. D. R. Hettiarachi
A.5.6	<b>Alternate Director</b>	<b>Complied</b>
A.5.7 & A. 5. 8	<b>CEO and Chairman are the Same Person</b> In the event the Chairman and CEO is the same person, the Board should appoint one of the Independent Non- Executive Directors to be the "Senior Independent Director."	<b>Complied</b> The Chairman and CEO are two separate persons.
A.5.9	<b>Meeting of Non Executive Directors</b> The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	<b>Not Complied</b>
A.5.10	<b>Recording of Concern in Board Minutes</b> Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board Minutes.	<b>Complied</b> No such matters have been reported.
<b>A.6 Supply of Information</b>		
The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.		
A.6.1	<b>Provision of Timely and Quality Information</b> The management has an obligation to provide the Board with appropriate and timely information.	<b>Complied</b> The Directors receive a comprehensive report of all Board papers and any other additional information requested by the members of the Board well in advance of the meeting. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings.
A.6.2	The minutes, agenda and papers required for a Board Meeting should ordinarily be provided to Directors at least seven (7) days before the meeting, to facilitate its effective conduct.	<b>Partially Complied.</b> Company has provided the minutes, agenda and papers at least 5 days before the meeting.

# Corporate Governance (Contd.)

Rule Reference	Rule Description	Compliance Status
<b>A.7. Appointments to the Board</b>		
There should be a formal and transparent procedure for the appointment of new Directors to the Board.		
A.7.1 A.7.2 A.7.3	Nomination Committee, assessment of Board composition and disclosure of details of new Directors to shareholders.	<b>Complied</b> The Board has set out a transparent procedure on making new appointments to the Board, which is done in consultation with the entire Board. The committee formed and members are, Mr. E M. M. Boyagoda (Chairman) Mr. L. D. R. Hettiaratchi
<b>A.8 Re-election</b>		
All Directors should be required to submit themselves for re-election at regular intervals and at least once every 3 years.		
A.8.1	<b>Appointment of Non-Executive Directors and other Directors</b> Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act relating to the removal of a Director, and their re- appointment should not be automatic.	<b>Complied</b>
A.8.2	All Directors including the Chairman of the Board, should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years. The names of Directors submitted for election or re-election should be accompanied by a resume minimally as set out in paragraph A.7.3 above, to enable shareholders to make an informed decision on their election.	<b>Complied</b>
<b>A.9 Appraisal of Board Performance</b>		
Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.		
A.9.1	Annual appraisal of Board performance and that of its committees.	<b>Complied</b> The Board annually evaluated its performances against the annual objectives set at the beginning of the year. The performance of Board committees were evaluated against the objectives of the respective committees.
A.9.2	The Board should also undertake an annual self-evaluation of its own performance and that of its Committees.	<b>Complied</b> The Board has undertaken an annual self-evaluation of its own performance.
A.9.3	The Board should state how such performance evaluations have been conducted, in the Annual Report.	<b>Complied</b> Please refer A 9.1 and 9.2

Rule Reference	Rule Description	Compliance Status
<b>A.10 Disclosure of Information in Respect of Directors</b>		
Shareholders should be kept advised of relevant details in respect of Directors.		
A.10.1	<b>Details in respect of Directors</b> The Annual Report of the Company should be set out in a manner which includes information relevant to the Directors.	<b>Complied</b> Relevant details of each Director are given under each member's profile in the Annual Report.
<b>A.11 Appraisal of Chief Executive Officer (CEO)</b>		
The Board should be required, at least annually, to assess the performance of the CEO.		
A.11.1	Financial and non-financial targets for the CEO and annual evaluation of the performance of the CEO.	<b>Complied</b> At the commencement of every year, financial targets are set by approving the annual budget and non-financial targets are set in consultation with the CEO by the Board and at the end of each financial year the performance of the CEO is evaluated to ascertain whether the targets have been achieved.
A.11.2	The performance of the CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets set by the Board have been achieved and if Not, whether the failure to meet such targets was reasonable in the circumstances.	<b>Complied</b> At the commencement of every year, financial targets are set by approving the annual budget and non-financial targets are set in consultation with the CEO by the Board and at the end of each financial year the performance of the CEO is evaluated to ascertain whether the targets have been achieved.
<b>B. Directors' Remuneration</b>		
<b>B.1 Remuneration Procedure</b>		
Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.		
B.1.1	<b>Creation of a Remuneration Committee</b> The Board of Directors should set up a Remuneration Committee to make recommendations to the Board, within agreed terms of reference, on the Company's framework of remunerating Executive Directors.	<b>Complied</b> The Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Director and the corporate management, and for making all relevant disclosures. The Committee determines and agrees with the Board, the broad policy framework for the remuneration of the CEO. The CEO participates in meetings by invitation in deciding the remuneration of the corporate management in order to recruit, retain and motivate the corporate management team.

# Corporate Governance (Contd.)

Rule Reference	Rule Description	Compliance Status
B.1.2	<b>Composition of Remuneration Committee</b> Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board.	<b>Complied</b> The Remuneration Committee consists of three Non-Executive Directors of CTF - Mr. Priyan Edirisinghe, Mr. Prabhu Mathavan and Mr. Mangala Boyagoda. Mr. Priyan Edirisinghe is the Chairman of the Remuneration Committee.
B.1.3	<b>Disclosure of Remuneration Committee in the Annual Report</b> The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year.	<b>Complied</b> The composition of the Remuneration Committee is described in the Annual Report, page 36.
B.1.4	<b>Remuneration of Non-Executive Directors</b> The Board as a whole, or where required by the Articles of Association, the shareholders, should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association. Where permitted this responsibility to a sub-committee of the Board, which might include the CEO.	<b>Complied</b> The Board as a whole decides the remuneration of the Non-Executive Directors. The Non-Executive Directors receive a fee for being a Director on the Board.
B.1.5	<b>Consultation of the Chairman and Access to Professional Advice</b> The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors and have access to professional advice from within and outside the Company in discharging their responsibilities.	<b>Complied</b> The input of the Chairman is obtained by his involvement as a member of the said Sub-committee. External professional advice is sought by the Remuneration Committee on a need basis through the Board Secretary.
<b>B.2. The Level &amp; Make-up of Remuneration</b>		
Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.		
B.2.9	Remuneration of the Non-Executive Directors	<b>Complied</b> Non-Executive Directors receive a nominal fee in line with the market practices as disclosed in this Annual Report.
<b>B.3. Disclosure of Remuneration</b>		
The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.		
B.3.1	The Annual Report should set out the names of Directors comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.	<b>Complied</b> The fees paid to the Directors for attending meetings are disclosed in the Annual Report.

Rule Reference	Rule Description	Compliance Status
<b>C. Relations with Shareholders</b>		
C.1. Constructive use of the Annual General Meeting (AGM) and conduct of general meetings Boards should use the AGM to communicate with shareholders and should encourage their participation.		
C.1.1	Consideration of proxy votes	Complied
C.1.2	Separate resolution for all separate issues	Complied
C.1.3	The Chairman of the Board should arrange for the Chairman of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	Complied
C.1.4	Circulation of Notice of AGM and Other Documents Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 15 working days or other period determined by statute before the meeting.	Complied
C.1.5	Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at general meetings.	Complied
<b>C.2 Communication with Shareholders</b>		
The Board should implement effective communication with shareholders.		
C. 2. 1	Channel to reach all shareholders of the Company	<b>Complied</b> The Company has many channels to reach all shareholders of the Company in order to disseminate timely information of which the primary channels are the Annual Report, Financial Statements publishing in newspapers and CSE and Annual General Meeting.
C. 2 .2	Policy and Methodology for communication with shareholders	<b>Complied</b> The Company has in place a policy for communication which is based on the following five guiding principles: <ul style="list-style-type: none"> <li>• Transparency</li> <li>• Efficiency</li> <li>• Cultural awareness</li> <li>• Clarity</li> <li>• Feedback</li> </ul>
C. 2 .3	Disclosure of Implementation of the above Policy and Methodology	<b>Complied</b> The Communication Policy of the Company provides for the manner of implementation.

# Corporate Governance (Contd.)

Rule Reference	Rule Description	Compliance Status
C. 2 .4	Need to disclose a Contact person for communication	<b>Complied</b> The Chairman, and CEO are the spokespersons for CTF. Additionally, depending on the issues/events the Chairman may authorize any of the Directors/HODs/Managers to speak on behalf of CTF. The contact details are available in the Company's website and in the Annual Report. Also for any questions, requests and comments, shareholders may at any time contact the Company Secretary.
C.2.5 & C.2.6	Communication by the shareholders with the Company	<b>Complied</b> The Company Secretary receives all the correspondence and delivers to the Board or relevant individual Director at the earliest possible time.
C.2.7	The process for responding to shareholders' matters	<b>Complied</b> Through the Company's Board Secretary the Board or individual Director/s and Senior management will respond to shareholders' matters.
<b>C.3. Major Transactions</b>		
Further to compliance with the requirements under the Companies Act, Directors should disclose to shareholders all proposed corporate transactions, which if entered into, would materially alter/vary the Company's net asset base or in the case of a company with subsidiaries, the consolidated group net asset base.		
C.2.1	Disclosure of major transactions prior to a company engaging in or committing to a 'Major Transaction', involving the acquisition, sale or disposition of greater than half of the net value of the Company's assets or that of a subsidiary which has a material bearing on the consolidated net assets of the Company. Directors should disclose to shareholders all material facts of such transactions.	<b>Complied</b> During the year there were no major transactions as defined by Section 185 of the Companies Act No.7 of 2007 which materially affected the net asset base.
<b>D. Accountability and Audit</b>		
<b>D.1. Financial Reporting</b>		
The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.		
D.1.1	<b>Reports to Public, Regulatory and Statutory Reporting</b> Balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	<b>Complied</b> CTF has reported a true and fair view of its position and The Board's responsibility to present a performance for the year ended 31st March, 2017. In the preparation of financial statements, CTF had strictly complied with the requirements of the Companies Act No.7 of 2007, the Finance Business Act No. 42 of 2011 and amendments thereto, and Directions issued under the same Act. They were prepared and presented in conformity with LKASs.

Rule Reference	Rule Description	Compliance Status
D.1.2	Directors' Report in the Annual Report	<b>Complied</b> Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are presented in pages 39 to 41.
D.1.3	Statement of Directors' Responsibility for the Financial Statements	<b>Complied</b> The Statement of Directors' responsibility for financial reporting is given in page 44 as required by the direction.
D.1.4	Management Discussion and Analysis	<b>Complied</b> A detailed management discussion and analysis is presented in pages 9 to 12.
D.1.5	Declaration of Going Concern by the Directors	<b>Complied</b> This information is provided in page 39.
D.1.6	In the event the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Directors shall forthwith summon an Extraordinary General Meeting of the Company to notify shareholders of the position and of remedial action being taken.	<b>Complied</b> Company maintained healthy net assets position.
<b>D.2. Internal Control</b>		
The Board should maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets.		
D.2.1	Maintain a sound system of Internal Control	<b>Complied</b> The Company has established a comprehensive framework of policies and procedures, which are regularly reviewed and updated. The Company's Audit Committee ensures that there is an effective internal control and financial reporting system by adopting the following measures: (i) Audits are conducted by the internal auditors in areas involving high risks as identified in the annual internal audit plan. (ii) The Audit Committee follows up on the status of implementation of all audit recommendations. The Board of Directors has obtained an independent assurance report on internal controls over the financial reporting of the Company as required by Direction No. 3 of 2008 issued by the Central Bank of Sri Lanka, and the external auditors Messrs KPMG, have reviewed the internal controls over financial reporting for the year ended 31 March 2017 as well Board issues 'Directors' Statement on Internal Controls report which is given on page 42 and 43.
D.2.2	Internal audit function	<b>Complied</b> The Company has outsourced the internal audit function to Ernst & Young, Chartered Accountants.

# Corporate Governance (Contd.)

Rule Reference	Rule Description	Compliance Status
<b>D.3. Audit Committee</b>		
The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's auditors.		
D.3.1	Composition of the Audit Committee The Audit Committee should be comprised of a minimum of two Independent Non-Executive Directors or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher.	<b>Complied</b> The Company's Audit Committee consists of three members all of whom are Non-Executive Directors; out of three, two is Independent. The Committee operates within clearly defined terms of reference.
D.3.2	The Duties of the Audit Committee	<b>Complied</b> The Committee maintains an appropriate relationship with the external auditors KPMG to ensure their objectivity and independence. The payment to the external auditors for audit and non-audit services is disclosed in the Directors' Report of this Annual Report.
D.3.3	Terms and reference of the Audit Committee	<b>Complied</b> The Audit Committee is guided by clearly defined terms and references.
<b>D.3.4 Disclosures</b>		
D.3.4	Disclosure of the Audit Committee	<b>Complied</b> Names of the members of the Audit Committee are given in the Audit Committee Report.
<b>D.4. Code of Business Conduct and Ethics</b>		
Companies must adopt a Code of Business Conduct and Ethics for Directors and members of the senior management team and must promptly disclose any waivers of the Code for Directors or others.		
D.4.1	Adoption of a Code of Business Conduct and Ethics	<b>Complied</b> The Company has developed a code of business conduct and ethics for all employees, which addresses conflict of interest, corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with applicable laws and regulations and encouraging the reporting of any illegal or unethical behaviour, etc.
D.4.2	The Chairman must affirm in the Company's Annual Report that he is not aware of any violation of any of the provisions of the Code of Business Conduct and Ethics.	<b>Complied</b> There is no violation of the Company's code of ethics during the year.



Rule Reference	Rule Description	Compliance Status
<b>D.5. Corporate Governance Disclosure</b>		
Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.		
D.5.1	Disclosure of corporate governance	<b>Complied</b> This report addresses this requirement.

## Shareholders

Rule Reference	Rule Description	Compliance Status
<b>E. Institutional Investors</b>		
<b>E.1 Shareholder Voting</b>		
Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.		
E.1.1	Regular and structured dialogue with shareholders	<b>Complied</b> The primary mode of communication between the Company and the shareholders is through the Annual General Meeting. The Chairman ensures the views of shareholders are communicated to the Board as a whole.
<b>E.2 Evaluation Of Governance Disclosures</b>		
	When evaluating Companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.	<b>Complied</b> The governance arrangements including, Board structure and composition are available in the Annual Report and the Company Website.
<b>F. Other Investors</b>		
<b>F.1 Investing/Divesting Decision</b>		
F.1 & F.2	Individual shareholder and voting	<b>Complied</b> Individual shareholders are encouraged to participate in general meetings and exercise their voting rights.

# Corporate Governance (Contd.)

Continuing Listing Rules Section 7.6 and 7.10 on Corporate Governance of the Colombo Stock Exchange.

Rule Reference	Rule description	Status of Compliance
7.6(i)	Names of persons who were Directors of the Company during the financial year	<b>Complied</b> Please refer page 39.
7.6(ii)	Principal activities of the Company and its subsidiaries during the year and any changes therein	<b>Complied</b> Please refer page 39.
7.6(iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held as at the end of the year	<b>Complied</b> Please refer page 96.
7.6(iv)	The public holding percentage	<b>Complied</b> Please refer page 97.
7.6(v)	Directors' and Chief Executive Officer's holding in shares of the Company at the beginning and end of the financial year	<b>Complied</b> Please refer page 97.
7.6(vi)	Information pertaining to material foreseeable risk factors	<b>Complied</b> Please refer page 34.
7.6(vii)	Details of material issues pertaining to employees and industrial relations	<b>Complied</b> During the year 2016/17, there were no material issues pertaining to employees and industrial relations of the Company.
7.6(viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties as at the end of the year	<b>Complied</b> Please refer note 23.5 to the Financial Statements on page 77.
7.6(ix)	Number of shares representing the stated capital as at the end of the year	<b>Complied</b> Please refer note 30 to the Financial Statements on page 82.
7.6(x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings as at the end of the year	<b>Complied</b> Please refer page 97.
7.6(xi)	<b>Ratios and market price information on:</b> Equity: Dividend per share, Dividend payout ratio, Net asset value per share, Market value per share	<b>Complied</b> Please refer pages 04 and 96.
	Debt : Interest rate of comparable government security, Debt/Equity ratio, Interest cover, Quick asset ratio, Market prices and Yield during the year	<b>N/A</b>
7.6(xii)	Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value as at the end of the year	<b>Complied</b> Please refer note 23 to the Financial Statements on pages 77 and 78.
7.6(xiii)	Details of funds raised through a Public Issue, Rights Issue and a Private Placement during the year	<b>Complied</b> Please refer note 30 to the Financial Statements on page 82.
7.6(xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes	<b>Not applicable</b> The Company does not have any Employee Share Ownership or Stock Option Schemes at present.

Rule Reference	Rule description	Status of Compliance
7.6(xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	<b>Complied</b> Please refer pages 32 and 33.
7.6(xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	<b>Complied</b> Please refer note 33 to the financial statement on pages 83 and 84.

Compliance with requirements on the content of the annual report in the rule 7.10 of the listing rules

	CSE rule reference	Compliance Status
Non-Executive Directors	7.10.1 (a)	<b>Complied</b> All Directors of the Board are Non-Executives, which is more than the requirement of the rule.
	7.10.2 (a)	<b>Complied</b> More than one third of the Non-Executive Directors are Independent.
Disclosures Relating to Directors	7.10.3 (a)	<b>Complied</b> Declarations of Independence by the Directors were assessed by the full Board. The Directors who are Independent are disclosed on page 39.
	7.10.3 (b)	<b>Complied</b>
	7.10.3 (c)	<b>Complied</b> Please refer page 07 for the brief biography of each Director.
	7.10.3.(d)	<b>Complied</b> Information relating to new appointments to the Board is disclosed to the Colombo Stock Exchange, when appointments are made.
Remuneration Committee	7.10.5 (a) Composition	<b>Partially Complied</b> The Remuneration Committee comprises of three Non- Executive Directors and out of three one Independent.
	7.10.5 (b) Function	<b>Complied</b> Please refer the Remuneration Committee report on page 36 for details of the functions of the Committee.
	7.10.5 (c) Disclosure in the Annual Report	<b>Complied</b> The report of the Remuneration Committee is given on page 36 and the remuneration paid to Directors is given in note No. 33.1 to the Financial Statements on page 83.
Audit Committee	7.10.6 (a) Composition	<b>Complied</b> The Audit Committee comprises of three Non-Executive Directors; out of three, two Independent.
	7.10.6 (b) Function	<b>Complied</b> Audit Committee Report on page 35.
	7.10.6 (c) Disclosure in the Annual Report	<b>Complied</b> The names of the Directors comprising the Audit Committee and the basis of determination of independence of the Auditor are given in the Audit Committee report on page 35.

# Risk Management

In order to meet the challenges of the highly competitive business environment in Sri Lanka's financial sector, the Company has extended into wider market segment, with a certain business risk involved.

The Company's Risk Management policies are designed to identify any situations or circumstance that would adversely affect the achievement of Colombo Trust Finance PLC activities and to accept and manage unavoidable risks and to ensure surprise events or situations are minimized.

To minimize, sector or industry specific, risk Colombo Trust Finance PLC operations are diversified across many products lines, industries and sectors.

A range of products to suit different customer needs have been developed. This enables the Company to identify the opportunities even under challenging market conditions. Competitor threats on current and future business operations are evaluated on an ongoing basis.

Products and services are evaluated against competitor offerings and are revised to retain competitiveness. The performances of each business division and employees are monitored regularly and communicated via regular business reviews.

## Operational Risk

Operational risk includes the possibility of breakdown in an operational process (e.g. human error or employee misconduct), a malfunction of systems or any external events beyond its control (such as natural disaster).

- A crisis action plan has been developed in the event of major crisis. The action plan was formulated under the direction of a risk management committee.
- And its security system is in operation; and the Company plans to facilitate further improvements to the IT security system with a reputed company.
- Internal audits are conducted by an independent audit firm M/s Ernst & Young at regular intervals. The scope of internal audits extends to efficiency of operations in compliance with laws and regulators.
- A disaster recovery plan has been developed with data backups stored in external locations.

## Compliance Risk

Regulatory changes could significantly impact the Company's business (including costs, capital requirements, and products).

The Board of Directors closely monitors the regulatory developments and compliance of all requirements. The Audit Committee supplements this function by reviewing and discussing compliance declarations and compliance matters relevant to the Company.

## Legal Risk

Legal risk arises when companies enter into transactions which are non-compliant with the legal/ governance framework set out by various regulatory bodies. Such legal risk may lead to a further reputational and financial risk.

- When entering into new transactions, contractual documentation is thoroughly evaluated for compliance with the legal requirements.
- Adoption of changes in laws and regulations on a periodic basis to meet compliance.

# Audit Committee Report

The Audit Committee comprises Two Independent Non-Executive Directors and One Non Independent Non - Executive Director (as shown on page 39 of the Annual Report). The Chairman of the Audit Committee is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.

The Audit Committee met on five (5) occasions during the financial year. The attendance of Committee members at meetings were as follows:

Member	Number of Meetings Held	No of Meetings Attended
Mr. P. P. Edirisinghe - Chairman	5	5
Mr. E. M. M. Boyagoda	5	4
Mr. L. D. R. Hettiaratchi	5	3

The Chief Executive Officer, Manager-Finance and Internal Auditor / External Auditor attend the meetings of the Committee by invitation when necessary. Proceedings of the Committee meetings are reported regularly to the Board of Directors.

The Audit Committee has written terms of reference and is empowered to examine any matters relating to the financial affairs of the Company and its internal and external audits. Its duties include detailed reviews of Financial Statements, internal control procedures and risk management, accounting policies and compliance with Sri Lanka accounting standards. It also reviews the adequacy of systems for compliance with the Companies Act No. 07 of 2007, Central Bank Directions and other relevant legal, regulatory and ethical requirements and company policies. The Committee endeavours to assist the Directors to discharge their duties and responsibilities in respect of regulatory compliance and risk management.

The following activities were carried out by the Committee

## Financial Reporting and Internal Control System

- The Committee reviewed the Interim and Annual Financial Statements of the Company and has recommended same to the Board for approval and publication.
- Review of the preparation of the Annual Report to ensure the reliability of the process, consistency of the accounting policies and methods and compliance with Sri Lanka Accounting Standards.

- The Committee is satisfied that the control environment prevailing in the Company provides reasonable assurance.
- The Committee also monitors the timely payments of all statutory obligations.

## Internal Audit

The Committee also monitors the effectiveness of the Internal and Financial Control procedures on the basis of the reports and findings submitted by the Internal Auditors of the Company.

## External Audit

- The Committee held meetings with the External Auditors to review their report on audit results.
- The Committee has reviewed the other services provided by the External Auditors to the Company to ensure their independence as Auditors has not been compromised.

As far as the Directors are aware, the Auditor does not have any relationship (other than that of an Auditor) with the Company other than those disclosed above. The Auditors also do not have any interest in the Company. For the said reasons that the Committee determined that Auditors are independent.

The Audit Committee has recommended to the Board of Directors M/s KPMG, Chartered Accountants as External Auditors for the financial year ending 31 March 2018.



**P. P. Edirisinghe**  
Chairman - Audit Committee

29 May 2017

# Remuneration Committee Report

The Remuneration Committee is established to ensure that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of staff while complying with the requirements of regulatory and governance bodies, satisfying the expectations of shareholders and remaining consistent with the expectations of the wider employee population. The Remuneration Committee appointed by the Board of Directors comprises the following members;

Name of the Member	Directorship status	Membership status
Mr. P. P. Edirisinghe	Independent-Non Executive	Chairman
Mr. E. M. M. Boyagoda	Non-Independent Non-Executive Director	Member
Mrs. S. M. G. Dunuwille	Non-Independent Non-Executive Director <i>(Resigned on 01st February 2017)</i>	Member
Mr. P. S. Mathavan	Non-Independent Non-Executive Director <i>(Replacement of Mrs. S. M. G. Dunuwille)</i>	Member

## Remuneration Policy

The Company remuneration policy aims to attract, motivate and retain talent with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Company. The Company remuneration framework for the executive Directors and Corporate Management Team is designed to ensure alignment between short and long term interests of the Company and thereby create and enhance value for all stakeholders of the Company.

The Committee reviews all significant Human Resource policies and initiatives. The Committee deliberates and recommends to the Board of Directors annual increments and bonuses of the Members of the Corporate Management based on individual and corporate performance. The Committee also reviews salary structures and terms and conditions of services to ensure compatibility with the market.

The CEO and SMO who are responsible for the overall management of the Company attend meetings by invitation and participate in the deliberations except when their own interest, performance and compensation are discussed. The Committee met as and when required during the financial year.



Mr. P. P. Edirisinghe  
Chairman - Remuneration Committee

29 May 2017

# Related Party Transactions Review Committee Report

The Directors have also disclosed transactions, if any, that could be classified as related party transactions in terms of LKAS 24.

With effect from 1 April 2016, all proposed related party transactions have been placed before the Related party transactions Review Committee formed under the listing rules of the Colombo Stock Exchange, for its review and recommendations.

## Composition of the Committee

The Related Party Transactions Review Committee is appointed by the Board of Directors of the Company. As at 31 March 2017 it comprises the following Directors.

Name of the member	Directorship Status	Membership Status
Mr. Lakshman Dileep Roshan Hettiaratchi	Independent Non-Executive Director	Chairman
Mr. Patrick Priyan Edirisinghe	Independent Non-Executive Director	Member
Mr. Prabaharan Subramaniam Mathavan	Non-Executive Director	Member

## Policies and Procedures

The Company has in place a Board approved Related Party Transaction (RPT) policy whereby the categories of persons who shall be considered as “related parties” has been identified.

RPT policy provides for the procedure to ensure that the Company does not engage in transactions with related parties in a manner that would grant such parties “more favourable treatment.”

In accordance with the RPT policy, self-declarations are obtained from each Director and Key Management Personnel of the Company for the purpose of identifying parties related to them.

## Terms of Reference

The primary objective of Related Party Transaction Review Committee is to ensure a Good Corporate Governance within the Company through;

- Avoiding favourable treatments to related parties in granting credit facilities and offering favourable interest rates for deposits.
- Implementing regulations relating to related parties issued by Central Bank of Sri Lanka and Securities and exchange Commission of Sri Lanka.
- Ensure that the interests of shareholders as a whole are taken into account by a listed entity when entering into Related Party Transactions.
- Ensure that there is a safeguard to prevent of taking advantage of their positions by Directors, Chief executives or Substantial Shareholders.

## Related Party Transactions during 2016/17

Transactions of related parties (as defined in LKAS 24 - ‘Related parties Disclosures’) with the Company are set out in Note 33 to the Financial Statements on pages 83 and 84.



L. D. R. Hettiaratchi

Chairman

Related Party Transactions Review Committee

29 May 2017

Colombo

# Integrated Risk Management Committee Report

The Integrated Risk Management Committee (IRMC) as at the end of the financial year comprised of the following members:

Mr. L. D. R. Hettiaratchi (Chairman)  
Mr. P. S. Mathavan  
Mr. W. L. S. Fonseka (CEO)  
Mr. S. A. Munasinghe (SM-Business Development and Credit)

Brief profiles of the Directors representing the Committee are given on page 07 of the Annual Report.

## Terms of Reference

The Terms of Reference set out by the Board of Directors include the following.

- Examine the principal risks in achieving the business strategy of Colombo Trust Finance PLC and its Business Plan.
- Establish and communicate the risk management framework including responsibilities, authorities and key controls throughout the Company.
- Agree and implement measurement and reporting standards and methodologies.
- Assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the Company through appropriate risk indicators and management information.
- Ensure that risk management practices and conditions are appropriate for the changing environment.
- Review and oversee the risk and compliance profile of the Company within the context of the Board determined risk parameters.
- Make recommendations to the Board concerning the Company's risk appetite and particular risk or compliance management practice of the Company.
- Review and oversee the management's plan for mitigating of the material risks faced by the various business units of the Company.

## Meetings

The Committee meets on a quarterly basis and the discussion and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for information and advice. A risk assessment report is also submitted quarterly.



L. D. R. Hettiaratchi  
*Chairman*  
*Integrated Risk Management committee*

29 May 2017



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

The Directors of Colombo Trust Finance PLC (Formerly known as Capital Alliance Finance PLC) are pleased to present their Report and the Audited Financial Statements of the Company for the year ended 31 March 2017.

## 1. General

Colombo Trust Finance PLC is a public limited liability Company and a Licensed Financial Institution, that was incorporated in Sri Lanka on 25 November 1981 as Silverreen Finance Company Limited under the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011.

## 2. Review of the Year

Review of the Company business and its performance during the year, with comments on financial results and future strategic developments, are contained in the CEO's statement on page 06.

## 3. The Principal Activity

The Company is continuing its finance business.

## 4. Financial Statements

The Financial Statements of the Company are given on pages 48 to 95 of this Annual Report.

## 5. Going Concern

The Directors are satisfied that the Company has adequate resources to continue its operations in the foreseeable future. The Financial Statements of the Company have accordingly been prepared on a going concern basis.

## 6. Auditor's Report

The Auditors of the Company are KPMG, Chartered Accountants, their report on the Financial Statements is given on page 47. They come up for re-election at the Annual General Meeting, with the approval of Audit Committee and the Board of Directors.

## 7. Accounting Policy

The significant accounting policies adopted in the preparation of the Financial Statements are given in Note 04 on pages 54 to 66.

## 8. Taxation

Provision for taxation has been computed in accordance with income tax legislations and applicable tax rates are given in Note 15 to the Financial Statements.

## 9. Dividends

The Directors have not recommended a dividend on ordinary shares for the year ended 31 March 2017.

## 10. Board of Directors

The Directors of the Company during period 1 April 2016 to date are given below with changes that occurred in composition of the Board during period under review.

Name of Directors	Non- Executive/Independent Non-Executive
Mr. R. Theagarajah	Non-Independent Non- Executive Director ( <i>Appointed as a Director and Chairman w.e.f. 01 February 2017</i> )
Mr. E. M. M. Boyagoda	Non-Independent Non-Executive Director ( <i>Chairman of the board till 31 January 2017</i> )
Mr. P. S. Mathavan	Non-Independent Non-Executive Director
Ms. S. M. G. Dunuwilla	Non-Independent Non-Executive Director ( <i>Resigned on 01 February 2017</i> )
Mr. P. P. Edirisinghe	Senior Director / Independent Non-Executive Director
Mr. L. D. R. Hettiaratchi	Independent Non-Executive Director

## 11. Directors' Interest in Contracts

The Directors have no direct or indirect interest or proposed contracts other than those specified in Note 33 to the Financial Statements.

## 12. Corporate Governance

The Company has complied with the recommendations of the code of Best Practices on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, the Listing Rules of the Colombo Stock Exchange

# Annual Report of the Board of Directors on the Affairs of the Company (Contd.)

(CSE) and the Finance Company (Corporate Governance) Directions No. 03 of 2008, No. 04 of 2008 and No. 06 of 2013.

## 13. Audit Committee

The Audit Committee of the Company during the year comprised the following members:

Mr. P. P. Edirisinghe - Chairman  
Mr. L. D. R. Hettiaratchi  
Mr. E. M. M. Boyagoda

The report of the Audit Committee is given on page 35 of the Annual Report.

## 14. Directors' Remuneration

Directors' remuneration and other benefit of the Directors are given in Note 33.1 and 33.2 to the Financial Statements.

## 15. Internal Controls

The Boards of Directors have put in place an effective and comprehensive system of internal controls covering financial operations, compliance and risk management which are required to carry on the business of financing prudently and ensure as far as possible, accuracy and reliability of records.

## 16. Capital Expenditure

The Company's expenditure on Property, Plant & Equipment at cost amounted to Rs. 3,061,192 during 2016/17, details of which are given in Note 23.1 to the Financial Statements. Expenditure on Intangible Assets at cost amounted to Rs. 1,122,200 during 2016/17, details of which are given in Note 24.1 to the Financial Statements.

## 17. Donations

During the year, the Company made donations amounting to Rs. 18,000.

## 18. Stated Capital

The Stated Capital of the Company as at 31 March 2017 was Rs. 309,888,671, representing 46,519,243 ordinary shares.

## 19. Reserves

### General Reserve

The General Reserve is created after provisioning for a statutory reserve fund. This reserve will be used for the future capitalisation purpose of the company.

## Statutory Reserve Fund

Statutory Reserve Fund is a capital reserve which contains profits transferred as required by Section 3 (b) (ii) of Central Bank Direction No. 1 of 2003.

## 20. Shareholdings

An analysis of the distribution of ordinary shareholders and 20 largest ordinary shareholders of the Company is given on page 96 to 97 of this Annual Report.

## 21. Directors' Holdings of Securities of the Company

Details of Directors' shareholdings in the Company are given on page 97 of the Annual Report.

## 22. Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company to reflect a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with requirements of the Sri Lanka Accounting Standards and the Companies Act No. 07 of 2007. Further, these Financial Statements also comply with requirements of the Finance Business Act No 42 of 2011 and amendments thereto and mandatory Corporate Governance code for Licensed Financial Institutions by CBSL and SEC. The Directors are accordingly satisfied that the Financial Statements presented herein give a true and fair view of the state of affairs of the Company as at 31 March 2017 and the profit for the year then ended.

## 23. Statutory Payments

The Directors are satisfied that to the best of their knowledge and belief, all statutory payments due to the Government and to the employees of the Company have been paid up to date, on timely basis.

## 24. Event Occurring after the Reporting Period

No events have occurred after the reporting date which would require adjustments to or disclosure in the Financial Statements, other than those given in Note 42 to the Financial Statements.

## 25. Auditors

Messrs. KPMG, Chartered Accountants are the Company's Auditors during the period under review. A sum of Rs. 525,000 payable as professional fee for the year under review and Rs. 775,000 payable for non-audit related work such as agreed upon engagements. Based on the declaration made by Messrs. KPMG, and as far as the Directors are aware, the Auditors do not have any relationship or interest other than statutory audit.

## 26. Employment Policy

Modern Human Resources Management practices are adopted respecting each and every individual and providing equitable opportunity for career advancement for all employees. The Company complies with its policy of non-discrimination in terms of gender, race or religion in the matter of employment.

## 27. Notice of Meeting

Notice of Meeting relating to the 36th Annual General Meeting of the Company is given on page 99 of the Annual Report.

For and on behalf of the Board,



R. Theagarajah  
Chairman  
Non-Independent Non-Executive Director



S S P Corporate Services (Private) Limited  
Secretaries

29 May 2017

# Directors' Statement on Internal Controls Over Financial Reporting

## Responsibility

In line with Finance Companies Direction (Corporate Governance) No.03 of 2008, Section 10 (2) (b) as amended by the Direction No. 06 of 2013, the Board of Directors present this Report on Internal Control.

The Board is fully committed to ensure the existence of an effective system of internal control and risk management within the Company, and continuously reviews and evaluates the adequacy and integrity of those systems. However, the Board recognises that such systems are designed to manage, rather than eliminate, the risks identified to acceptable levels. Therefore, the systems implemented can provide only reasonable and not absolute assurance against the occurrence of any material misstatement and loss.

The Board of Directors (Board) is responsible for the adequacy and effectiveness of the Colombo Trust Finance PLC ('the Company') system of internal controls. However, such a system is designed to manage the Company's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Company. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal controls as and when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board and Board-appointed sub committees. The management assists the Board in the implementation of the policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

## Key Features of the Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System on Financial Reporting.

The Board has adopted key processes in reviewing the design and operating effectiveness of the system of internal controls with respect to financial reporting, including the following;

Various management committees are established by the Board to assist the Board in ensuring the effectiveness of the Company's daily operations and that the Company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

The Internal Auditors of the Company checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of the internal audit are submitted to the Board Audit Committee for review at their periodic meetings.

The Audit Committee of the Company reviews internal control issues identified by the Internal Auditors, External Auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Board Audit Committee meetings are tabled at the meetings of the Board of Directors of the Company. In assessing the Internal control system, identified officers of the Company continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company.

Since the adoption of new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012, processes that are required to comply with new requirements of recognition, measurement, presentation and disclosures were introduced and implemented in 2013. Continuous monitoring is in progress and steps are being taken to make improvements to the processes where required, to enhance effectiveness and efficiency. The Company manually computes the impairment for loans and advances under SLFRS requirements and the Board will assess the need to automate the same in the future years.

The Company is in the process of reviewing policies/ procedures manual for the key processes and the recommendations made by the Auditors on the internal controls of the Company and those will be dealt with in the future.

The Board of Directors is of the view that the system of internal controls to be improved further with new system development and introducing of various systems for new products. However, the relevant accounting principles and regulatory requirements are met in preparation of General purpose Financial Statements.

### **Confirmation**

Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

### **Review of the Statement by External Auditors**

The External Auditors, Messrs KPMG, has reviewed the above Directors' Statement on Internal Control over Financial Reporting included in the Annual Report of the Company for the year ended 31 March 2017 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Company.



**P. P. Edirisinghe**  
*Chairman*  
*Audit Committee*

29 May 2017

# Directors' Responsibility for Financial Reporting

The responsibility of Directors in relation to the Financial Statements of the Colombo Trust Finance PLC (the Company) prepared in accordance with provisions of the Companies Act No. 7 of 2007 is set out in the following statements.

The Directors of the Company are responsible for the preparation and presentation of the Financial Statements to the shareholders in accordance with the relevant provisions of the Companies Act No.7 of 2007 and other statutes which are applicable to the preparation of the Financial Statements. Financial Statements for the financial year gives a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing those Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

Accordingly, the Directors confirm that the Financial Statements of the Company for the year ended 31 March 2017 incorporated in this Annual Report have been prepared in accordance with the Sri Lanka Accounting Standards and comply with the requirements of Companies Act No.7 of 2007 and Finance Business Act No.42 of 2011 (Repealed and replaced the Finance Companies Act No.78 of 1988) and other applicable standards and statutes. The Financial Statements of the Company has been certified by the CEO, the person responsible of its preparation as required by the Act. Financial Statements of the Company have been signed by two Directors of the Company on 29 May 2017, after been approved by the Board of Directors as required by the Companies Act.

In terms of the provisions of the Companies Act, the Directors are also responsible to keep accounting records which correctly record and explain the Company's transactions.

In preparing these Financial Statements, the Directors have also ensured that appropriate accounting policies have been applied in a consistent manner and material departures, if any, have been disclosed and explained.

The Directors are also satisfied that the Company possesses adequate resources to continue its operations and the Financial Statements are continued to be prepared on that basis.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting possible frauds and other irregularities.

The Directors are required to prepare the Financial Statements and provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their audit opinion. The Directors are of the view that they have discharged their responsibilities as set out in this statement.

The Directors are satisfied to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory payments by the Company as at the reporting date have been paid or where relevant provided for in the Financial Statements.

On behalf of the Board,



**R. Theagarajah**  
*Chairman*  
*Non-Independent Non-Executive Director*

29 May 2017

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# Independent Auditors' Report



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

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TO THE SHAREHOLDERS OF COLOMBO TRUST  
FINANCE PLC

## Report on the Financial Statements

We have audited the accompanying financial statements of Colombo Trust Finance PLC, ("the Company"), which comprise the statement of financial position as at 31st March 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. Set out on pages 48 to 95 of the annual report.

## Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 31st 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.

Chartered Accountants  
Colombo

29 May 2017

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne FCA  
R.H. Rajan ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne FCA  
R.M.D.B. Rajapakse FCA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA  
Ms. C.T.K.N. Perera ACMA (UK)

# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st March,		2017	2016
	Notes	Rs.	Rs.
Interest income	6	172,194,811	163,871,924
Interest expense	7	(75,480,628)	(72,245,887)
<b>Net interest income</b>		<b>96,714,183</b>	<b>91,626,037</b>
Fee and commission income	8	1,922,942	1,649,745
Fee and commission expenses	9	(343,450)	(452,390)
<b>Net fee and commission income</b>		<b>1,579,492</b>	<b>1,197,355</b>
Net gains/(losses) from trading	10	143,141	(166,607)
Other operating income	11	6,637,766	9,695,928
<b>Total operating income</b>		<b>105,074,582</b>	<b>102,352,713</b>
Impairment charge for loans and advances	12	(143,461)	(22,892,921)
<b>Net operating income</b>		<b>104,931,121</b>	<b>79,459,792</b>
<b>Operating expenses</b>			
Personnel expenses	13	(50,905,408)	(45,172,338)
Depreciation and amortisation		(6,904,381)	(5,260,662)
Other expenses		(31,445,783)	(31,695,863)
<b>Operating profit/(loss) before Value Added Tax (VAT) on financial services</b>	15	<b>15,675,549</b>	<b>(2,669,071)</b>
Value Added Tax (VAT) on financial services		(6,678,184)	(3,320,968)
<b>Profit/(Loss) before income tax</b>		<b>8,997,365</b>	<b>(5,990,039)</b>
Income tax reversal/(expense)	15	(4,252,280)	2,895,617
<b>Profit/ (loss) for the year</b>		<b>4,745,085</b>	<b>(3,094,422)</b>
<b>Other comprehensive income/(expense), net of income tax</b>			
<b>Items that will never be reclassified to profit or loss</b>			
Actuarial gains on defined benefit obligation	28	132,634	846,428
Deferred tax on actuarial gain		(37,138)	(237,000)
<b>Other comprehensive income, net of tax</b>		<b>95,496</b>	<b>609,428</b>
<b>Total comprehensive income/ (expense) for the year</b>		<b>4,840,581</b>	<b>(2,484,994)</b>
<b>Basic Earnings / (Loss) per Share</b>	16	<b>0.10</b>	<b>(0.07)</b>

Figures in brackets indicate deductions.

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

# Statement of Financial Position

As at 31st March,	Notes	2017 Rs.	2016 Rs.
<b>Assets</b>			
Cash and cash equivalents	17	16,557,401	19,506,639
Securities purchased under repurchase agreements		31,536,017	51,888,311
Assets held for sale	18	696,056	1,722,506
Financial assets at fair value through profit or loss	19	1,343,218	1,908,354
Loans and advances	20	1,127,385,511	916,688,860
Financial investments available for sale	21	345,775	345,775
Financial investments held to maturity	22	43,534,435	40,136,637
Property, plant and equipment	23	44,649,446	46,796,046
Intangible assets	24	7,903,604	8,477,993
Other assets	25	16,876,445	22,072,418
Deferred tax assets	26	6,948,939	9,054,732
<b>Total assets</b>		<b>1,297,776,847</b>	<b>1,118,598,271</b>
<b>Liabilities</b>			
Bank overdraft	17	254,143,054	25,658,498
Deposits from customers	27	577,660,468	617,229,310
Employee benefits	28	4,380,076	3,288,532
Other liabilities	29	14,407,260	30,076,523
<b>Total liabilities</b>		<b>850,590,858</b>	<b>676,252,863</b>
<b>Equity</b>			
Stated capital	30	309,888,671	309,888,671
Statutory reserve fund	31	11,360,719	11,123,465
Other reserves	32	74,187,500	74,187,500
Retained earnings		51,749,099	47,145,772
<b>Total equity</b>		<b>447,185,989</b>	<b>442,345,408</b>
<b>Total equity and liabilities</b>		<b>1,297,776,847</b>	<b>1,118,598,271</b>

Figures in brackets indicate deductions.

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

It is certified that the financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Udeshika Koswatta  
Manager-Finance



W. L. S. Fonseka  
Chief Executive Officer

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

Approved and signed for on behalf of the Board:



E. M. M. Boyagoda  
Director



P. P. Edirisinghe  
Director

Colombo  
29 May 2017

# Statement of Changes in Equity

For the year ended 31st March 2017	Stated Capital Rs.	Statutory Reserve Fund Rs.	Other Reserves		Retained Earnings Rs.	Total Rs.
			Revaluation Reserve Rs.	General Reserve Rs.		
Balance as at 01 April 2015	193,590,566	11,123,465	14,187,500	60,000,000	50,624,005	329,525,536
<b>Comprehensive income for the year</b>						
Loss for the year	-	-	-	-	(3,094,422)	(3,094,422)
Other comprehensive income, net of tax	-	-	-	-	609,428	609,428
<b>Total comprehensive income for the year</b>	-	-	-	-	(2,484,994)	(2,484,994)
<b>Transactions with owners recorded directly in equity</b>						
Issue of ordinary shares under right issue	116,298,105	-	-	-	-	116,298,105
Expense on right issue	-	-	-	-	(993,239)	(993,239)
Total transactions with owners of the Company	116,298,105	-	-	-	(993,239)	115,304,866
<b>Balance as at 31 March 2016</b>	<b>309,888,671</b>	<b>11,123,465</b>	<b>14,187,500</b>	<b>60,000,000</b>	<b>47,145,772</b>	<b>442,345,408</b>
Balance as at 01 April 2016	309,888,671	11,123,465	14,187,500	60,000,000	47,145,772	442,345,408
<b>Comprehensive income for the year</b>						
Profit for the year	-	-	-	-	4,745,085	4,745,085
Other comprehensive income, net of tax	-	-	-	-	95,496	95,496
Total comprehensive income for the year	-	-	-	-	4,840,580	4,840,580
Transferred to Statutory Reserve Fund	-	237,254	-	-	(237,254)	-
<b>Balance as at 31 March 2017</b>	<b>309,888,671</b>	<b>11,360,719</b>	<b>14,187,500</b>	<b>60,000,000</b>	<b>51,749,099</b>	<b>447,185,989</b>

Figures in brackets indicate deductions.

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

# Statement of Cash Flows

For the year ended 31st March,	2017 Rs.	2016 Rs.
<b>Cash flow from operating activities</b>		
Profit/ (Loss) before income tax	8,997,365	(5,990,039)
<b>Adjustments For,</b>		
Depreciation and amortisation	6,904,381	5,260,662
Provision for retirement benefits obligation	1,224,178	1,068,735
(Profit)/loss on disposal of trading stock	(12,550)	(79,150)
Loss on fixed assets write-offs	-	490,470
Reversal of expense capitalized on intangible assets	-	552,000
Impairment charges for loans and other losses	143,461	22,892,921
Net gains/losses from trading	(143,141)	166,607
<b>Operating profit before working capital changes</b>	<b>17,113,694</b>	<b>24,362,206</b>
Decrease/ (increase) in loans and advances	(210,840,112)	4,036,476
Decrease in other assets	3,024,898	3,763,970
Increase in deposits from customers	(39,568,842)	(63,209,365)
Decrease in other liabilities	(15,669,263)	(4,837,108)
<b>Net cash flows used in operating activities</b>	<b>(245,939,625)</b>	<b>(35,883,821)</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment and intangible assets	(4,183,392)	(1,240,231)
Proceeds from sale of assets held for sale	1,026,450	-
Maturity/(purchase) of treasury bills	(3,397,798)	428,583
Proceeds from disposal of trading investments	708,277	-
Net cash flow from Securities purchased under repurchased agreement	20,352,294	5,485,214
<b>Net cash flows from investing activities</b>	<b>14,505,831</b>	<b>4,673,566</b>
<b>Cash flows from financing activities</b>		
Net Cash Received on Right issue	-	115,304,866
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>115,304,866</b>
Net Increase/(decrease) in cash and cash equivalents	(231,433,794)	84,094,611
Cash and cash equivalents at the beginning of the year	(6,151,859)	(90,246,470)
<b>Cash and cash equivalents at the end of the year (Note 17)</b>	<b>(237,585,653)</b>	<b>(6,151,859)</b>

Figures in brackets indicate deductions.

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

# Notes to the Financial Statements

## 1. Corporate Information

### 1.1 General

Colombo Trust Finance PLC (formerly known as Capital Alliance Finance PLC) ('the Company') is a public limited liability company incorporated and domiciled in Sri Lanka, incorporated under the Companies Act No 07 of 2007 and Finance Business Act No 42 of 2011.

The registered office of the Company is located at No 21, Kumara Veediya, Kandy.

### 1.2 Principal Activities

During the year, the principal activities of the Company were acceptance of Deposits, granting Lease facilities, Hire Purchase, Margin Trading, Mortgage Loans, Demand Loans, Revolving Loans, Cheque Discounting, Factoring and other Credit facilities.

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

### 1.3 Parent Entity and Ultimate Parent Entity

The Company's immediate and ultimate parent undertaking is Cargills Bank Limited.

### 1.4 No of Employees

The staff strength of the Company as at 31 March 2017 is 39 (2016 – 41).

### 1.5 Date of Authorisation of Issue

The Financial Statements of the Company, for the year ended 31 March 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 29th May 2017.

## 2. Basis of Preparation

### 2.1. Statement of Compliance

The Financial Statements of the Company are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka. And the requirements of the Companies Act, No. 7 of 2007, and provide appropriate disclosures as required by the Central Bank of Sri Lanka and Listing Rules of Colombo Stock Exchange.

### 2.2 Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of the Financial Statements of the Company as per the provisions of the Companies Act No. 07 of 2007, the Sri Lanka Accounting Standards (SLFRSs and LKASs), and provide appropriate disclosures as required by the Central Bank of Sri Lanka and the listing rules of the Colombo Stock Exchange.

The responsibility of the Directors in relation to the Financial Statements is set out in detail in the Statement of Directors' Responsibility report in the annual report.

### 2.3 Materiality and Aggregation

Each item which is similar in nature is presented separately if material. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of Financial Statements'.

### 2.4 Going Concern

The Directors have made an assessment of the Company's ability to continue a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

### 2.5 Basis of Measurement

The financial statements have been prepared on a historical cost basis, except for following material items in the statement of financial position;

- Available-for-sale financial assets are measured at fair value.
- Non derivative financial assets and liabilities designated at fair value through profit or loss are measured at fair value.
- Freehold lands are measured at cost at the time of acquisition and subsequently at revalued amounts.
- Defined benefit liability is measured at present value based on actuarial valuation.

## 2.6 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.

## 2.7 Functional and Presentation Currency

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the Functional Currency).

These Financial Statements are presented in Sri Lankan Rupees, the Company's Functional and Presentation Currency.

There was no change in the Company's Presentation and Functional Currency during the year under review.

## 3. Use of Judgements and Estimates

In the process of applying the Company's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgement and estimates are as follows:

### 3.1 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, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

### 3.2 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the profit or loss. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be impaired have been provided for impairment. All individually not 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 judgements to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

### 3.3 Impairment of Available-For-Sale Investments

The Company 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.

### 3.4 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that 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.

### 3.5 Taxation

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

# Notes to the Financial Statements (Contd.)

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

## 3.6 Defined Benefit Obligation

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, Salary Increment Rate, Age of Retirement, and Mortality Rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

## 3.7 Useful Life-time of the Property, Plant and Equipment

The Company reviews the residual values, useful lives and methods of depreciation of assets as 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.

## 3.8 Provisions and Contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgment 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.

## 4. Significant Accounting Policies

### 4.1 Financial Instruments

#### 4.1.1 Initial Recognition and Subsequent Measurement

##### (a) Date of Recognition

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

##### (b) Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on the purpose and the management’s intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

##### (c) Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as described below:

##### (i) Financial Assets or Financial Liabilities Held-for-Trading

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in ‘Net Operating Income’. Interest and dividend income or expense is recorded in ‘Net Trading Income’ according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities, equities and short positions.

##### (ii) Financial Assets and Financial Liabilities Designated at Fair Value Through Profit or Loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management designates an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.



Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net Gain or Loss on Financial Assets and Liabilities designated at fair value through profit or losses. Interest is earned or incurred is accrued in 'Interest Income' or 'Interest Expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

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

#### (iii) 'Day 1' Profit or Loss

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

#### (iv) Held-to-Maturity Financial Investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Impairment for loans and other losses'. If the Company were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the following 2 years.

Included in this classification is Government securities – Treasury Bills and Treasury Bonds

#### (v) Loans and Advances to Customers (Loans and Receivables)

'Loans and advances to customers' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

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

After initial measurement, amounts 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the comprehensive income. The losses arising from impairment are recognised in the comprehensive income in 'Impairment expenses for loans and advances and other losses'.

Included in this classification are Leases, Hire purchase, Margin trading receivable, Factoring and other loans and advances.

#### (vi) Debt Issued and Other Borrowed Funds

Financial instruments issued by the Company, that are not designated at fair value through profit or loss, are classified as liabilities under 'Deposits from customers and other borrowings', where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account

# Notes to the Financial Statements (Contd.)

any discount or premium on the issue and costs that are an integral part of the EIR.

## (vii) Available-for-Sale Financial Investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. The Company has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit or loss under 'Other operating income'. Where the Company holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding available-for-sale financial investments are recognised in the profit or loss as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the profit or loss in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

## 4.1.2 Determination of Fair Value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread

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

## 4.1.3 Impairment of Financial Assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### (a) Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost (such as loans and advances to customers as well as held-to-maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of

estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest Income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Company has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's credit risk characteristics such as asset type, industry, geographical location, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects

of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### **(b) Available-for-Sale Financial Investments**

For available for sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available for sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss. Future profit income is based on the reduced carrying amount and is accrued using the rate of return used to discount the future cash flows for the purpose of measuring the impairment loss.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss is removed from equity and recognised in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in the fair value after impairment are recognised in other comprehensive income.

# Notes to the Financial Statements (Contd.)

## (c) 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.

## (d) Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as Independent valuers and audited financial statements.

### 4.1.4 De recognition of Financial Assets and Financial Liabilities

#### (a) Financial Assets

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

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- The Company has transferred substantially all the risks and rewards of the asset, or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### (b) Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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.

### 4.1.5 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

### 4.2 Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Company retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'repurchase

agreements', reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Company reclassifies those securities in its statement of financial position to 'Financial assets held-for-trading pledged as collateral' or to 'Financial investments available-for-sale pledged as collateral', as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Company.

### 4.3 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 date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

#### 4.3.1 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 and Other Comprehensive Income.

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 'Loans and advances to banks' or

'loans and advances to other customers', as appropriate. 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.

#### 4.3.2 Operating Leases

##### Operating Leases – Company as a Lessor

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

##### Operating Leases – Company as a Lessee

Leases that do not transfer to the Company substantially all risks and benefits incidental to ownership of the leased assets are operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight line basis over the lease term.

Contingent rental payable is recognised as an expense in the period in which they are incurred.

### 4.4 Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at banks and in hand with a maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

### 4.5 Property, Plant and Equipment

#### 4.5.1 Recognition and Measurement

The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant and Equipment' in accounting for its owned assets which are held for and use in the provision of services or for administrative purposes and are expected to be used for more than one year.

# Notes to the Financial Statements (Contd.)

## 4.5.2 Basis of Recognition

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

## 4.5.3 Basis of Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Except for land and buildings, the Company applies cost model.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labour;
- Any other costs directly attributable to bringing the assets to a working condition for their intended use;
- When the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in "other income" in the Income Statement. When revalued assets are sold, any related amount included in the revaluation surplus reserves are transferred to retained earnings.

## 4.5.4 Subsequent Costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied

within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day to day servicing of property and equipment are recognised in Income Statement as incurred.

## 4.5.5 Repairs and Maintenance

Repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

## 4.5.6 Revaluations

Land is measured at fair value after the date of the revaluation. Valuations are performed every three years, or more frequently, to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recognised in Statement of Profit or Loss and Other Comprehensive Income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income Statement, in which case the increase is recognised in the Income Statement. A revaluation deficit is recognised in the Income Statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

#### 4.5.7 Depreciation

Depreciation is recognised in the Income Statement on a straight line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Building	-	25 Years
Air Conditioner	-	4 Years
Office Equipment	-	12.5 Years
Office Furniture and Fittings	-	8 Years
Plant and Machinery	-	4 Years
Motor Vehicles	-	4 Years
Computer equipment	-	4 Years

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

The depreciation rates are determined separately for each significant part of an item of Property, Plant and Equipment and depreciation commences when it is available for use, i.e. when it is in the location and in the condition necessary for it to be capable of operating in the manner intended by the management. 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.

All classes of property, plant and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Notes to the Financial Statements.

#### 4.6 Intangible Assets

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

#### 4.6.1 Subsequent Expenditure

Expenditure incurred on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### 4.6.2 Amortisation

Intangible assets are amortised on a straight line basis over a period of 4-8 years in the statement of comprehensive income from the date when the asset is available for use, over the best estimate of its useful economic life.

#### 4.6.3 Computer Software

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

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

#### 4.7 Assets Held for Sale

The Company intends to recover the Value of Assets classified as held for sale as at reporting date principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, Management has committed to the sale and the sale is expected to be completed within one year from the date of classification.

# Notes to the Financial Statements (Contd.)

As per the Sri Lanka Accounting Standard - SLFRS 5 on 'Non-Current Assets held for Sale and Discontinued Operations', these assets are measured at the lower of the carrying amount and fair value, less costs to sell. Thereafter, the Company assesses at each reporting date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired. The Company recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value less costs to sell of an asset only to the extent to the cumulative impairment losses that has been recognised previously. As a result once classified, the Company neither amortised nor depreciate the assets classified as held for sale.

## 4.8 Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash-Generating Units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.

If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the

carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss

## 4.9 Equity Movements

### 4.9.1 Ordinary Shares

The Company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

### 4.9.2 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's Board of Directors in accordance with the Articles of Association.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

### 4.9.3 Share Issue Costs

Share issue related expenses are charged against the retained earnings in the statement of equity.

## 4.10 Employee Benefits

### 4.10.1 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.

### 4.10.2 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 has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the profit or loss in the periods during which related 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. Contributions to a defined contribution plan and which are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

#### **Employees' Provident Fund**

All employees of the Company are members of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the salary, monthly to the Employees' Provident Fund managed by the Central Bank of Sri Lanka.

#### **Employees' Trust Fund**

All employees of the Company are members of the Employees' Trust Fund (ETF). The Company contributes at the rate of 3% of the salaries of each employee, monthly to the Employees' Trust Fund managed by the Central Bank of Sri Lanka.

#### **4.10.3 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 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 and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

With the adoption of LKAS 19 - "Employee Benefits", which became effective from 1st March 2013, the re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately under Other Comprehensive Income.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The obligation is not externally funded

##### **4.10.3.1 Defined Benefit Plans**

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

## **4.11 Recognition of Income and Expenses**

### **4.11.1 Interest Income and Interest Expense**

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Statement of Profit or Loss and Other Comprehensive Income includes the interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

### **4.11.2 Income from leases, hire purchases and term loans**

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognised as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

### **4.11.3 Factoring**

Revenue is derived from two sources, Funding and providing Sales Ledger Related Services.

Funding - Discount income relating to factoring transactions is recognised at the end of a given accounting month. In computing this discount, a fixed rate agreed upon at the commencement of the factoring agreement is applied on the daily balance in the Client's Current Account.

Sales Ledger Related Services - A service charge is levied as stipulated in the Factoring Agreement.

# Notes to the Financial Statements (Contd.)

Income is accounted for on an accrual basis and deemed earned on disbursement of advances for invoices factored.

#### 4.11.4 Fees, Commission and Other Income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees are recognised as the related services are performed.

Profit or loss on contracts terminated, collections on contracts written off, interest on overdue rentals, interest on revolving loans, interest earned on property sale and buy back agreements are accounted for on cash basis.

#### 4.11.5 Dividends

Dividend income is recognised when the right to receive income is established.

#### 4.11.6 Expenditure Recognition

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

#### 4.11.7 Value Added Tax (VAT) on Financial Services

The base for the computation of Value Added Tax on Financial Services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

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

#### 4.11.8 Lease Payments

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated

to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### 4.11.9 Income Tax Expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

#### 4.11.10 Current Tax Expense

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

#### 4.11.11 Deferred Tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### 4.11.12 Withholding Tax on Dividends

Withholding Tax on Dividends Distributed by the Company Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised.

#### 4.11.13 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 01, 2004. Currently, the ESC is payable at 0.25% on 'Exempt Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

#### 4.11.14 Value Added Tax on Financial Services

The value base for the computation of Value Added Tax on financial services is calculated by adjusting the depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before Income Tax and emoluments payable. Emoluments payable include benefits in money and not in money including contribution or provision relating to terminal benefits.

#### 4.11.15 Nation Building Tax on Financial Services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

#### 4.12 Earnings per Share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

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

#### 4.13 Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the

Company's other components, whose operating results are reviewed regularly by the Board of Directors (being 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.

The Company has 4 reportable segments, Leases, Hire Purchases, Loans and Treasury, which are the Company's strategic products / divisions. Those offer different products and services, and are managed separately based on the Company's management and internal reporting structure. For each of the strategic divisions, the Company's Board of Directors reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in Note 36. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

#### 4.14 Events after Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the financial statements are authorised for issue.

All material events after the reporting date have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

#### 4.15 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent Liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

# Notes to the Financial Statements (Contd.)

## 4.16 Statement of Cash Flows

The Cash Flow Statement has been prepared using the Indirect Method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

## 5. Standards Issued But Not Yet Effective

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. An analysis of the possible effect from those standards are given below.

New or Amended Standards	Summary of the Requirements	Possible Impact on Financial Statements
SLFRS 9 Financial Instruments	<p>SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.</p> <p>SLFRS 9 is effective from 01st January 2018, with early adoption permitted.</p>	<p>The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 9.</p> <p>Given the nature of the Company's operations, this standard is expected to have a pervasive impact on the Company's financial statements. In particular calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.</p>
SLFRS 15 Revenue from Contracts with Customers	<p>SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.</p>	<p>The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 15.</p>

New or Amended Standards	Summary of the Requirements	Possible Impact on Financial Statements
	SLFRS 15 is effective from 01st January 2018, with early adoption permitted.	
SLFRS 16 – ‘Leases’	<p>SLFRS 16 eliminates the current dual accounting model for leases which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.</p> <p>SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.</p>	The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

# Notes to the Financial Statements (Contd.)

For the year ended 31st March,	2017 Rs.	2016 Rs.
<b>6. Interest Income</b>		
Money market	469,904	414,976
Fixed deposit	-	907,784
Securities purchased under repurchase agreements	2,823,512	3,236,899
Sri Lanka government securities	3,641,934	2,788,900
Fixed deposits loan	3,064,601	3,052,237
Margin trading	23,305,721	20,479,625
Cheque discounting	21,234,069	12,056,508
Factoring loan	4,667,001	7,076,539
Hire purchase	14,238,541	33,200,992
Finance leases	46,404,734	41,924,197
Mortgage loan	16,339,557	8,727,908
Demand loan	8,440,249	8,111,654
Revolving loan	27,564,988	21,893,705
<b>Total interest income</b>	<b>172,194,811</b>	<b>163,871,924</b>

## 6.1 Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue Act No.10 of 2007, provided that a company which derives interest income from the secondary market transactions in Government Securities ( on or after April 1, 2002 ) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in the financial statements and the resulting notional Tax credit amounts to Rs. 602,580/- for the year ended 31 March 2017.

For the year ended 31st March,	2017 Rs.	2016 Rs.
<b>7. Interest Expense</b>		
Deposits from customers	56,938,535	62,250,990
Other borrowings	18,542,093	9,994,897
<b>Total interest expense</b>	<b>75,480,628</b>	<b>72,245,887</b>
<b>8. Fee and Commission Income</b>		
Commission received	497,960	385,291
Finance charges - Hire purchase	2,149	25,579
Finance charges - Lease	743,513	811,157
Finance charges - Demand loan	143,304	51,624
Finance charges - Mortgage loan	211,490	112,824
Transfer fees	192,468	147,831
Other charges- Cheque discounting	132,058	115,439
	<b>1,922,942</b>	<b>1,649,745</b>

For the year ended 31st March,	2017 Rs.	2016 Rs.
<b>9. Fee and Commission Expenses</b>		
Commission expenses	343,450	452,390
	<b>343,450</b>	<b>452,390</b>
<b>10. Net Gains/(Losses) from Trading</b>		
Equities		
Net market to - market - gains	143,141	(166,607)
Net capital gains	-	-
	<b>143,141</b>	<b>(166,607)</b>
<b>11. Other Operating Income</b>		
Default charges	5,350,012	6,329,519
Bad debt recoveries	345,601	1,308,543
Other charges	-	6,720
Sundry income	29,446	918,349
Cheque return charges	75,423	89,413
Dividend income	87,339	87,515
Building rent income	659,700	818,400
Early settlement charges - Lease	65,487	43,496
Early settlement charges - Hire purchase	12,208	12,143
Early settlement charges - other	-	2,680
Gains/(losses) from trading stock (Three wheels)	12,550	79,150
	<b>6,637,766</b>	<b>9,695,928</b>
<b>12. Impairment Charge for Loans and Advances</b>		
Impairment charge on individual impairment	494,082	27,173,875
Impairment reversal on collective impairment	(350,621)	(4,280,954)
	<b>143,461</b>	<b>22,892,921</b>
<b>13. Personnel Expenses</b>		
Salaries	31,004,119	29,977,569
Directors' emoluments	2,587,614	1,190,484
Contributions to defined contribution plans	4,649,140	4,449,064
Contributions to defined benefit plans	1,224,178	1,068,735
Bonus expense	2,500,650	39,300
Vehicle Allowance	6,319,559	5,987,258
Others	2,620,148	2,459,928
	<b>50,905,408</b>	<b>45,172,338</b>

# Notes to the Financial Statements (Contd.)

For the year ended 31st March,	2017 Rs.	2016 Rs.
<b>14. Profit/(Loss) from Operations</b>		
Profit/(Loss) from operations is stated after charging all expenses including the following:		
Directors' emoluments	2,587,614	1,190,484
Audit fees and expenses - Audit services	525,000	485,000
- Audit related services	775,000	612,500
Professional and legal expenses	1,422,033	1,106,011
Depreciation on property, plant and equipment	5,207,795	3,766,083
Amortisation on intangible assets	1,696,589	1,494,579
Impairment charge for loans and advances (Note 12)	143,461	22,892,921
Personnel expenses (Note 13)	50,905,408	45,172,338
<b>15. Income Tax Expense</b>		
The major components of income tax expense are as follows:		
<b>Current tax expense</b>		
Current tax expense for the year	(2,009,552)	(2,493,379)
Change to estimates for prior years	(174,073)	575,496
	(2,183,625)	(1,917,883)
<b>Deferred tax expense</b>		
Origination of deferred tax assets	5,245,473	(127,337)
Origination of deferred tax liabilities	(7,314,128)	4,940,837
Net Deferred tax (charge)/reversal	(2,068,655)	4,813,500
<b>Income tax expense</b>	<b>(4,252,280)</b>	<b>2,895,617</b>
Deferred tax (charge)/reversal recognised in OCI	(37,138)	(237,000)



For the year ended 31st March,	2017 Rs.	2016 Rs.
<b>15.1 Reconciliation of Effective Tax Rate</b>		
A reconciliation between tax expense and the product of accounting profit/(loss).		
Profit/(loss) for the year	4,745,085	(3,094,422)
Income tax expense	(4,252,280)	2,895,617
<b>Profit/(loss) before tax from continuing operations</b>	<b>8,997,365</b>	<b>(5,990,039)</b>
Tax using the Company's domestic tax rate	28%	-28%
Aggregate allowable expenses	-74%	47%
Tax-exempt income	-1%	0%
Profit/(Loss) from lease business during the year	70%	23%
Over provision in respect of prior years	2%	-10%
	24%	32%
	2,519,262	1,677,211
	(6,690,352)	(2,834,865)
	(89,803)	24,504
	6,270,445	(1,360,229)
	174,073	575,496
	2,183,625	(1,917,883)
<b>15.2 Amount Recognised in other Comprehensive Income</b>		
Reassessment of defined benefit obligation	(37,138)	(237,000)
	(37,138)	(237,000)

## 16. Earnings/(Loss) Per Share

### 16.1 Basic Earnings/(Loss) per Share

Basic earnings/(loss) per share have been calculated by dividing the net profit/(loss) for the period attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2017	2016
Amount used as the numerator:		
Profit/(loss) attributable to the equity holders of the Company (Rs.)	4,745,085	(3,094,422)
Weighted average number of ordinary shares	46,519,243	40,058,237
<b>Basic earnings/(loss) per share (Rs.)</b>	<b>0.10</b>	<b>(0.07)</b>

### 16.2 Diluted Earnings/(Loss) per Share

There was no dilution of ordinary shares outstanding at any time during the year. Therefore, diluted earnings / (loss) per share is the same as basic earnings per share as shown above.

## 17. Cash and Cash Equivalents

Cash in hand	125,000	125,000
Balances with banks	16,432,401	19,381,639
	16,557,401	19,506,639
Bank overdraft	(254,143,054)	(25,658,498)
<b>Cash and cash equivalents for the purpose of Statement of Cash Flow</b>	<b>(237,585,653)</b>	<b>(6,151,859)</b>

# Notes to the Financial Statements (Contd.)

	As at 31 March 2017			As at 31 March 2016		
	Land Extent (Perches)	Carrying Value Rs.	Fair Value Rs.	Land Extent (Perches)	Carrying Value Rs.	Fair Value Rs.
<b>18. Asset Held for Sale</b>						
Land at Kadugannawa	67.43	696,056	1,085,925	90.24	1,722,506	5,150,000
	67.43	696,056	1,085,925	90.24	1,722,506	5,150,000

**18.1** The Company has acquired the land in 2008, as part of a settlement arrangement with a customer. The Management is committed to the plan to sell this land. Accordingly, the land is presented as an asset held for sale. Efforts to sell the land has been initiated and a sale is expected to be completed by 31 March 2018.

	2017 Rs.	2016 Rs.
<b>18.2 Movement of Asset Held for Sale</b>		
Opening balance	1,722,506	1,722,506
Sold during the Year	(1,026,450)	-
Closing Balance	696,056	1,722,506

### 18.3 Impairment Losses Relating to the Assets Held for Sale.

There has not been any impairment losses on the assets held for sale, comparing the lower of its carrying amount and its fair value less cost to sell.

### 18.4 Cumulative Income or Expenses Included in OCI

There are no cumulative income or expenses included in OCI relating to the assets held for sale.

### 18.5 Measurement of Fair value

The fair value of the assets held for sale as at reporting date was Rs.1,085,925/- which was based on the valuation carried out by Mr.S.A.S Fernando, a professional valuer on 24 June 2016.

Based on the internal assessment carried out during the year, the Board of directors is of the view that the fair value of the investment property has not changed significantly as at reporting date.

As at 31st March,	2017 Rs.	2016 Rs.
<b>19. Financial Assets at Fair Value Through Profit or Loss</b>		
Quoted equity shares (Note 19.1)	1,343,218	1,908,354
	1,343,218	1,908,354

	2017		2016	
	No of Shares	Carrying/ Fair Value Rs.	No of shares	Carrying/ Fair Value Rs.
<b>19.1 Quoted Equity Shares</b>				
Balangoda Plantations PLC	22,000	283,800	22,000	347,600
Tokyo Cement Company (Lanka) PLC	6,798	414,678	6,798	251,526
ACL Cables PLC	-	-	5,800	585,220
Ceylon Hotels Corporation PLC.	4,500	86,400	4,500	108,000
The Kingsbury PLC	15,000	232,500	15,000	225,000
John Keells Hotels- PLC	32,584	325,840	32,584	391,008
<b>Total market value</b>		<b>1,343,218</b>		<b>1,908,354</b>

	Notes	2017 Rs.	2016 Rs.
<b>20. Loans and Advances</b>			
Leases	20.1	301,128,960	263,723,556
Hire purchase	20.2	47,534,446	105,797,350
Other loans and advances	20.3	607,292,525	433,963,688
Margin trading receivable	20.4	171,429,580	113,204,266
		<b>1,127,385,511</b>	<b>916,688,860</b>
<b>20.1 Lease Receivables</b>			
Lease rental receivable within one year	20.1.1	183,149,009	64,664,271
Lease rental receivable between one to five years	20.1.2	154,305,445	233,409,369
Lease rental receivable more than five years	20.1.3	-	13,302,117
Net investment in finance leases		337,454,454	311,375,757
Less: Provision for individual impairment		(33,980,051)	(45,324,741)
Less: Provision for collective impairment		(2,345,443)	(2,327,460)
<b>Net investment in finance leases after impairment</b>		<b>301,128,960</b>	<b>263,723,556</b>

# Notes to the Financial Statements (Contd.)

As at 31st March,	Notes	2017 Rs.	2016 Rs.
<b>20.1.1 Leases Rental Receivable within 1 Year</b>			
Lease rental receivable		224,032,630	65,520,617
Unearned lease income		(40,883,621)	(856,346)
		<b>183,149,009</b>	<b>64,664,271</b>
<b>20.1.2 Leases Rental Receivable Between 1 to 5 Years</b>			
Lease rental receivable		203,897,853	302,967,295
Unearned lease income		(49,592,408)	(69,557,926)
		<b>154,305,445</b>	<b>233,409,369</b>
<b>20.1.3 Leases Rental Receivable More than 5 Years</b>			
Lease rental receivable		-	20,308,092
Unearned lease income		-	(7,005,975)
		-	<b>13,302,117</b>
<b>20.2 Hire Purchase Receivable</b>			
Hire purchase receivable within 1 year	20.2.1	56,219,857	54,324,170
Hire purchase receivable between one to 5 years	20.2.2	16,345,251	94,805,189
Net investment in hire purchase		72,565,108	149,129,359
Less: Provision for individual impairment		(22,564,279)	(40,977,425)
Less: Provision for collective impairment		(2,466,383)	(2,354,584)
Net investment in hire purchase after impairment		<b>47,534,446</b>	<b>105,797,350</b>
<b>20.2.1 Hire Purchase Receivable within 1 Year</b>			
Hire purchase receivable		61,748,061	54,900,533
Unearned lease income		(5,528,204)	(576,363)
Net receivable within 1 year		<b>56,219,857</b>	<b>54,324,170</b>
<b>20.2.2 Hire Purchase Receivable Between 1 to 5 Years</b>			
Hire purchase rental receivable		18,551,315	118,345,113
Unearned lease income		(2,206,064)	(23,539,924)
Net receivable between 1 to 5 years		<b>16,345,251</b>	<b>94,805,189</b>

As at 31st March,	Notes	2017 Rs.	2016 Rs.
<b>20.3 Other Loans and Advances</b>			
Gross investment in other loans and advances		289,787,548	210,109,723
Other loans and advances in arrears		11,475,710	11,206,145
		301,263,258	221,315,868
Unearned loan income		(52,511,027)	(43,945,924)
		248,752,231	177,369,944
Revolving loan		179,002,863	164,126,112
Cheque discounting		158,533,264	78,918,699
Factoring		26,204,082	20,957,776
Net investment in other loans and advances		612,492,440	441,372,531
Less: Provision for individual impairment		(2,884,359)	(4,592,431)
Less: Provision for collective impairment		(2,315,556)	(2,816,412)
Net investment in other loans and advances after impairment		607,292,525	433,963,688

#### 20.4 Margin Trading Receivables

Opening balance		115,687,423	145,619,630
Increase/Decrease in net position		(3,768,820)	(43,285,149)
Net payment and receipts		62,014,587	13,352,942
		173,933,190	115,687,423
Less: Provision for individual impairment		(2,327,078)	(2,327,078)
Less: Provision for collective impairment		(176,532)	(156,079)
Closing balance		171,429,580	113,204,266

	Individual impairment Rs.	Collective impairment Rs.	Total impairment Rs.
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#### 20.5 Movements in Individual and Collective Impairment During the Year

As at 1 April 2015	66,047,800	11,935,489	77,983,289
Charge to profit or loss	27,173,875	-	27,173,875
Reversal of provision during the year	-	(4,280,954)	(4,280,954)
As at 31 March 2016	93,221,675	7,654,535	100,876,210
As at 1 April 2016	93,221,675	7,654,535	100,876,210
Charge to profit or loss	-	-	-
Reversal of provision during the year	494,082	(350,621)	143,461
Written off during the period	(31,959,990)	-	(31,959,990)
As at 31 March 2017	61,755,767	7,303,914	69,059,681

# Notes to the Financial Statements (Contd.)

## 20.6 Product Wise Individual and Collective Impairment

	Individual impairment Rs.	Collective impairment Rs.	Total impairment Rs.
<b>As at 31 March 2016</b>			
Leases	45,324,741	2,327,460	47,652,201
Hire purchase	40,977,425	2,354,584	43,332,009
Other loans and advances	4,592,431	2,816,412	7,408,843
Margin trading receivable	2,327,078	156,079	2,483,157
	<b>93,221,675</b>	<b>7,654,535</b>	<b>100,876,210</b>
<b>As at 31 March 2017</b>			
Leases	33,980,051	2,345,443	36,325,494
Hire purchase	22,564,279	2,466,383	25,030,662
Other loans and advances	2,884,359	2,315,556	5,199,915
Margin trading receivable	2,327,078	176,532	2,503,610
	<b>61,755,767</b>	<b>7,303,914</b>	<b>69,059,681</b>

As at 31st March,	2017 Rs.	2016 Rs.
<b>21. Financial Investments-Available-for-Sale</b>		
Credit Information Bureau	345,775	345,775
	<b>345,775</b>	<b>345,775</b>
<b>22. Financial Investments Held to Maturity</b>		
Government securities - Treasury bills	41,564,920	38,192,928
Government securities - Treasury bonds	1,969,515	1,943,709
	<b>43,534,435</b>	<b>40,136,637</b>

	Land	Buildings	Computer hardware	Machinery and equipment	Furniture and fittings	Office equipment	Motor Vehicles	Total 2017	Total 2016
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>23. Property, Plant and Equipment</b>									
<b>23.1 Cost/Fair Value</b>									
Balance as at 01 April	22,500,000	15,856,213	9,146,207	2,054,944	4,302,256	7,206,651	708,945	61,775,216	64,500,609
Additions	-	-	2,708,557	179,593	165,093	7,949	-	3,061,192	1,240,231
Asset write off during the period	-	-	-	-	-	-	-	-	(3,965,624)
Balance as at 31 March	22,500,000	15,856,213	11,854,764	2,234,537	4,467,349	7,214,600	708,945	64,836,408	61,775,216
<b>23.2 Accumulated Depreciation</b>									
Balance as at 01 April	-	3,553,830	5,654,023	1,374,139	1,804,119	1,884,114	708,945	14,979,170	14,612,021
Charge for the year	-	817,945	2,477,524	682,292	589,637	640,394	-	5,207,792	3,766,083
Asset write off during the period	-	-	-	-	-	-	-	-	(3,398,934)
Balance as at 31 March	-	4,371,775	8,131,547	2,056,431	2,393,756	2,524,508	708,945	20,186,962	14,979,170
Carrying value									
As at 31 March 2016	22,500,000	12,302,383	3,492,184	680,805	2,498,137	5,322,537	-	-	46,796,046
As at 31 March 2017	22,500,000	11,484,438	3,723,217	178,106	2,073,593	4,690,092	-	44,649,446	-

### 23.3 Property, Plant and Equipment Acquired During the Financial Year

During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs.3,061,192/- (2016 -Rs.1,240,231/-)

### 23.4 Fully-Depreciated Property, Plant and Equipment

The initial cost of fully-depreciated property, plant and equipment, which are still in use as at reporting date is Rs. 8,058,879/-

### 23.5 Information on the Freehold Land and Buildings of the Company

Address	Land	Building	Cost		Accumulated Depreciation		Last Valuation		Carrying Amount	
	Extent	Extent	Land	Building	Building	Building	Land	Building	2017	2016
	A-R-P	(Sq. Ft.)	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
No: 21, Kumara Veediya, within Ward No: 19 of Kandy Municipal Council, Kandy District, Central Province.	0A-0R-4.75P	3040	8,312,500	15,856,213	4,371,772	22,500,000	15,856,213	33,984,441	34,802,383	

The fair valuation of the revalued land was carried out as at 28th October 2014 by Mr P. W. Senaratne, Chartered Valuation Surveyor valuers, who hold recognised and relevant professional qualifications and has recent experience in the location and category of the revalued properties.

# Notes to the Financial Statements (Contd.)

If land and buildings were measured using the cost model, the carrying amounts would be as follows:

As at 31 March	2017 Rs.	2016 Rs.
Cost	24,168,713	24,168,713
Accumulated Depreciation	4,371,772	3,553,830
	19,796,941	20,614,883

## 23.6 The Land has Been Pledged Against the Overdraft Facility Obtained from Seylan Bank PLC

As at 31st March,	2017 Rs.	2016 Rs.
<b>24. Intangible Assets</b>		
Computer software		
<b>24.1 Cost</b>		
Balance as at 1 April 2016	12,633,539	13,060,633
Additions during the year	1,122,200	-
Transfers/ adjustments	-	(427,094)
Balance as at 31 March 2017	13,755,739	12,633,539
<b>24.2 Accumulated Amortization</b>		
Balance as at 1 April 2016	4,155,546	2,612,281
Charge for the year	1,696,589	1,494,579
Transfers/ adjustments	-	48,686
Balance as at 31 March 2017	5,852,135	4,155,546
Carrying value	7,903,604	8,477,993
<b>25. Other Assets</b>		
Deposits and prepayments	8,204,608	8,841,000
Inventory	8,145	2,495,725
Tax Receivable	6,172,510	7,577,315
Other receivable	1,113,511	1,572,413
FS VAT over payment	959,129	1,585,965
WHT (CP) overpayment	418,542	-
	16,876,445	22,072,418



As at 31st March,	2017 Rs.	2016 Rs.		
<b>26. Deferred Tax</b>				
Deferred tax assets	29,842,440	24,634,105		
Deferred tax liabilities	(22,893,501)	(15,579,373)		
	<b>6,948,939</b>	<b>9,054,732</b>		
<b>Deferred Tax Assets</b>				
Balance at the beginning of the year	24,634,105	24,998,442		
Recognised in profit or loss	5,245,473	(127,337)		
Recognised in other comprehensive income	(37,138)	(237,000)		
<b>Balance at the end of the year</b>	<b>29,842,440</b>	<b>24,634,105</b>		
<b>Deferred Tax Liabilities</b>				
Balance at the beginning of the year	15,579,373	20,520,210		
Recognised in profit or loss	7,314,128	(4,940,837)		
<b>Balance at the end of the year</b>	<b>22,893,501</b>	<b>15,579,373</b>		
	31 March 2017	31 March 2016		
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
<b>Deferred Tax Liabilities</b>				
Finance leases	63,121,859	17,674,120	36,270,742	10,155,807
Property, plant and equipment	18,640,645	5,219,381	19,369,878	5,423,566
	<b>81,762,504</b>	<b>22,893,501</b>	<b>55,640,620</b>	<b>15,579,373</b>
<b>Deferred Tax Assets</b>				
Employee benefits	4,380,076	1,226,422	3,288,532	920,789
Tax losses on leasing business	62,448,866	17,485,682	40,325,428	11,291,120
Carried forward disallowed bad debt provision	39,751,200	11,130,336	44,364,986	12,422,196
	<b>106,580,142</b>	<b>29,842,440</b>	<b>87,978,946</b>	<b>24,634,105</b>

# Notes to the Financial Statements (Contd.)

As at 31st March,	2017 Rs.	2016 Rs.
<b>27. Deposits from Customers</b>		
Deposits from customers	567,878,347	603,875,879
Amortised interest payable	9,782,121	13,353,431
	<b>577,660,468</b>	<b>617,229,310</b>
<b>27.1 Analysis of Customer Deposits Based on Nature</b>		
Fixed deposits - Conventional	567,878,347	603,875,879
<b>Total deposits</b>	<b>567,878,347</b>	<b>603,875,879</b>
<b>27.2 Deposits Based on Maturity</b>		
Deposits maturing within 1 year	526,003,519	577,872,263
Deposits maturing after 1 year	51,656,949	39,357,047
	<b>577,660,468</b>	<b>617,229,310</b>
<b>28. Employee Benefits</b>		
<b>28.1 Defined Contribution Plans</b>		
Employees' Provident Fund		
Employees' contribution	2,481,888	2,236,838
Employers' contribution	3,722,832	3,355,257
Employees' Trust Fund	926,308	838,814
<b>28.2 Defined Benefit Plan</b>		
Movement in the present value of the defined benefit obligation		
Defined benefit obligation as of 1st April	3,288,532	3,066,225
Expense included in Personnel Expenses	1,224,178	1,068,735
Re-measurement Component - Actuarial gain	(132,634)	(846,428)
<b>As at the end of the year</b>	<b>4,380,076</b>	<b>3,288,532</b>
<b>28.3 Expenses Included in Personnel Expenses</b>		
Current service cost	878,882	777,444
Interest cost	345,296	291,291
	<b>1,224,178</b>	<b>1,068,735</b>
<b>28.4 Amount Recognised for Defined Benefit Obligation in other Comprehensive Income</b>		
Cumulative loss as at 1st April	(729,712)	116,716
Actuarial gain for the year	(132,634)	(846,428)
<b>Cumulative loss as at 31st March</b>	<b>(862,346)</b>	<b>(729,712)</b>

Actuarial valuation for defined benefit obligation was carried out as at 31 March 2017 by Mr. M Poopalanathan, AIA of Messers Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuary. The valuation method used by the actuaries to value the obligation is the "Projected Unit Credit Method", a method recommended by the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

As at 31st March	2017	2016
<b>28.5 Key Assumptions Used in the Above Valuation are as Follows:</b>		
Discount rate per annum	12.0%	10.5%
Future salary growth	10%	10%
Retirement age (years)	55 years	55 years

The Defined Benefit Plan entitles a retired employee to receive a payment equal to half of the last drawn monthly salary multiplied by the number of completed years of service. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 years of service.

Assumptions regarding future mortality are based on published statistics and mortality tables.  
The plan is not externally funded.

#### 28.6 Sensitivity Analysis on Actuarial Valuation

Reasonable possible changes at the reporting date, 31 March 2017 to one of relevant actuarial assumptions, holding other assumptions constant, would have affected the defined retirement obligation as shown below,

	1% Increase Rs.	1% Decrease Rs.
Discount rate	4,194,200	4,581,041
Future salary growth	4,599,350	4,174,203

As at 31st March,	2017 Rs.	2016 Rs.
<b>29. Other Liabilities</b>		
Accruals and other payables	9,126,657	5,841,054
Rental received in advance	1,042,416	1,998,547
Rental over payment	1,995,162	1,770,957
Advances received from repossessed assets	33,500	30,000
Payable to margin trading customers	1,126,462	20,020,871
Sports club deduction	31,970	350
VAT on financial services payable	1,051,093	414,744
	<b>14,407,260</b>	<b>30,076,523</b>

# Notes to the Financial Statements (Contd.)

	2017		2016	
	No of Shares	Amount Rs.	No of Shares	Amount Rs.
<b>30. Stated Capital</b>				
Ordinary shares				
At the beginning of the year	46,519,243	309,888,671	38,766,036	193,590,566
Right issue during the year (Note 30.1)	-	-	7,753,207	116,298,105
Balance at the end of the year	46,519,243	309,888,671	46,519,243	309,888,671

## 30.1 Right Issue during the Period

During the 2015/2016 year, the Company raised Rs.116,298,105 via right issue. This comprises of 7,753,207 ordinary voting shares at Rs.15 in proportion of one new ordinary voting share for every one ordinary voting share held at 26 January 2016.

The expenses relating to the right issue amounting to Rs.993,239 have been set off against reserves as presented in the statement of changes in equity.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and voting ordinary shares are entitled to one vote per share at meetings of the Company.

	2017 Rs.	2016 Rs.
<b>30.2 Proceeds from Right Issue</b>		
Voting shares (7,753,207 )	-	116,298,105

## 30.3 Utilisation of Proceeds from Right Issue.

During the year of 2015/2016. the Company raised Rs.116.3Mn through right issue and the funds have been utilised as follows.

Utilisation of funds	Amount Rs.	%
Normal cause of business	115,304,866	99
Expenses relating to the rights issue	993,239	1

As at 31st March,	2017 Rs.	2016 Rs.
<b>31. Statutory Reserve Fund</b>		
Balance at the beginning of the year	11,123,465	11,123,465
Transfers during the year	237,254	-
<b>Balance at the end of the year</b>	<b>11,360,719</b>	<b>11,123,465</b>

Statutory Reserve Fund is a capital reserve which contains profit transferred as required by Section 3 (b) (ii) of the Central Bank Direction No. 1 of 2003.

### 32. Other Reserves

#### 32.1 General Reserve

Balance at the beginning of the year	60,000,000	60,000,000
<b>Balance at the end of the year</b>	<b>60,000,000</b>	<b>60,000,000</b>

The General Reserve is created after provisioning for a statutory reserve fund. This reserve will be used for the future capitalisation purpose of the Company.

#### 32.2 Revaluation Reserve

Balance at the beginning of the year	14,187,500	14,187,500
Balance at the end of the year	14,187,500	14,187,500
<b>Total other reserves</b>	<b>74,187,500</b>	<b>74,187,500</b>

### 33. Related Party Disclosure

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties in LKAS 24 - Related Party Disclosures. The details of which are given below.

#### 33.1 Key Management Personnel (KMP)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Accordingly, the KMP include members of the Board of Directors of the Company (including Executive and Non-Executive Directors).

	2017 Rs.	2016 Rs.
<b>33.1.1 Compensation of Key Management Personnel</b>		
Short Term employee benefits	10,512,614	7,836,484
Post-employment benefits	962,500	603,750
	<b>11,475,114</b>	<b>8,440,234</b>

# Notes to the Financial Statements (Contd.)

## 33.1.2 Other Transactions with Key Management Personnel (KMP) and their Close Family Members (CFM)

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

	2017 Rs.	2016 Rs.
<b>Statement of Financial Position</b>		
Fixed deposits accepted during the year	437,500	-
Fixed deposits held at the end of the year	2,121,744	1,932,431
Loans given	215,647	153,152
Recovery of loans	162,011	64,644
<b>Income Statement</b>		
Interest paid on fixed deposits	180,646	47,600
Interest received	22,690	6,343

## Commitments and contingencies

There are no transactions with CFMs during the year. No impairment losses have been recorded against balances outstanding with KMP and CFM.

## 33.2 Transactions with the parent and related Entities

Name of the Company	Relationship	Nature of transaction	Transactions during the year		Balance as at 31 March	
			paid/ (received) 2017 Rs.	2016 Rs.	(payable)/ receivable 2017 Rs.	2016 Rs.
Cargills Bank Limited	Parent	Bank Overdraft Settlement	1,011,039,001	1,074,489,667	-	-
		Bank Overdraft Used	(1,237,967,937)	(995,157,626)	(252,587,433)	(25,658,497)
Cargills Bank Limited	Parent	Fixed deposits	(277,878,845)	-	-	-
		Accrued Interest on Fixed Deposits	(304,525)	-	(278,183,370)	-
Cargills (Ceylon) PLC	Common Directors	Fixed deposits	211,422,032	(205,464,063)	-	-
		Accrued Interest on Fixed Deposits	(2,371,000)	(3,586,970)	-	(209,051,032)

### 34. Financial Reporting by Segment

	Leasing and Hire purchase		Treasury/ Investments		Margin Trading		Revolving/Cheque Discounting and Factoring		Other Loan and Advance		Unallocated		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Net interest income	39,084,102	49,218,324	1,165,218	(628,882)	12,705,584	12,542,949	30,974,630	22,517,706	12,784,649	7,975,939	-	-	96,714,183	91,626,037
Net Fees and commission income	745,662	836,736	-	-	-	-	132,068	115,439	954,794	164,448	346,978	80,732	1,579,492	1,197,355
Other income	4,068,079	5,419,987	143,141	(166,807)	-	-	-	-	1,359,628	967,851	1,210,069	3,308,090	6,780,307	9,529,321
Operating income by segment	43,897,843	55,475,047	1,308,359	(795,489)	12,705,584	12,542,949	31,106,688	22,633,145	14,499,071	9,108,238	1,557,037	3,388,822	105,074,582	102,352,713
Total Operating income	43,897,843	55,475,047	1,308,359	(795,489)	12,705,584	12,542,949	31,106,688	22,633,145	14,499,071	9,108,238	1,557,037	3,388,822	105,074,582	102,352,713
Credit loss expenses	(1,127,957)	(23,995,497)	-	-	(20,453)	306,493	(673,168)	368,200	1,376,117	427,883	-	-	(143,461)	(22,892,921)
Net operating income	42,769,886	31,479,550	1,308,359	(795,489)	12,685,131	12,849,442	30,733,520	23,001,346	15,877,189	9,536,121	1,557,037	3,388,822	104,931,120	79,459,792
Operating expenses	(8,981,709)	(11,365,913)	(2,403,879)	(3,499,879)	(4,416,095)	(3,481,995)	(9,370,094)	(8,120,326)	(6,274,005)	(5,227,750)	-	-	(31,445,783)	(31,695,863)
Depreciation & amortization	(1,972,065)	(1,886,436)	(527,807)	(580,888)	(969,618)	(577,918)	(2,057,341)	(1,347,756)	(1,377,550)	(867,666)	-	-	(6,904,381)	(5,260,662)
Segment result	31,816,111	18,227,201	(1,623,328)	(4,876,254)	7,299,418	8,789,530	19,306,085	13,533,263	8,225,633	3,440,705	1,557,037	3,388,822	66,560,956	42,503,267
Personnel expenses													(60,905,408)	(45,172,338)
Profit/(Loss) from operations													15,675,548	(2,668,071)
VAT on Financial services													(6,678,184)	(3,320,968)
Income tax expense/reversal													(4,252,280)	2,895,617
Net profit/(loss) for the year, attributable to equity holders of the parent													4,745,085	(3,094,422)
Other information														
Segment assets	348,663,406	369,520,306	93,316,846	113,785,716	171,429,580	113,204,266	363,740,209	264,002,587	243,552,316	169,961,101	77,074,490	88,123,695	1,297,776,847	1,118,598,271
Total assets	348,663,406	369,520,306	93,316,846	113,785,716	171,429,580	113,204,266	363,740,209	264,002,587	243,552,316	169,961,101	77,074,490	88,123,695	1,297,776,847	1,118,598,271
Segment liabilities	242,950,220	242,499,501	65,023,595	74,672,309	119,452,898	74,290,730	253,455,803	173,252,703	169,706,342	111,537,619	-	-	850,590,868	676,252,863
Total liabilities	242,950,220	242,499,501	65,023,595	74,672,309	119,452,898	74,290,730	253,455,803	173,252,703	169,706,342	111,537,619	-	-	850,590,868	676,252,863

# Notes to the Financial Statements (Contd.)

## 35. Maturity Analysis of Assets and Liabilities

Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets and the liabilities are as follows.

Category	Maturity period as at 31 March 2017				Total 2017 Rs.	Total 2016 Rs.
	Upto 3	4-12	1-3	Over 3		
	Months Rs.	Months Rs.	Years Rs.	Years Rs.		
<b>Assets</b>						
Cash and cash equivalents	16,557,401	-	-	-	16,557,401	19,506,639
Securities purchased under resale agreement	31,536,017	-	-	-	31,536,017	51,888,311
Asset held for sale	696,056	-	-	-	696,056	1,722,506
Financial Assets fair value through profit or loss	1,343,218	-	-	-	1,343,218	1,908,354
Loans and advance	614,993,049	194,478,035	229,180,565	88,733,862	1,127,385,511	916,688,860
Financial Investments-available for sale	-	345,775	-	-	345,775	345,775
Financial Investments-held to maturity	75,000	41,564,920	-	1,894,515	43,534,435	40,136,637
Property Plant and Equipment	-	-	-	44,649,446	44,649,446	46,796,046
Intangible Assets	-	-	-	7,903,604	7,903,604	8,477,993
Other Assets	3,740,304	7,785,960	5,350,181	-	16,876,445	22,072,418
Deferred tax assets	-	3,474,470	3,474,469	-	6,948,939	9,054,732
<b>Total assets as at 31 March 2017</b>	<b>668,941,045</b>	<b>247,649,160</b>	<b>238,005,215</b>	<b>143,181,427</b>	<b>1,297,776,847</b>	<b>1,118,598,271</b>
<b>Total assets as at 31 March 2016</b>	<b>406,859,029</b>	<b>238,592,358</b>	<b>152,962,385</b>	<b>320,184,499</b>	<b>-</b>	<b>1,118,598,271</b>
Percentage - as at 31 March 2017	52%	19%	18%	11%	100%	-
Percentage - as at 31 March 2016	36%	21%	14%	29%	-	100%
<b>Liabilities</b>						
Bank overdraft	254,143,054	-	-	-	254,143,054	25,658,498
Deposit from customers	427,870,354	98,133,165	45,287,181	6,369,768	577,660,468	617,229,310
Retirement benefit obligation	-	-	-	4,380,076	4,380,076	3,288,532
Other liabilities	12,810,341	926,534	319,638	350,747	14,407,260	30,076,523
<b>Total Liabilities</b>	<b>694,823,749</b>	<b>99,059,699</b>	<b>45,606,819</b>	<b>11,100,591</b>	<b>850,590,858</b>	<b>676,252,863</b>
<b>Equity</b>						
Stated capital	-	-	-	309,888,671	309,888,671	309,888,671
Statutory reserve fund	-	-	-	11,360,719	11,360,719	11,123,465
Retained earnings	-	-	-	51,749,099	51,749,099	47,145,772
Other reserves	-	-	-	74,187,500	74,187,500	74,187,500
<b>Total Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>447,185,989</b>	<b>447,185,989</b>	<b>442,345,408</b>
<b>Total equity and liabilities as at 31 March 2017</b>	<b>694,823,749</b>	<b>99,059,699</b>	<b>45,606,819</b>	<b>458,286,580</b>	<b>1,297,776,847</b>	<b>1,118,598,271</b>
<b>Total equity and liabilities as at 31 March 2016</b>	<b>525,081,439</b>	<b>107,082,345</b>	<b>32,549,204</b>	<b>453,885,283</b>	<b>-</b>	<b>1,118,598,271</b>
Percentage - as at 31 March 2017	54%	8%	4%	35%	100%	-
Percentage - as at 31 March 2016	47%	10%	3%	41%	-	100%



## 36. Fair Value of Financial Instruments

### 36.1 Valuation Models

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

### 36.2 Valuation Framework

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

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

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

### 36.3 Classification of Financial Assets and Financial Liabilities

As at 31 March 2017							
Note	Held for trading Rs.	Held to maturity Rs.	Loans and receivables Rs.	Available for sale Rs.	Other amortised cost Rs.	Total Rs.	
<b>Financial assets</b>							
Cash and cash equivalents	17	-	-	16,557,401	-	-	16,557,401
Securities purchased under repurchase agreements		-	-	31,536,017	-	-	31,536,017
Financial assets at fair value through profit or loss	19	1,343,218	-	-	-	-	1,343,218
Loans and advances	20	-	-	1,127,385,511	-	-	1,127,385,511
Financial investments available for sale	21	-	-	-	345,775	-	345,775
Financial investments held to maturity	22	-	43,534,435	-	-	-	43,534,435
<b>Total financial assets</b>		<b>1,343,218</b>	<b>43,534,435</b>	<b>1,175,478,929</b>	<b>345,775</b>	<b>-</b>	<b>1,220,702,357</b>
<b>Financial liabilities</b>							
Deposits from customers	27	-	-	-	-	577,660,468	577,660,468
Bank overdraft	17	-	-	-	-	254,143,054	254,143,054
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>831,803,522</b>	<b>831,803,522</b>

# Notes to the Financial Statements (Contd.)

## 36.3 Classification of Financial Assets and Financial Liabilities (Contd.)

As at 31 March 2016	Note	Held for trading Rs.	Held to maturity Rs.	Loans and receivables Rs.	Available for sale Rs.	Other amortised cost Rs.	Total Rs.
<b>Financial assets</b>							
Cash and cash equivalents	17	-	-	19,506,639	-	-	19,506,639
Securities purchased under repurchase agreements		-	-	51,888,311	-	-	51,888,311
Financial assets at fair value through profit or loss	19	1,908,354	-	-	-	-	1,908,354
Loans and advances	20	-	-	916,688,860	-	-	916,688,860
Financial investments available for sale	21	-	-	-	345,775	-	345,775
Financial investments held to maturity	22	-	40,136,637	-	-	-	40,136,637
<b>Total financial assets</b>		<b>1,908,354</b>	<b>40,136,637</b>	<b>988,083,810</b>	<b>345,775</b>	<b>-</b>	<b>1,030,474,576</b>
<b>Financial liabilities</b>							
Deposits from customers	27	-	-	-	-	617,229,310	617,229,310
Bank overdraft	17	-	-	-	-	25,658,498	25,658,498
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>642,887,808</b>	<b>642,887,808</b>

## 36.4 Financial Instruments Measured at Fair Value - Fair Value Hierarchy

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

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

"The principal or the most advantageous market must be accessible to the Company.

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

A 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. External professional valuers are involved for valuation of significant assets such as investment properties.

### Fair Value Hierarchy

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

#### Level 1

##### Inputs that are Unadjusted Quoted Market Prices in an active Market for Identical Instruments

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

## Level 2

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

This category includes instruments valued using;

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

## Level 3

### Inputs that are Unobservable

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

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

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

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

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

An analysis of fair value measurement of financial and non financial assets and liabilities is provided in Notes to the Financial Statements.

The amounts are based on the values recognised in the Statement of Financial Position.

	Level 1	Level 2	Level 3	Total
	Rs.	Rs.	Rs.	Rs.
<b>As at 31 March 2017</b>				
<b>Financial Assets</b>				
Financial assets at fair value through profit or loss	1,343,218	-	-	1,343,218
Financial investments available for sale (*)	-	-	345,775	345,775
	<b>1,343,218</b>	<b>-</b>	<b>345,775</b>	<b>1,688,993</b>
<b>As at 31 March 2016</b>				
<b>Financial Assets</b>				
Financial assets at fair value through profit or loss	1,908,354	-	-	1,908,354
Financial investments available for sale	-	-	345,775	345,775
	<b>1,908,354</b>	<b>-</b>	<b>345,775</b>	<b>2,254,129</b>

(\*) Value of unquoted shares of Rs. 0.34 Mn as at end of the year 2017 (Rs.0.34 Mn as at end 2016) categorised under financial investments available for sale, whose fair value cannot be reliably measured is stated at cost in the Statement of Financial Position as permitted by the Sri Lanka Accounting Standards - LKAS 39 on "Financial Instruments: Recognition and Measurement".

# Notes to the Financial Statements (Contd.)

## 36.5 Transfer Between Levels

No transfers were made between levels during the year.

## 36.6 Fair Value of Financial Instruments not Carried at Fair Value

Financial instruments not carried at fair value are disclosed under the category of held to maturity, loans and receivables and other amortised cost category in note 20. The carrying amounts of these financial instruments are a reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near as at the reporting date.

## 37. Financial Risk Management

### 37.1 Introduction

The company's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. Risk is an integral component of the business model of any finance company. Accordingly, the purpose of risk management is that the institution properly identifies measures and handles risk and prepares adequate reports on all these efforts so that the extent of risks which the company has assumed have been compensated with adequate return.

With this in mind, the company has established and operates mechanisms, which ensure the ongoing assessment of relevant risk types on an individual basis and of the overall risk position of the organization.

More specifically, the committee is responsible for ensuring,

- Integrity and adequacy of the risk management function of the company.
- Adequacy of the company's capital.
- Risk exposures and risk profiles of the company are within acceptable parameters to make recommendations to the board of directors on any action required.
- The compliance of the company's operations with relevant laws, regulations and standards.

The company is primarily exposed to credit risk, market risk, liquidity risk, operational risk and regulatory risk.

### 37.2 Credit Risk

#### Impairment assessment

The losses can only be recognised when objective evidence of a specific loss event has been observed. This includes,

- Significant financial difficulty of the customer.
- A breach of contract such as a default of payment.
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation.
- Observable data that suggest that there is a decrease in the estimated future cash flow from the loans.

#### Individually Assessed Allowances

It is determined the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty. Projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

### Collectively Assessed Allowances

The company uses Net Flow Rate model for the recognition of losses on impaired financial assets. Allowances are assessed collectively for losses on loans and advances and for held to maturity debt investments that are not individually significant.

The general bases its analyses on historical experience. However, when there are significant market developments, macro economic factor changes has to be considered. These factors include, current level of bad debts, changes in law, changes in regulations and other customer data. The company may use the aforementioned factors as appropriate to adjust the impairment allowances.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and recoveries once impaired) or economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the company overall policy.

### 37.3 Credit Quality by Class of Financial Assets

	Neither past due nor Impaired Rs.	Past due but not Impaired Rs.	Individually Impaired Rs.	Total Rs.
<b>As at 31st March 2017</b>				
Cash and cash equivalents	16,557,401	-	-	16,557,401
Investment in repurchase agreement	31,536,017	-	-	31,536,017
Loans and Advance	1,051,382,391	4,999,628	71,003,492	1,127,385,511
Financial investments held to maturity	43,534,435	-	-	43,534,435
<b>Total</b>	<b>1,143,010,244</b>	<b>4,999,628</b>	<b>71,003,492</b>	<b>1,219,013,364</b>
<b>As at 31st March 2016</b>				
Cash and cash equivalents	19,506,639	-	-	19,506,639
Investment in repurchase agreement	51,888,311	-	-	51,888,311
Loans and advance	874,365,127	7,891,085	34,432,648	916,688,860
Financial investments held to maturity	40,136,637	-	-	40,136,637
<b>Total</b>	<b>985,896,714</b>	<b>7,891,085</b>	<b>34,432,648</b>	<b>1,028,220,447</b>

# Notes to the Financial Statements (Contd.)

## 37.4 Liquidity Risk and Fund Management

Liquidity risk is the risk of inadequate resources to meet financial obligations in time and in full, at an acceptable cost. As was seen in some registered finance companies in the recent past, liquidity risk can pose serious threats to the existence of finance companies. The company understands the importance of a robust liquidity risk management policy and constantly monitors the liquidity position of the company.

Further, It is the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets. Liquidity risk arises because of the possibility that the company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit the risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis.

### 37.4.1 Statutory Liquid Assets Ratio

As per the requirements of Finance Companies (Liquid Assets) Direction No. 04 of 2013 Every finance company shall maintain a minimum holding of liquid assets which shall not, at the close of the business on any day, be less than the total of :

Ten (10) per cent of :-

- The outstanding value of the time deposits received by the finance company and accrued interest payable at the close of the business on such day; and
- The face value of non-transferable certificates of deposit issued by the finance company and accrued interest payable at the close of the business on such day.

As at 31 March 2017 the Company maintained Statutory Liquid Asset ratio at 10.97%.

### 37.4.2 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2017.

As at 31st March 2017	Less than 03 Months Rs.	04-12 Months Rs.	01-03 Years Rs.	Over 03 Years Rs.	Total Rs.
<b>Financial Assets</b>					
Cash and cash equivalents	16,557,401	-	-	-	16,557,401
Investment in repurchase agreement	31,536,017	-	-	-	31,536,017
Financial Investments - held for fair value	1,343,218	-	-	-	1,343,218
Loans and advances	614,993,049	194,478,035	229,180,565	88,733,862	1,127,385,511
Financial investments - held to maturity	75,000	41,564,921	-	1,894,515	43,534,435
<b>Total Financial Assets</b>	<b>664,504,685</b>	<b>236,042,956</b>	<b>229,180,565</b>	<b>90,628,377</b>	<b>1,220,356,582</b>
<b>Financial Liabilities</b>					
Deposit from customer	427,870,354	98,133,165	45,287,181	6,369,768	577,660,468
Other borrowings	254,143,054	-	-	-	254,143,054
<b>Total Financial Liabilities</b>	<b>682,013,408</b>	<b>98,133,165</b>	<b>45,287,181</b>	<b>6,369,768</b>	<b>831,803,522</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>(17,508,723)</b>	<b>137,909,791</b>	<b>183,893,384</b>	<b>84,258,609</b>	<b>388,553,060</b>

As at 31st March 2016	Less than 03 Months Rs.	04-12 Months Rs.	01-03 Years Rs.	Over 03 Years Rs.	Total Rs.
<b>Financial Assets</b>					
Cash and cash equivalents	19,506,639	-	-	-	19,506,639
Investment in repurchase agreement	51,888,311	-	-	-	51,888,311
Financial Investments-held for fair value	1,908,354	-	-	-	1,908,354
Loans and advances	328,304,366	190,944,145	151,376,420	246,063,929	916,688,860
Financial Investments-available for sale	-	-	-	345,775	345,775
Financial Investments-held to maturity	75,000	38,192,928	-	1,868,709	40,136,637
<b>Total Financial Assets</b>	<b>401,682,670</b>	<b>229,137,073</b>	<b>151,376,420</b>	<b>248,278,413</b>	<b>1,030,474,576</b>
<b>Financial Liabilities</b>					
Deposit from customer	471,757,875	106,114,388	31,657,047	7,700,000	617,229,310
Other borrowings	25,658,498	-	-	-	25,658,498
<b>Total Financial Liabilities</b>	<b>497,416,373</b>	<b>106,114,388</b>	<b>31,657,047</b>	<b>7,700,000</b>	<b>642,887,808</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>(95,733,703)</b>	<b>123,022,685</b>	<b>119,719,373</b>	<b>240,578,413</b>	<b>387,586,768</b>

### 37.5 Market Risk

Market risk is the risk of potential losses accruing through adverse fluctuation in market interest rates, equity prices and exchange rates. Of these markets risks, the more frequent and most likely is the risk of adverse fluctuation of interest rates. The effect of such adverse movements could have an immediate and direct bearing on the company. Interest rate risk is the risk of loss in the net interest income of the company due to adverse changes in market interest rates. The company routinely assesses its assets and liability profile in terms of interest rate risk and depending on this assessment, necessary realignments in the assets and liability structure are undertaken.

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

Equity price risk is that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available for sale.

# Notes to the Financial Statements (Contd.)

## 37.6 Interest Rate Risk

The sensitivity analysis carried out on the statement of financial position of the company as at 31st March 2017 on the changes of interest rate right across the market in a hypothetical situation. The company may expose to a sudden interest rate hit due to the availability of short term funding and Company undertakes varying degrees of such rates shocks and evaluates them to ensure that the risk exposures are within the risk appetite of the company as compares to the anticipated market rate moments.

Annualized Impact	100 bp Increase 2017 Rs.	100 bp Increase 2016 Rs.
Maximum for the year	7,571,865	7,496,973
Minimum for the year	5,421,259	5,352,407

In arriving at the above result the company considered only rate sensitive asset and liabilities.

## 38. Operational Risk

The Company has in place a process of continuous internal audit utilising the services of Messrs. Ernst & Young, Chartered Accountants.

### 38.1 Regulatory Risk

In this latter process, the Compliance Officer is supported and assisted by the company's internal auditors, Messrs. Ernst & Young who also report on any issues of non-compliance, with both internal and external regulations. Compliance with regulatory requirements is also documented through formal procedure manuals for each business unit.

### 38.2 Reputation Risk

Reputation risk is the risk to earning, capital or brand arising from negative public or employee opinion. A company's reputation is a valuable business asset in its own right, essential to optimising shareholder value. Reputation risk cannot be managed in isolation from other forms of risks, since all risks can have an impact on reputation, which in turn can impact the brand, earning and capital. Credit, liquidity, interest rate, operational, and regulatory risk must all be managed effectively in order to safeguard the company's reputation.



### 39. Capital Adequacy and Management

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

#### Capital and risk weighted assets

As at 31 March	Minimum Requirement	2017	2016
Capital to risk weighted asset ratio			
Tier I		37%	44%
Deduction - Tier I		-	-
Core capital	5%	37%	44%
Tier II		-	-
Deduction - Tier II		-	-
Total capital base	10%	37%	44%

### 40. Contingent Liabilities

The Department of Inland Revenue has sent an letter of objection on taxes in default on 14th July 2016 for the Year of Assessment 2013/14 assessing the company to pay a Value Added Tax on Financial Service tax liability of Rs.523, 353 along with a penalty totaling to Rs.209,341 and the Company has lodged a valid appeal against the said assessment.

Except for the above, there have been no significant contingent liabilities outstanding as at the reporting date.

#### 40.1 Litigation and Claims

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

### 41. Commitments

There have been no significant commitments outstanding as at the reporting date.

### 42. Events Occurring after the Reporting Period

There have been no material events occurred after the reporting date that require adjustments or disclosures in the Financial Statements.

### 43. Comparative Information

Comparative information has been reclassified where necessary to conform to current years' presentation.

# Share Information

## Information on Ordinary Shares of the Company

### Market Price Per Share

Market prices per ordinary share for the year ended 31 March	2017 Rs.	2016 Rs.
Highest price	13.00	17.40
Lowest price	9.10	8.70
Last traded price	10.00	10.10

## Shareholders' Information

20 Largest Shareholders as at 31.03.2017

	No. of Shares	% of Holding
01. Cargills Bank Limited	37,374,598	80.34
02. Pan Asia Banking Corporation PLC/ Lankem Ceylon PLC	3,376,365	7.26
03. Pan Asia Banking Corporation PLC/ Divasa Equity (Pvt) Ltd	1,119,053	2.41
04. Seylan Bank PLC/ HVA Lanka Exports (Pvt) Ltd	929,014	2.00
05. Seylan Bank PLC/ Divasa Equity (Pvt) Ltd	687,542	1.48
06. South Asian Investment (Pvt) Ltd	318,387	0.68
07. Mr. A. R. H. Fernando	246,620	0.53
08. Mr. W. A. S. P. De Saram	195,097	0.42
09. Mrs. S. G. De Silva	181,210	0.39
10. Mr. Y. J. Perera	175,480	0.38
11. Mutiara Holdings (Private) Ltd	152,962	0.33
12. Waldock Mackenzie Limited/Mr. D. B. N. Samaratunge	91,342	0.20
13. Mr. T Thavaraj	67,629	0.15
14. Lankem Ceylon PLC	56,000	0.12
15. Bansei Securities Capital (Pvt) Ltd/M. A. U. Gnanatilake	53,520	0.12
16. Mr. A. N. William	50,000	0.11
17. Mr. M. G. A. R. Cooray / Mrs. B. W. Cooray	50,000	0.11
18. Lankem Developments PLC	47,474	0.10
19. Mr. Senavirathna	42,299	0.09
20. Mrs. P. Reichberger	41,000	0.09
	45,255,592	97.28
Others	1,263,651	2.72
<b>Total</b>	<b>46,519,243</b>	<b>100.00</b>

Directors'/ CEO's Holding in Shares as at 31st March	2017	2016
Mr. Theagarajah	Nil	-
Mr. P. S Mathavan	Nil	Nil
Mr. E. M. M. Boyagoda	Nil	Nil
Mr. L. D. R. Hettiaratchi	Nil	Nil
Mr. P. P Edirisinghe	Nil	Nil
Mr. W. L. S. Fonseka	Nil	Nil

Public shareholding percentage was 12.40% and number of shareholders representing the public holding was 703 as at 31 March 2017.

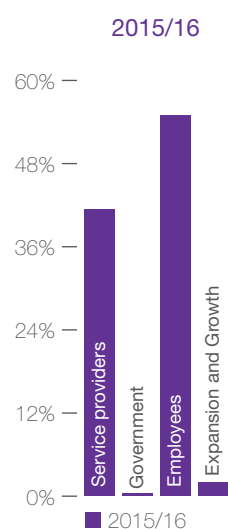
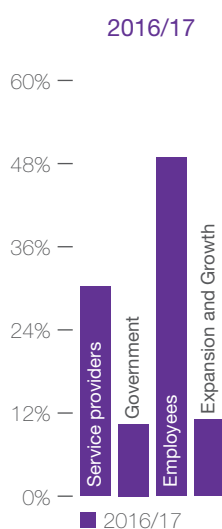
### Distribution of Shareholders

Shareholdings	Resident			Non Resident			Total		
	Number of Share holders	No. of Shares	(%)	Number of Share holders	No. of Shares	(%)	Number of Share holders	No. of Shares	(%)
1 to 1000 Shares	471	106,291	0.23	3	430	0.00	474	106,721	0.23
1001 to 10,000 Shares	180	648,372	1.39	1	10,000	0.02	181	658,372	1.41
10,001 to 100,000 Shares	38	956,822	2.06	1	41,000	0.09	39	997,822	2.15
100,001 to 1000,000 Shares	8	2,886,312	6.20	0	0	0.00	8	2,886,312	6.20
over 1000,000 Shares	3	41,870,016	90.01	0	0	0.00	3	41,870,016	90.01
	700	46,467,813	99.89	5	51,430	0.11	705	46,519,243	100

Categories of Shareholders	No. of Shareholders	No. of Shares	%
Individual	654	2,073,033	4.46
Institutional	51	44,446,210	95.54
	705	46,519,243	100.00

# Value Added Statement

	2016/17 Rs.	%	2015/16 Rs.	%
<b>Value added</b>				
Interest income	172,194,811		163,871,924	
Interest expense	(75,480,628)		(72,245,887)	
<b>Value added</b>	<b>96,714,183</b>		<b>91,626,037</b>	
Other income	6,780,907		9,529,321	
Income from fee based activities	1,922,942		1,649,745	
Impairment (charges)/reversal for loans and advances and other losses	(143,461)		(22,892,921)	
<b>Wealth created</b>	<b>105,274,571</b>		<b>79,912,182</b>	
<b>Distribution of value added</b>				
To service providers				
Overhead and support services	31,789,233	30	32,148,253	40
To the government				
Value added tax on financial services	6,678,184		3,320,968	
Tax expense/( reversal)	4,252,280		(2,895,617)	
	10,930,464	10	425,351	1
To employees				
Salaries, wages and other benefits	50,905,408	49	45,172,338	56
To expansion and growth				
Retained earnings	4,745,085		(3,094,422)	
Depreciation	6,904,381		5,260,662	
	11,649,466	11	2,166,240	3
	<b>105,274,571</b>		<b>79,912,182</b>	



# Notice of Meeting

Notice is Hereby Given that the THIRTY SIXTH ANNUAL GENERAL MEETING OF COLOMBO TRUST FINANCE PLC will be held at SRI LANKA FOUNDATION, 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 on Thursday, 21 September 2017 At 3.00 P. M. for the following purposes:-

1. To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31 March 2017 together with the Report of the Auditors thereon.
2. To re-appoint Messrs. KPMG, Chartered Accountants as the Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.
3. To appoint Mr. R. Theagarajah in terms of Articles 26 (3) (a) of the Company's Articles of Association as a Director.
4. To appoint Ms. W. K. F De Silva in terms of Articles 26 (3) (a) of the Company's Articles of Association as a Director.
5. To authorise the Board of Directors to determine contributions to charities and other donations for the year 2017/ 2018.

By Order of the Board of

Colombo Trust Finance PLC



S S P Corporate Services (Private) Limited  
Secretaries

Colombo.  
21 August 2017

**Note:**

- A member of the Company is entitled to appoint proxy to attend and vote on his or her behalf.
- A proxy need not be a member.
- A proxy form which is enclosed should be deposited at the Registered office of the Company not less than 48 hours before the meeting.



# Notes

# Notes

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# Form of Proxy

I/We .....  
 (NIC No. ....) of .....  
 being a member/members of Colombo Trust Finance PLC hereby appoint Mr./Mrs/Ms .....  
 .....(NIC No. ....)  
 .....of  
 .....failing him/her

Mr. R. Theagarajah	of Colombo failing him
Mr. P. S. Mathavan	of Colombo failing him
Mr. P. P. Edirisinghe	of Colombo failing him
Mr. L. D. R. Hettiaratchi	of Colombo failing him
Ms. W. K. F. De Silva	of Colombo failing her

as my/our proxy to represent me/us to vote for me/us and on my/our behalf at the 36th Annual General Meeting of the Company to be held on 21st September 2017 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Agenda Item	For	Against
To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31 March 2017 together with the Report of the Auditors thereon.		
To re-appoint Messrs. KPMG, Chartered Accountants as the Auditors of the Company for the ensuing year and authorise the Directors to determine their remuneration.		
To appoint Mr. R. Theagarajah in terms of Articles 26 (3) (a) of the Company's Articles of Association as a Director.		
To appoint Ms. W. K. F De Silva in terms of Articles 26 (3) (a) of the Company's Articles of Association as a Director.		
To authorise the Board of Directors to determine contributions to charities and other donations for the year 2017/ 2018.		

Signed this ..... day of .....2017.

.....  
 Signature of the Shareholder

*Note: Instructions as to completion are noted on the reverse hereof.*

# Form of Proxy (Contd.)

## INSTRUCTIONS AS TO COMPLETION OF PROXY

1. Kindly perfect the Form of Proxy by legibly filling your full name and address, signing in the space provided, and filling in the date of signature.
2. If the Proxy Form is signed by an Attorney, the relative Power of Attorney should also accompany the Proxy form for registration, if such Power of Attorney has not already been registered with the Company.
3. In the case of Company/Corporation, the Proxy must be filled and attested in the legally prescribed manner.
4. The completed Form of Proxy should be deposited at the office of the Secretaries, S S P Corporate Services (Private) Limited, No. 101, Inner Flower Road, Colombo 03, not less than 48 hours, before the Meeting.
5. A shareholder appointing a Proxy (other than a Director of the Company) to attend the meeting should indicate the Proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the Proxy holder to bring his/her National Identity Card with him/her.
6. Please provide the following details

Shareholders NIC No.	
No. of Shares held	
Proxy holders NIC No. (If not a Director of the Company)	

# Corporate Information

## **Name of the Company**

Colombo Trust Finance PLC

## **Legal Form**

A Public Quoted Company with Limited Liability Shares were quoted on the Colombo Stock Exchange on 04th day of October 2011.

## **Date of Incorporation**

25th November 1981

## **Company Registration No.**

PB 765 PQ

## **Directors**

Mr. Rajendra Theagarajah  
Mr. Prabhu Mathavan  
Ms. W. K. F. De Silva  
Mr. L. D. R. Hettiaratchi  
Mr. P. P. Edirisinghe

## **Registered Office**

No. 21, Kumara Veediya, Kandy.

## **Colombo Office**

123, Hunupitiya Lake Road, Colombo 02.  
Tel : + 94 11 4317317  
Fax :+ 94 11 2389411  
E-mail : inquiries@ctf.lk

## **Secretaries and Registrars**

S S P Corporate Services (Private) Limited  
No. 101, Inner Flower Road, Colombo 03.  
Tel : +94 11 4369778  
Fax : +94 11 2573609

## **Bankers**

Bank of Ceylon  
People's Bank  
Seylan Bank PLC  
Commercial Bank of Ceylon PLC  
DFCC Bank PLC  
Nations Trust Bank PLC  
Union Bank of Colombo PLC  
Cargills Bank Ltd

## **Auditors**

Messrs. KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P.O. Box 186, Colombo 00300, Sri Lanka.  
Tel: +94 11 542 6426  
Fax: +94 11 244 5872



COLOMBO TRUST FINANCE PLC

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