SIYAPATHA FINANCE PLC

FINANCIAL STATEMENTS

31 DECEMBER 2015

Building a better
working world

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

Report on the Financial Statements

We have audited the accompanying financial statements of Siyapatha Finance PLC (the "Company"), which comprise the statement of financial position as at 31 December 2015, and the income statement and statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

(Contd..2/)

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Report on other legal and regulatory requirements

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

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

b) In our opinion :

- We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and
- The financial statements of the Company, comply with the requirements of Section 151 of the Companies Act No. 7 of 2007.

Ernst & Young

15 February 2016
Colombo

Siyapatha Finance PLC

INCOME STATEMENT

Year ended 31 December 2015

	Note	2015 Rs.'000	2014 Rs.'000
Interest income		1,973,921	1,837,546
Less:Interest expenses		(824,699)	(778,661)
Net interest income	5	1,149,222	1,058,885
Fee & commission income		86,385	46,534
Less:Fee & commission expenses		(6,252)	(12,271)
Net fee & commission income	6	80,133	34,263
Other operating income	7	152,182	105,091
Total operating income		1,381,537	1,198,239
Impairment (charges)/ reversal for loans and other losses	8	(49,275)	(183,217)
Net operating income		1,332,262	1,015,021
Less: Operating expenses			
Personnel costs	9	(329,553)	(234,721)
Other operating expenses	10	(350,251)	(313,209)
Operating profit before VAT & NBT on financial services		652,458	467,091
Less: VAT & NBT on financial services	11	(93,305)	(61,536)
Profit before taxation from operations		559,153	405,555
Less:Taxation	12	(174,629)	(145,379)
Profit for the year		384,524	260,177
Basic earnings per share (Rs.)	13	7.32	4.96
Dividend per share (Rs.)	14	0.60	0.41

The Accounting policies and Notes to the Financial Statements from pages 08 to 56 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	Note	2015 Rs.'000	2014 Rs.'000
Profit for the year		384,524	260,177
Other comprehensive income/ (expenses)			
Other comprehensive income not to be reclassified to profit or loss:			
Actuarial losses on defined benefit plan	33.3	(2,749)	(1,263)
Deferred tax effect on actuarial losses	31	770	354
Other comprehensive income for the year,net of tax		(1,979)	(909)
Total comprehensive income for the year,net of tax		382,545	259,268
Attributable to :			
Equity holders of the parent company		382,545	259,268
		382,545	259,268

The Accounting policies and Notes to the Financial Statements from pages 08 to 56 form an integral part of these Financial Statements.

Siyapatha Finance PLC

STATEMENT OF FINANCIAL POSITION

As at 31 December

	Note	2015 Rs. '000	2014 Rs. '000
Assets			
Cash and bank balances	16	130,070	88,655
Securities purchased under repurchase agreements	17	601,679	489,685
Factoring receivables	18	1,157,136	996,440
Gold loan receivables	19	770,839	-
Pawning receivables	20	-	456,193
Loan receivables	21	286,968	506,526
Lease receivables	22	9,230,730	3,383,597
Hire purchase receivables	23	2,083,571	4,250,553
Other assets	24	234,417	127,074
Financial instruments- available for sale	25	56	56
Financial investments held to maturity	26	4,274	4,198
Intangible assets	27	14,889	17,097
Property, plant & equipment	28	124,697	97,716
Total Assets		14,639,326	10,417,790
Liabilities			
Bank overdraft		163,583	83,921
Due to other customers		1,233,041	-
Debt issued and other borrowed funds	29	10,925,421	8,528,922
Other payables	30	508,921	299,606
Deferred taxation liability	31	102,306	69,983
Income taxation payable	32	75,663	111,179
Retirement benefit obligations	33	19,259	12,535
Total Liabilities		13,028,194	9,106,146
Shareholders' Funds			
Stated capital	34	525,000	525,000
Statutory reserve fund	35	70,059	50,831
Investment fund reserve	36	-	-
Retained earnings	37	1,016,073	735,813
Total Shareholders' Funds		1,611,132	1,311,644
Total Liabilities and Shareholders' Funds		14,639,326	10,417,790
Net asset value per share (Rs.)		30.69	24.98
Commitments and contingencies	41	315,071	228,058

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

Chief Executive Officer

Group Chief Financial Officer

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

Chairman

Director

The Accounting policies and Notes to the Financial Statements from pages 08 to 56 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Note	Stated Capital Rs'000	Retained Earnings Rs'000	Statutory Reserve Fund Rs'000	Investment Fund Reserve Rs'000	Total Rs'000
Balance as at 31 December 2013		525,000	452,627	37,787	58,488	1,073,902
Net profit for the year		-	260,177	-	-	260,177
Other comprehensive income		-	(909)	-	-	(909)
Transfer to Statutory Reserve Fund	35	-	(13,044)	13,044	-	-
Dividend paid	14	-	(21,525)	-	-	(21,525)
Transfer to Investment Fund Reserve		-	(8,331)	-	8,331	-
Transfer of Investment Fund Reserve			66,819		(66,819)	-
Balance as at 31 December 2014		525,000	735,813	50,832	-	1,311,644
Super Gain Tax	32.2	-	(51,558)	-	-	(51,558)
Net profit for the year		-	384,524	-	-	384,524
Other comprehensive income		-	(1,979)	-	-	(1,979)
Transfer to Statutory Reserve Fund	35	-	(19,227)	19,227	-	-
Dividend paid	14	-	(31,500)	-	-	(31,500)
Balance as at 31 December 2015		525,000	1,016,073	70,059	-	1,611,132

The Accounting policies and Notes to the Financial Statements from pages 08 to 56 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Note	2015 Rs. '000	2014 Rs. '000
Cash flows from operating activities			
Profit before taxation from operations		559,153	405,555
Interest expenses	5.2	824,699	778,661
Fee & commission expenses	6	6,252	12,271
Provision for impairment	8	49,275	183,217
Provision for staff gratuity	33.2	4,309	3,581
Provision for depreciation	28	25,355	22,606
Amortisation of software	27	7,087	5,330
Loss on sale of motor vehicles		-	(91)
Write off of provisions		-	(18,442)
		916,977	988,397
Operating profit before working capital changes		1,476,130	1,392,689
(Increase)/Decrease in Lease receivables		(5,832,238)	(598,395)
(Increase)/Decrease in Hire purchase receivables		2,312,656	(885,332)
(Increase)/Decrease in Factoring receivables		(199,542)	60,181
(Increase)/Decrease in Pawning receivables		456,193	(58,242)
(Increase)/Decrease in Gold loan receivables		(773,198)	-
(Increase)/Decrease in Loan receivables		218,433	62,442
(Increase)/Decrease in Other assets		(274,858)	30,226
Increase/(Decrease) in Other payables		150,209	67,771
		(3,942,345)	(1,321,348)
Cash generated from operations		(2,466,215)	71,341
Interest paid		(779,294)	(804,443)
Gratuity paid	33	(334)	(143)
Income tax paid	32	(169,503)	(70,452)
Net cash inflow/(outflow) from operating activities		(3,415,346)	(803,697)
Cash flow from investing activities			
Investments in government bonds		(76)	(4,198)
Purchase of property, plant and equipment and intangible assets		(57,213)	(44,446)
Proceeds from sale of property, plant and equipment		-	2,087
Net cash inflow/(outflow) from investing activities		(57,289)	(46,557)
Net cash inflow/(outflow) before financing activities		(3,472,635)	(850,254)
Cash flow from financing activities			
Net proceeds from long term loans/ Securitizations		3,018,370	349,358
Net proceeds from term deposits		1,206,628	-
Net proceeds from debentures		(259,000)	914,500
Net proceeds from short term borrowings		(388,116)	(222,848)
Dividend paid	14	(31,500)	(21,525)
Net cash inflow/(outflow) from financing activities		3,546,382	1,019,485
Net increase/(decrease) in cash and cash equivalents		73,747	169,230
Cash & cash equivalents at the beginning of the year		494,419	325,188
Cash and cash equivalents at end of the period		568,166	494,419
Analysis of the cash and cash equivalents at the end of the period			
Cash and bank balances (Note 16)		130,070	88,655
Securities purchased under repurchase agreements (Note 17)		601,679	489,685
Bank overdraft		(163,583)	(83,921)
		568,166	494,419

The Accounting policies and Notes to the Financial Statements from pages 08 to 56 form an integral part of these Financial Statements.

1. CORPORATE INFORMATION

1.1 General

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

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

The staff strength of the company as at 31 December 2015 was 328(253 as at 31 December2014).

1.2 Principal Activities and Nature of Operations

The Company provides a comprehensive range of financial services encompassing acceptance of Fixed Deposits, providing Finance Lease, Hire Purchase, Vehicle Loan Facilities, Mortgage Loans, Gold Loan, Debt Factoring and Pawning.

1.3 Parent Enterprise and Ultimate Parent Enterprise

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

1.4 Directors' Responsibility Statement

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

1.5 Date of Authorization

The Financial Statements of the Company for the year ended 31 December 2015were authorized for issue in accordance with the resolution of the Board of Directors dated05 February 2016.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company (Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes) as at 31 December 2015are prepared in accordance with Sri Lanka Accounting Standards (SLFRSs& LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka, in compliance with the requirements of the Companies Act No. 7 of 2007.

2.2 Basis of Measurement

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

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

2.3 Functional and Presentation Currency

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

2.4 Presentation of Financial Statements

The Company presents its statement of financial position broadly grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note40.

2.5 Materiality and Aggregation

In compliance with LKAS 01 on *Presentation of Financial Statements*, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

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

2.6 Comparative Information

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

The comparative information is re-classified wherever necessary to conform to the current year's presentation the details of which are given in note43 to the Financial Statements.

2.7 Events After Reporting Date

All material events after the reporting date have been considered where appropriate adjustments or disclosures are made in respective note 42 to the Financial Statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

ii. Going Concern

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

iiiImpairment Losses on Loans and Advances(Leases, Hire Purchases, Vehicle Loans, Factoring, Pawning and Gold Loans)

The Company reviews its individually significant loans and advances at each Statement-of-Financial-Position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results maydiffer, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio(such also an type, asset type and past due status etc., and judgements on the effect of concentrations of risks and economic data including levels of unemployment, consumer prices indices, interest rates, exchange rates).

ivDeferred Tax Assets

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

v. Defined Benefit Plans

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

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

viProvision for Liabilities & Contingencies

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

vii Fair Value of Financial Instruments

The determination of fair value of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instrument is described in note 38 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in note 38 to the Financial Statements.

viii Financial Assets and Financial Liabilities Classification

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

4.1.1 Date of Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Company becomes 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. Those trades are initially recognized on the settlement date.

4.1.2 Recognition and Initial Measurement of Financial Assets and Financial Liabilities

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

'Day 1' profit or loss

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

4.1.3 Classification and Subsequent Measurement of Financial Assets

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

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

b) Loans & Receivables (L&R)

c) Held to Maturity (HTM) Financial Investments

d) Available for Sale (AFS) Financial Assets

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

Subsequent measurement of financial assets depends on their classification.

a) Financial Investments at Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

The Company does have financial assets under this category.

b) Available for Sale Financial Assets

Available for sale investments include equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

The Company has not designated any loans or receivables as available for sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

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

Dividends earned whilst holding available for sale financial investments are recognised in the income statement 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 Income Statement in 'impairment charges for loans and other losses' and removed from the Available for Sale Reserve.

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

c) Held to Maturity Financial Investments

Held to Maturity Financial 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. This includes investment in government securities.

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

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

d) Loans and Receivables Financial Instruments

Financial Assets classified as loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

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

After initial measurement, 'Loans and Receivables' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking in to account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and Similar Income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in 'impairment charges for loans and receivables'.

Loans and Receivables consist of Cash and bank balances, Securities purchased under Repurchase Agreements, Factoring Receivables, Lease Receivables, Hire Purchase Receivables, Loan Receivables, Pawning Receivables, Gold Loan Receivables and Other Assets.

Cash and Bank balances

Cash and Bank balances comprise cash in hand, balances with banks , loans at call and at short notice that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short term commitments. Details of cash and bank balances are given in note 16 to financial statements.

4.1.4 Classification and Subsequent Measurement of Financial Liabilities

At the inception the Company determines the classification of its financial liabilities. Accordingly, financial liabilities are classified as;

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)
 a) Financial liabilities held for trading
 b) Financial liabilities designated at fair value through profit or loss
(ii) Financial liabilities at amortised cost

The subsequent measurement of financial liabilities depends on their classification.

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

Financial Liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognized in profit or loss.

a) Financial Liabilities held for Trading

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of the portfolio that is managed together for short term profit or position taking. This category includes derivative financial instruments entered in to by the Company which are not designated as hedging instruments in the hedge relationships as defined by the Sri Lanka Accounting Standards – LKAS 39 on Financial Instruments: Recognition and Measurements.

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

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

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

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

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

The Company has not designated any financial liabilities upon initial recognition as Financial Liabilities designated at Fair Value through profit or loss.

ii. Financial Liabilities at Amortised Cost

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

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

This Category consists of Bank Overdraft, Debt Issued and Other borrowed funds and Other Payables.

Debt issued and other borrowed funds

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

4.1.5 Reclassification of Financial Assets

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

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

4.1.6 Derecognition of Financial Assets and Financial Liabilities

(i) Financial Assets

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

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

On derecognition of a financial asset, the difference between the carrying amount of the asset and consideration received and any cumulative gain or loss that has been recognised is recognised in profit or loss.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

(ii) Financial Liabilities

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

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

4.1.7 Determination of Fair Value

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

-In the principal market for the asset or liability, or

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

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

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

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

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

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

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

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

-Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The disclosure of fair value of financial instruments is disclosed in note 38 to the Financial Statements.

4.1.8 Impairment of Financial Assets

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

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

(i) Financial Assets carried at Amortised Cost

a) Individually assessed Loans and Advances

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

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

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

The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipatedreceipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

b) Collectively assessed Loans and Advances

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

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Company has incurred as a result of events occurring before the balance sheet date, which the Company and the Group are not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

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

Homogeneous groups of Loans and Advances

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

- When the group of loan by nature short term, the company use Net flow Rate method

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

Under the methodology, loans are grouped into ranges according to the number of days in arrears andstatistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required covering inherent loss.

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

c) Write-off of Loans and Advances

Loans (and the related impairment allowance accounts) are normally written off, eitherpartially or in full, when there is no realistic prospect of recovery. Where loans aresecured, this is generally after receipt of any proceeds from the realisation of security.

d) Renegotiated Loans

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

e) Reversals of impairment

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

i. Available for Sale Financial Investments

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

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

ii.Held to Maturity Financial Assets

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

4.1.9 Offsetting Financial Assets and Liabilities

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

Income and expenses are presented on a net basis only when permitted under LKAS/ SLFRS, or for gains and losses arising from a group of similar transactions such as in the group’s trading activity.

4.2 Finance and Operating Lease

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

Finance Lease

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

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

The details of Finance Lease Receivables are given in note 22 to financial statements.

Operating Lease

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

4.3 Property, Plant and Equipment

Property, Plant & Equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

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

i. Basis of Recognition and Measurement

Cost Model

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

When parts of Property, Plant & Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant & Equipment.

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

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

ii. Subsequent Cost

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

iii. Repairs and Maintenance

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

iv. Capital Work -in -Progress

Capital work in progress is stated at cost. It would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work in progress is stated at cost less any accumulated impairment losses.

v. Borrowing Costs

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

vi. De-recognition

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised.

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

vii. Depreciation

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

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

Category of Asset	**Period of Depreciation**	
	2015	**2014**
Office Equipment	15.00 % p.a.	15.00 % p.a.
Computer Equipment	16.67% p.a	16.67% p.a
Furniture and Fittings	15.00% p.a.	15.00% p.a.
Motor Vehicles	12.50% p.a.	12.50% p.a.
Fixtures	20.00% p.a.	20.00% p.a.

viii. Change in Estimates

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

4.4 Intangible Assets

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

i. Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company in accordance with the Sri Lanka Accounting Standard LKAS 38 on Intangible Assets.

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

ii. Subsequent Expenditure

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

iii. Useful Economic life, Amortization and Impairment

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

Intangible assets with finitelives are amortised over the useful economic life. The amortisation period and the amortisation method for anintangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expecteduseful life or the expected pattern of consumption of future economic benefits embodied in the asset areaccounted for by changing the amortisation period or method, as appropriate, and they are treated as changesin accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in theincome statement in the expense category consistent with the function of the intangible asset.

iv. Amortization

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

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

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

v. Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset, Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

4.5 Impairment of non–Financial Assets

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

4.6 Dividend Payable

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

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

4.7 Retirement Benefit Obligations

i. Defined Benefit Plan - Gratuity

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

The Company measures the present value of the promised retirement benefits for gratuity which is a defined benefit plan with the advice of an independent professional actuary using projected unit credit method as required by Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

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

Recognition of Actuarial Gains and Losses
The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

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

Funding Arrangements
The Gratuity liability is not externally funded.

ii. Defined Contribution Plans

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

The Company contributes to the following Schemes:

Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively of the employee's monthly basic salary to the Employees' Provident Fund.

Employees' Trust Fund

The Company contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund.

4.8 Statutory Reserve Fund

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

4.9 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with Sri Lanka Accounting Standard – LKAS 37 on 'Provision, Contingent Liabilities and Contingent Assets'.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligations at that date.

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

4.10 Recognition of Income and Expenses

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

i. Interest and similar income and expenses

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

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates ofpayments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change incarrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similarexpense' for financial liabilities.

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

ii. Dividend income

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

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

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

iv. Fee and Commission Income

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

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

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

v. Interest Income on Overdue Rentals

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

vi. Recovery of Bad Debts Written Off

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

vii. Other Income

Other Income is recognised on an accrual basis

4.11 Taxes

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

i. Current Taxation

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

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

ii. Deferred Taxation

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

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

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

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

iii. Value Added Tax(VAT) on Financial Services

VAT on Financial Services is calculated in accordance with the Value Added Tax Act No.14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees' computed on prescribed rate.

iv. Withholding Tax on Dividends

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

v. Economic Service Charge (ESC)

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

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

vi. Crop Insurance Levy (CIL)

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

vii. Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

4.12 Earnings per Share (EPS)

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

4.13 Commitments and Contingencies

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or can not be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'. Contingent Liabilities are not recognised in the statement of financial position. But are disclosed unless its occurrence is remote.

Legal Claims

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

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

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

4.14 Statement of Cash Flows

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

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

4.15 Sri Lanka Accounting Standards effective from 01 January 2016

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2015.

SLFRS 14 – Regulatory Deferral Accounts

The objective of this Standard is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

SLFRS 14 will become effective on 01 January 2016. The impact on the implementation of the above Standard has not been quantified yet.

SLFRS 15 – Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 will become effective on 01 January 2018. The impact on the implementation of the above Standard has not been quantified yet.

SLFRS 09 – Financial Instruments

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

This standard was originally effective for annual periods commencing on or after 01 January 2018. The impact on the implementation of the above Standard has not been quantified yet.

		2015	2014
5.	**NET INTEREST INCOME**	**Rs.000**	**Rs.000**
5.1	**Interest income**		
	Interest income on Lease receivables	912,427	517,075
	Interest income on Hire purchase receivables	567,499	790,638
	Interest income on Hire rental receivables	-	682
	Interest income on Factoring receivables	179,242	218,816
	Interest income accrued on impaired financial assets	163	6,280
	Interest income on Loan receivables	66,909	107,425
	Interest income on Pawning & Gold loan receivables	119,153	100,312
	Interest income on government securities	39,328	35,310
	Interest income on overdue rentals	86,900	61,008
	Interest income on staff loans	2,300	-
	Total interest income	1,973,921	1,837,546
5.2	**Interest expenses**		
	Bank overdraft	828	907
	Short term borrowings	106,580	124,396
	Customer deposits	35,616	-
	Long term borrowings	515,772	424,003
	Commercial papers	14,086	99,802
	Securitisation loans	29,797	77,924
	Debentures	122,020	51,630
	Total interest expenses	824,699	778,661
	Net interest income	1,149,222	1,058,885

		2015	2014
6.	**NET FEE AND COMMISSION INCOME**		
	Documentation charges	35,746	19,316
	Insurance commission	28,402	19,340
	Service charges-Pawning/Gold loan	22,237	7,879
	Total fee and commission income	86,385	46,534
	Fee and commission expenses		
	Guarantee fee	6,252	12,271
	Total fee and commission expenses	6,252	12,271
	Net fee and commission income	80,133	34,263

		2015	2014
7.	**OTHER OPERATING INCOME**		
	Profit on early terminations	116,113	75,546
	Profit on disposal of motor vehicles	-	228
	Recovery of bad debts written off	3,191	2,622
	Recovery of charges	18,575	11,178
	Sundry income	14,303	15,517
	Total other operating income	152,182	105,091

		2015	2014
8.	**IMPAIRMENT CHARGES/ (REVERSAL) FOR LOANS AND OTHER LOSSES**		
	Lease receivables	(32,511)	54,677
	Hire purchase receivables	(8,080)	28,372
	Factoring receivables	38,722	8,285
	Loan receivables	(35)	(395)
	Pawning & Gold loan receivables	2,358	14,802
	Repossessed stock	47,793	75,283
	Other loans	1,029	2,193
		49,275	183,217

9. PERSONNEL COSTS	2015 Rs.000	2014 Rs.000
Salary & bonus	271,987	196,530
Contribution to defined contribution plan	26,445	19,820
Gratuity charge for the year	4,309	3,581
Others	26,812	14,790
	329,553	234,721

10. OTHER OPEARATING EXPENSES

Directors' emoluments	11,160	13,328
Auditors' remuneration	2,200	1,919
Non- audit fees to auditors	3,144	963
Professional & legal expenses	15,147	24,493
Depreciation on property, plant & equipment	25,355	22,606
Amortization of intangible assets	7,087	5,330
Office administration & establishment expenses	169,252	142,340
Advertising expenses	75,909	27,676
Loss on sale of fixed assets	-	137
Others	40,997	74,418
	350,251	313,209

11. VAT & NBT ON FINANCIAL SERVICES

VAT on financial services	77,867	52,633
NBT on financial services	15,438	8,903
	93,305	61,536

12. TAXATION

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

Income statement	**2015 Rs.000**	**2014 Rs.000**
Current income tax		
Income tax for the year	137,768	134,076
Under/ (Over) provision of current taxes in respect of previous year	3,768	-
	141,536	134,076
Deferred tax		
Deferred taxation charge/ (reversal) (refer note 31)	33,093	11,303
	174,629	145,379

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

	2015 Rs.000	**2014 Rs.000**
Accounting profit before income taxation	**559,153**	**405,556**
At the statutory income tax rate of 28%	156,563	113,556
Tax effect of non deductible expenses	36,499	41,776
Tax effect of other allowable credits	(55,294)	(21,256)
Tax effect of exempt income	-	-
Tax effect of losses claimed	-	-
Under/ (Over) provision of current taxes in respect of previous years	3,768	-
Deferred tax effect	33,093	11,303
At the effective income tax rate of 31.23% (35.84% - 2014)	174,629	145,379

The Company's income is taxed at the rate of 28% during the years 2015 and 2014.

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

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

	2015	2014
Profit/ (Loss) attributable to ordinary shareholders (Rs. 000)	384,524	260,177
Weighted average number of ordinary shares during the year	52,500,000	52,500,000
Basic earnings per ordinary share- (Rs.)	7.32	4.96

14. DIVIDEND PAID

	2015	2014
Cash dividends paid (Rs. 000)	31,500	21,525
Weighted average number of ordinary shares during the year	52,500,000	52,500,000
Dividends per ordinary share (Rs.)	0.60	0.41

A final dividend of Rs. 0.60 per share for the year 2014 was paid in June 2015.

15. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

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

15.1 Analysis of Financial Instruments by Measurement Basis

As at 31 December 2015	Amortised Cost Rs'000	Held to Maturity Rs'000	Available for Sale Rs'000	Total Rs'000
Financial Assets				
Cash and bank balances	130,070	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	601,679
Factoring receivables	1,157,136	-	-	1,157,136
Gold loan receivables	770,839			770,839
Loan Receivables	286,968	-	-	286,968
Lease receivables	9,230,730	-	-	9,230,730
Hire purchase receivables	2,083,571	-	-	2,083,571
Other assets	168,527	-	-	168,527
Financial instruments- Available for sale	-	-	56	56
Financial investments- Held to maturity	-	4,274	-	4,274
Total Financial Assets	14,429,520	4,274	56	14,433,851
Financial Liabilities				
Bank overdraft	163,583	-	-	163,583
Due to other customers	1,233,041	-		1,233,041
Debt issued and other borrowed funds	10,925,421	-	-	10,925,421
Other payables	400,491	-	-	400,491
Total Financial Liabilities	12,722,535	-	-	12,722,535

As at 31 December 2014	Amortised Cost Rs'000	Held to Maturity Rs'000	Available for Sale Rs'000	Total Rs'000
Financial Assets				
Cash and bank balances	88,655	-	-	88,655
Securities purchased under repurchase agreements	489,685	-	-	489,685
Factoring receivables	996,440	-	-	996,440
Pawning receivables	456,193	-	-	456,193
Loan Receivables	506,526	-	-	506,526
Lease receivables	3,383,597	-	-	3,383,597
Hire purchase receivables	4,250,553	-	-	4,250,553
Other assets	78,836	-	-	78,836
Financial instruments- Available for sale	-	-	56	56
Financial investments- Held to maturity	-	4,198	-	4,198
Total Financial Assets	10,250,486	4,198	56	10,254,740
Financial Liabilities				
Bank overdraft	83,921	-	-	83,921
Debt issued and other borrowed funds	8,528,922	-	-	8,528,922
Other payables	234,184	-	-	234,184
Total Financial Liabilities	8,847,026	-	-	8,847,026

16. CASH AND BANK BALANCES

	2015 Rs. '000	2014 Rs. '000
Balances with local banks	47,237	76,171
Cash in hand	82,833	12,484
	130,070	88,655

17. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

	601,679	489,685
Securities purchased under repurchase agreements	601,679	489,685

18. FACTORING RECEIVABLES

Factoring receivables	1,236,835	1,033,488
Less : Provision for individual impairment	(76,116)	(34,484)
Provision for collective impairment	(3,584)	(2,564)
	1,157,136	996,440

19. GOLD LOAN RECEIVABLES

Gold loan receivables	775,309	-
Less : Provision for collective impairment	(4,470)	-
	770,839	-

20. PAWNING RECEIVABLES

Pawning receivables	14,775	473,104
Less : Provision for collective impairment	-	(2,970)
Less : Auction losses	(14,775)	(13,941)
	-	456,193

21. LOAN RECEIVABLES

Loan receivables	287,796	507,389
Less : Provision for collective impairment	(828)	(863)
	286,968	506,526

22. LEASE RECEIVABLES
At Amortized cost

	2015 Rs. '000	2014 Rs. '000
Gross Lease receivables	12,012,660	4,489,217
Less: Unearned income	(2,683,679)	(975,292)
Less: VAT suspense	(4,998)	(4,676)
Less: Prepaid rentals	(1,095)	(1,168)
Less: Provision for collective impairment	(92,158)	(124,483)
Total Lease receivables (Note 22.1 & 22.2)	9,230,730	3,383,597

Lease receivables include receivables amounting to Rs.4,949,818,531/-(2014-Rs.1,830,487,895/-)that have been assigned under securitization & term loan funding arrangement.

22.1 As at 31 December 2015

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

22.2 As at 31 December 2014

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Lease receivables (Net of VAT suspense and prepaid rentals)	1,817,959	2,640,924	24,490	4,483,373
Less: Unearned income	(489,177)	(485,138)	(978)	(975,292)
	1,328,782	2,155,786	23,512	3,508,081
Less: Provision for collective mpairment	(50,573)	(73,231)	(679)	(124,483)
	1,278,209	2,082,555	22,833	3,383,597

	2015	2014
	Rs. '000	Rs. '000
23. HIRE PURCHASE RECEIVABLES		
At Amortised cost		
Gross Hire purchase receivables	2,642,026	5,685,327
Less: Unearned income	(504,610)	(1,372,819)
Less: Prepaid rentals	-	(46)
Less: Provision for collective impairment	(53,845)	(61,909)
Total Hire purchase receivables (Note 23.1 & 23.2)	2,083,571	4,250,553

Hire purchase receivables include receivables amounting to Rs.2,076,068,672/-(2014- Rs.3,615,928,692/-) that have been assigned under a securitization funding arrangement.

23.1 As at 31 December 2015

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

23.2 As at 31 December 2014

	1 Year	1- 5 Year	More than 5 Year	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Hire purchase receivables	2,189,285	3,490,934	5,109	5,685,327
Less: Unearned income	(715,757)	(656,938)	(170)	(1,372,865)
	1,473,528	2,833,996	4,938	4,312,462
Less: Provision for collective impairment	(23,840)	(38,014)	(56)	(61,909)
	1,449,688	2,795,983	4,883	4,250,553

23.3 Non performing advances included in Lease receivables and Hire purchase receivables are as follows.

	2015		2014	
	Lease	Hire Purchase	Lease	Hire Purchase
	Rs'000	Rs'000	Rs'000	Rs'000
Gross receivables	108,029	58,779	230,481	96,905
Less: VAT Suspense	(4,998)	-	(4,676)	-
Provision for collective impairment	(77,553)	(45,491)	(105,778)	(50,239)
	25,478	13,288	120,028	46,667

23. HIRE PURCHASE RECEIVABLES (Contd…)

23.4 Movement in impairment losses

23.4.1 Individually significant customer loan impairment

	2015 Rs'000	2014 Rs'000
Opening balance as at 01st January	48,237	40,418
Charge/ (reversal) to income statement	38,748	19,663
Write off during the year	-	(12,495)
Recoveries during the Year	792	1,160
Unwinding impact	(163)	(509)
Other movements	3,277	-
Closing balance as at 31 December	90,891	48,237

23.4.2 Collective loan impairment

	2015 Rs'000	2014 Rs'000
Opening balance as at 01st January	192,977	112,845
Charge/ (reversal) to income statement	(38,295)	86,079
Write off during the year	-	(5,947)
Recoveries during the Year	-	-
Unwinding Impact	-	-
Other movements	202	-
Closing balance as at 31 December	154,885	192,977
Total impairment balance as at 31 December	245,775	241,214

23.4.3 Movement in impairment losses- product wise

As at 31 December 2015	Rs. '000 Impairment charges at the beginning of the year	Rs. '000 Write off during the year	Rs. '000 Recoveries during the Year	Rs. '000 Unwinding Impact	Rs. '000 Other movements	Rs. '000 Provision for impairment- charge/ (reversal) during the Year	Rs. '000 Impairment charges at the end of the year
Lease	124,483	-	-	-	186	(32,511)	92,158
Hire Purchase	61,909	-	-	-	16	(8,080)	53,845
Factoring	37,048	-	792	(163)	3,301	38,722	79,700
Loan	863	-	-	-	-	(35)	828
Pawning/Gold Loan			-				
Collective	2,970	-		-	-	1,500	4,470
Auction Losses	13,941	-	-	-	(24)	858	14,775
Total	241,215	-	792	(163)	3,479	453	245,776

As at 31 December 2014

	Rs. '000 Impairment charges at the beginning of the year	Rs. '000 Write off during the year	Rs. '000 Recoveries during the Year	Rs. '000 Unwinding Impact	Rs. '000 Other movements	Rs. '000 Provision for impairment- charge/ (reversal) during the Year	Rs. '000 Impairment charges at the end of the year
Lease	75,753	(5,947)	-	-	-	54,677	124,483
Hire Purchase	33,537	-	-	-	-	28,372	61,909
Factoring	40,606	(12,495)	1,160	(509)	-	8,285	37,048
Loan	1,258	-	-	-	-	(395)	863
Pawning					-		
Collective	2,109	-	-	-	-	861	2,970
Auction Losses	-	-	-	-	-	13,941	13,941
	153,263	(18,442)	1,160	(509)	-	105,742	241,215

24. OTHER ASSETS

	2015 Rs. '000	2014 Rs. '000
24.1 Financial Assets		
Repossessed stock	129,847	83,498
Less: Provision for Repossessed stock	(129,847)	(82,066)
Insurance premium receivable	82,386	66,482
Less: Provision for insurance premium receivable	(3,202)	(2,193)
Staff loan	71,848	-
Other financial assets	17,495	13,115
	168,527	78,836
24.2 Non Financial Assets		
Pre paid expenses	35,836	31,143
Advance payments	15,069	5,309
Inventories	2,982	1,747
Other non financial assets	12,004	10,039
	65,890	48,238
	234,417	127,074

24.3 Movement in provision for repossessed stock & other loans

As at 31 December 2015

	Impairment charges at the beginning of the year Rs. '000	Other movements Rs. '000	Provision for impairment-charge/ (reversal) during the Year Rs. '000	Impairment charges at the end of the year Rs. '000
Repossession stock				
Lease	62,582	-	31,920	94,502
Hire Purchase	15,398	(13)	14,588	29,973
Loan	3,721	-	1,160	4,881
Factoring	366	-	124	490
Other Loans	2,536	-	1,029	3,565
	84,602	(13)	48,822	133,411

As at 31 December 2014

	Impairment charges at the beginning of the year Rs. '000	Other movements Rs. '000	Provision for impairment-charge/ (reversal) during the Year Rs. '000	Impairment charges at the end of the year Rs. '000
Repossession stock				
Lease	6,407	-	56,175	62,582
Hire Purchase	377	-	15,021	15,398
Loan	-	-	3,721	3,721
Factoring	-	-	366	366
Other Loans	343	-	2,193	2,536
	7,126	-	77,476	84,602

25. FINANCIAL INSTRUMENTS - AVAILABLE FOR SALE

	2015 Rs. '000	2014 Rs. '000
Credit Information Bureau-Un-Quoted	56	56
	56	56

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

26. FINANCIAL INVESTMENTS- HELD TO MATURITY

As at 31 December	2015 Rs. '000	2014 Rs. '000
Government debt securities-Treasury bonds	4,274	4,198
	4,274	4,198

27. INTANGIBLE ASSETS

	2015	2014
Cost as at 01 January	40,203	33,696
Additions and improvements	4,878	6,507
Cost as at 31 December	45,081	40,203
Amortisation as at 01 January	23,106	17,776
Amortisation for the year	7,087	5,330
Accumulated amortisation as at 31 December	30,192	23,106
Net book value as at 31 December	14,889	17,097

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs.4.88 million (2014 - Rs.6.5 million). Cost of fully depreciated assets of the Company as at 31 December 2015 is Rs. 14.66 Million (2014 - Rs. 14.66 Million). useful life of the above is estimated as 4 years.

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Gross carrying amounts

	Balance as at 31.12.2014 Rs.000	Additions Rs.000	Disposals Rs.000	Write Offs Rs.000	Balance as at 31.12.2015 Rs.000
Fixtures	47,357	19,618	-	(381)	66,593
Office furniture	15,992	3,716	-	(22)	19,686
Office equipment	32,461	16,478	-	(75)	48,863
Motor vehicles	20,424	1,326	-	-	21,750
Computer equipment	38,976	11,198	-	-	50,174
Total Value of Depreciable Assets	155,210	52,335	-	(479)	207,066

28.2 Depreciation

	Balance as At 31.12.2014 Rs.000	Charge for the year Rs.000	Disposals Rs.000	Write Offs Rs.000	Balance as at 31.12.2015 Rs.000
Fixtures	12,996	10,485	-	(381)	23,101
Office furniture	7,288	2,097	-	(22)	9,362
Office equipment	10,476	5,117	-	(75)	15,518
Motor vehicles	7,329	2,478	-	-	9,807
Computer equipment	19,405	5,177	-	-	24,581
	57,494	25,354	-	(479)	82,369

28.3 Net book values

	2015 Rs.000	2014 Rs.000
Fixtures	43,493	34,360
Office furniture	10,323	8,704
Office equipment	33,346	21,985
Motor vehicles	11,943	13,095
Computer equipment	25,592	19,571
	124,697	97,716
Total carrying amount of Property, Plant & Equipments	124,697	97,716

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

28.4 During the financial year, the Company acquired Property, plant & equipment to the aggregate value of Rs.52.34 Million (2014 Rs.37.94 Million

Cost of fully depreciated assets of the company which are still in use as at 31 December 2015 is Rs.23.17 Million (2014 - Rs.21.71 Million).

28.5 The useful lives of the assets is estimated as follows

	2015	2014
Fixtures	05 Years	05 Years
Furniture & fittings	6.67 Years	6.67 Years
Office equipments	6.67 Years	6.67 Years
Motor vehicles	08 Years	08 Years
Computer equipments	06 Years	06 Years

29. DEBT ISSUED AND OTHER BORROWED FUNDS

	2015 Rs.000	2014 Rs.000
Loans (29.1)	9,805,127	6,382,673
Securitizations (29.2)	99,486	230,597
Commercial papers(29.3)	206	648,322
Debentures (29.4)	1,020,602	1,267,330
	10,925,421	8,528,922

The company has not had any default of principal, interest or other breaches with regard to any liability during 2014 & 2015.

29.1 Loans

	Period	Amortised cost 2015 Rs'000	Amortised cost 2014 Rs'000
Short term loans			
Sampath Bank PLC	01 Month	426	540,886
Hatton National Bank PLC	03 Months	802,513	175,259
National Development Bank	03 Months	-	225,748
Nations Trust Bank PLC	03 Months	200,953	100,384
Seylan Bank PLC	03 Months	300,986	-
		1,304,879	1,042,277
Long term loans			
Sampath Bank PLC	60 Months	2,770,787	714,644
Commercial Bank PLC	60 Months	1,597,262	1,087,309
Hatton National Bank PLC	60 Months	1,533,629	2,201,498
Nations Trust Bank PLC	60 Months	365,132	490,226
Seylan Bank PLC	60 Months	1,566,629	846,718
Union Bank PLC	60 Months	666,810	-
		8,500,248	5,340,396
Total		9,805,127	6,382,673

The above short term loans and long lerm loans were institution wise aggregated values as at 31 December 2015 & 31 December 2014.

29.2 Securitization

	Payable within 1 year Rs.000	Payable after 1 year Rs.000	Total Rs.000
Securitization payable	99,486	-	99,486
	99,486	-	99,486

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

29.3 Commercial papers

	Payable within 1 year Rs.000	Payable after 1 year Rs.000	Total Rs.000
Commercial papers	212	-	212
Less: Interest payable	(5)	-	(5)
	206	-	206

29.4 Redeemable debentures

	Payable within 1 Year Rs.000	Payable after 1 Year Rs.000	Total Rs.000
Debentures payable	20,602	1,000,000	1,020,602
	20,602	1,000,000	1,020,602

29.5.1 Type of debentures

	Issue Date	Maturity Date	Rate of interest	Amortised cost 2015 Rs'000	Amortised cost 2014 Rs'000
Guaranteed redeemable debentures	31-Dec-11	31-Dec-15	12.25%-12.80%	-	114,000
Rated unsecured redeemable debentures	27-Jul-12	17-Dec-15	16.65%-17.50%	-	153,330
Rated unsecured subordinated redeemable de	24-Dec-14	24-Dec-19	8.90%	1,020,602	1,000,000
				1,020,602	1,267,330

30. OTHER PAYABLES

	2015 Rs.000	2014 Rs.000
Financial Liabilities		
Vendor payable	311,629	164,121
Insurance premium payable	66,822	61,213
Other financial liabilities	22,040	8,850
	400,491	234,184
Non Financial Liabilities		
VAT payable	4,084	7,166
Other taxes payable	36,186	29,487
Accrued expenses	42,460	18,822
Other non financial liabilities	25,700	9,947
	108,430	65,422
	508,921	299,606

31. DEFERRED TAX LIABILITIES/(ASSETS)

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

	Temporary Differences		Income Statement		OCI	
	2015	2014	2015	2014	2015	2014
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Deferred Tax Liability						
Capital allowances for tax purposes	382,677	164,669	218,008	60,790	-	-
	382,677	164,669				
Deferred Tax Assets						
Defined benefit plans-Income Statement	4,623	3,156	(1,113)	(963)	-	-
Defined benefit plans-OCI	770	354	-	-	770	354
Tax losses	226,752	55,222	(171,530)	(21,803)	-	-
Unclaimed provisions	48,226	35,955	(12,272)	(26,721)	-	-
	280,371	94,686				
Deferred income tax charge/(reversal)			33,093	11,303	770	354
Net Deferred Tax Liability	102,306	69,983				

32. INCOME TAXATION PAYABLE

	2015	2014
	Rs.000	Rs.000
As at beginning of the year	111,179	54,275
Less:Tax paid	(169,503)	(70,452)
Adjustment (ESC/WHT/Notional Tax etc.)	(7,548)	(6,719)
Provision for the year (Note 12)	141,536	134,076
As at the end of the year	75,663	111,179

32.1 Notional tax credit on secondary market transactions

Any company which derives income from secondary market transactions involving any security or treasury bonds or treasury bills on which the income tax has been deducted at the rate of 10% at the time of issue of such security, is entitled to a notional tax credit at 10% of the grossed up amount of net interest income from such secondary market transactions to an amount of one ninth of the same.Accordingly,the net interest income earned by the company from such transactions has been grossed up in the Financial Statements for the year ended 31 December 2015 and the notional tax credit amounts to Rs.3.9 Million(2014-LKR.3.4 Million).

32.2 Super gain tax payment on taxable income of year of assessment 2013/2014

As per the provisions of PART III of the Finance Act,No.10 of 2015 which was certified on 30 October 2015,the company was liable for Super Gain Tax of Rs.51.56 Million.According to the Act,the super gain tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2013.The Act supersedes the requirements of the Sri Lanka Accounting Standards,hence the expense of super gain tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment(SoAT)on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka,dated 24 November 2015.The above said liability was fully settled as at 31 December 2015.

33. RETIREMENT BENEFIT OBLIGATIONS

An acturial valuation of the gratuity fund of the company was carried out as at 31 December 2015 by Messrs Piyal S Goonethilleke & Associates,a firm of professional actuaries.The valuation method used by the actuary to value the fund is the "Porjected Unit Credit Acturial Cost Method", recommended by Sri Lanka Accounting Standard-LKAS 19 (Employee Benefits).

33.1 Defined benefit obligation reconciliation

	2015 Rs.000	2014 Rs.000
Benefit obligation at the end of prior year	12,535	7,833
Amount recognised in the income statement (33.2)	4,309	3,582
Amounts recognised in other comprehensive income (33.3)	2,749	1,263
Actual benefit paid from plan	(334)	(143)
Benefit obligation at the end of the year	19,259	12,535

33.2 Amount recognised in the Income Statement

	2015 Rs.000	2014 Rs.000
Current service cost for the year	3,243	2,645
Interest on the defined benefit liability	1,065	940
Total amount recognised in Income Statement	4,309	3,582

33.3 Amounts recognised in Other Comprehensive Income (OCI)

	2015 Rs.000	2014 Rs.000
Liability (gains)/losses due to changes in assumptions	(34)	1,444
Liability experience (gains)/losses arising during the year	2,784	(181)
Total amount recognized in OCI	2,749	1,263

33.4 Assumptions

	2015	2014
Actuarial assumptions		
Discount rate	9.80%	8.50%
Future salary increment rate	8.80%	7.50%
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Retirement age	55 Years	55 Years

Expected average future working life of the active participants is 11.3 years.

33. RETIREMENT BENEFIT OBLIGATIONS (Contd..)

33.5 Sensitivity assumptions employed in actuarial valuation

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

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

Variable	Rate Change	2015 Sensitivity Effect on Financial Position- Increase/(Decrease) in the Liability (Rs. Mn.)	2015 Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)	2014 Sensitivity Effect on Financial Position- Increase/(Decrease) in the Liability (Rs. Mn.)	2014 Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)
Discount rate	1.00%	(2.10 Million)	2.10 Million	(1.44 Million)	1.44 Million
Discount rate	-1.00%	2.48 Million	(2.48 Million)	1.71 Million	(1.71 Million)
Salary Increment rate	1.00%	2.43 Million	(2.43 Million)	1.68 Million	(1.68 Million)
Salary Increment rate	-1.00%	(2.10 Million)	2.10 Million	(1.44 Million)	1.44 Million

34. STATED CAPITAL

	2015 No of shares	2015 Rs.000	2014 No of shares	2014 Rs.000
Issued and Fully Paid-Ordinary shares				
At the beginning of the year	52,500,000	525,000	52,500,000	525,000
Issued during the year	-	-	-	-
At the end of the year	52,500,000	525,000	52,500,000	525,000

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

35. STATUTORY RESERVE FUND

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 as Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 5% of the net profit for the year transferred to Reserve Fund.

As at 31 December	2015 Rs.000	2014 Rs.000
At the beginning of the year	50,831	37,787
Profit transferred during the year	19,227	13,044
At the end of the year	70,058	50,831

36. INVESTMENT FUND RESERVE

As proposed in the Budget 2011, as and when taxes are paid after 1 January 2011, registered finance companies shall make transfers to the Investment Fund Account to build up a permanent fund with in the company as follows.

(i) 8% of the profits calculated for the payment of VAT on Financial Services as Specified in the VAT Act for payment of VAT.

(ii) 5% of the profits before tax calculated for payment of Income Tax purposes on dates specified in section 113 of the Inland Revenue Act for the self assessment payment of tax.

The operations of Investment Fund Account(IFA) was ceased with effect from 1st October 2014.Accordingly Rs.66.82 Million was transferred to Retained Earnings through the Statement of Changes in Equity on 01 October 2014.

37. RETAINED EARNINGS

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

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is the comparison, by class, of the carrying amounts of fair values of the company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non- financial assets and non-financial liabilities.

	2015					2014				
		Fair value measurement using					Fair value measurement using			
	Carrying value	**Quoted prices in active markets (Level I)**	**Significant observable inputs (Level 2)**	**Siginificant unobservable inputs (Level 3)**	**Total**	**Carrying value**	**Quoted prices in active markets (Level I)**	**Significant observable inputs (Level 2)**	**Siginificant unobservable inputs (Level 3)**	**Total**
FINANCIAL ASSETS										
Cash and bank balances	130,070	-	130,070	-	130,070	88,655	-	88,655	-	88,655
Securities purchased under repurchase agreements	601,679	-	601,679	-	601,679	489,685	-	489,685	-	489,685
Factoring receivables	1,157,136	-	1,142,664	-	1,142,664	996,440	-	968,242	-	968,242
Pawning receivables	-	-	-	-	-	456,193	-	463,282	-	463,282
Gold loan receivables	770,839	-	764,658	-	764,658	-	-	-	-	-
Loan receivables	286,968	-	222,443	-	222,443	506,526	-	535,185	-	535,185
Lease receivables	9,230,730	-	9,233,482	-	9,233,482	3,383,597	-	3,663,998	-	3,663,998
Financial investments- Held to Maturity	4,274	-	4,166	-	4,166	4,198	-	4,669	-	4,669
Hire purchase receivables	2,083,571	-	2,278,537	-	2,278,537	4,250,553	-	4,597,733	-	4,597,733
Other assets	168,527	-	168,527	-	168,527	78,836	-	78,836	-	78,836
TOTAL FINANCIAL ASSETS	14,433,794	-	14,546,226	-	14,546,226	10,254,684	-	10,890,285	-	10,890,285
FINANCIAL LIABILITIES										
Bank overdraft	163,583	-	163,583	-	163,583	83,921	-	83,921	-	83,921
Due to other customers	1,233,041	-	1,236,295	-	1,236,295	-	-	-	-	-
Debt instruments issued and other borrowed funds	10,925,421	-	10,905,609	-	10,905,609	8,528,922	-	8,528,922	-	8,528,922
Other payables	400,492	-	400,492	-	400,492	234,184	-	234,184	-	234,184
TOTAL FINANCIAL LIABILITIES	12,722,536	-	12,705,978	-	12,705,978	8,847,026	-	8,847,026	-	8,847,026

Fair value of financial assets and liabilities not carried at fair value

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity. Loans and advances to customers with a variable rate are also considered to be carried at fair value.

39. RISK MANAGEMENT

39.1 Introduction

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

The Company is exposed to credit risk, interest rate risk, liquidity risk, operational risk, the latter being subdivided into regulatory & compliance risk, reputation risk and environmental risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry.

The Company's policy is to monitor those business risks through the Company's strategic planning process.

39.2 Risk Management Structure

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

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

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

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

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

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

39. RISK MANAGEMENT (Contd…)

39.3 Risk measurement & Reporting System and Risk Mitigation

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

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

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

39. Risk Management (Contd…)

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

39.4 Credit Risk

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

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

39. RISK MANAGEMENT (Contd…)

39.4.1 Impairment Assessment

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

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

Individually assessed allowances

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

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

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments.

The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry–specific problems).

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

39. RISK MANAGEMENT (Contd…)

39.4.2 Credit Quality by Class of Financial Assets
As at 31 December

Assets	Note	2015 NEITHER PAST DUE NOR IMPAIRED	2015 PAST DUE NOT IMPAIRED	2015 INDIVIDUALLY IMPAIRED	2015 TOTAL	2015 PERCENTAGE	2014 NEITHER PAST DUE NOR IMPAIRED	2014 PAST DUE NOT IMPAIRED	2014 INDIVIDUALLY IMPAIRED	2014 TOTAL	2014 PERCENTAGE
		Rs'000	Rs'000	Rs'000	Rs. '000		Rs'000	Rs'000	Rs'000	Rs. '000	
Cash and bank balances	16	130,070	-	-	130,070	0.89%	88,655	-	-	88,655	0.84%
Securities purchased under repurchase agreements	17	601,679	-	-	601,679	4.12%	489,685	-	-	489,685	4.67%
Financial investments -Held to Maturity	26	4,274	-	-	4,274	0.03%	4,198	-	-	4,198	0.04%
Factoring receivables	18	915,783	17,377	227,561	1,160,720	7.96%	932,616	41,406	24,982	999,004	9.52%
Gold loan receivables	19	517,267	258,043	-	775,309	5.31%		-	-	-	0.00%
Pawning receivables	20	-	-	-	-	0.00%	441,213	17,950	-	459,163	4.38%
Loan receivables	21	133,151	154,644	-	287,795	1.97%	308,357	199,031	-	507,389	4.84%
Lease receivables	22	6,072,805	3,250,082	-	9,322,887	63.90%	1,956,871	1,551,210	-	3,508,081	33.43%
Hire purchase receivables	23	934,198	1,203,218	-	2,137,416	14.65%	2,138,667	2,173,794	-	4,312,462	41.09%
Other assets	24	168,527	-	-	168,527	1.16%	123,895	-	1,432	125,327	1.19%
Financial instruments- Available for Sale	25	56	-	-	56	0.00%	56	-	-	56	0.00%
Total		**9,477,809**	**4,883,365**	**227,561**	**14,588,735**	**100%**	**6,484,216**	**3,983,391**	**26,414**	**10,494,020**	**100.00%**

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

	Past due not impaired					Past due not impaired				
	Less than 30 days 2015 Rs'000	31 to 60 days 2015 Rs'000	61 to 90 days 2015 Rs'000	More than 91 days 2015 Rs'000	Total 2015 Rs'000	Less than 30 days 2014 Rs'000	31 to 60 days 2014 Rs'000	61 to 90 days 2014 Rs'000	More than 91 days 2014 Rs'000	Total 2014 Rs'000
Factoring receivables	-	-	-	17,377	17,377	26,648	-	-	14,757	41,406
Lease receivables	1,923,439	776,110	360,114	190,421	3,250,082	649,478	326,922	232,347	342,463	1,551,210
Hire purchase receivable	536,586	357,879	191,856	116,897	1,203,218	1,102,895	531,403	290,251	249,245	2,173,794
Loan receivables	37,901	49,537	22,244	44,962	154,644	114,602	43,132	39,220	2,077	199,031
Gold loan receivables	182,449	71,107	4,427	61	258,043	-	-	-	-	-
Pawning receivables	-	-	-	-	-	9,694	8,256	-	-	17,950
Total	**2,680,375**	**1,254,632**	**578,640**	**369,718**	**4,883,365**	**1,903,316**	**909,714**	**561,818**	**608,543**	**3,983,391**

39. RISK MANAGEMENT (Contd…)

39.4.3 Maximum Exposure to Credit Risk

	2015		2014	
As at 31 December	**MAXIMUM EXPOSURE TO CREDIT RISK**	**NET EXPOSURE**	**MAXIMUM EXPOSURE TO CREDIT RISK**	**NET EXPOSURE**
	Rs'000	**Rs. '000**	**Rs'000**	**Rs. '000**
Financial Assets				
Cash and bank balances	130,070	47,237	88,655	76,171
Securities purchased under repurchase agreements	601,679	601,679	489,685	489,685
Factoring receivables	1,157,136	1,154,842	996,440	994,235
Pawning receivables	-	-	456,193	-
Gold loan receivables	770,839	-	-	-
Loan receivables	286,968	-	506,526	-
Lease receivables	9,230,730	-	3,383,597	-
Hire purchase receivables	2,083,571	-	4,250,553	-
Other assets	168,527	168,527	78,836	78,836
Financial instruments- Available for Sale	56	56	56	56
Financial investments Held to Maturity	4,274	-	4,198	-
Total Financial Assets	**14,433,851**	**1,972,341**	**10,254,740**	**1,638,983**

39. RISK MANAGEMENT (Contd…)

39.4.4 Analysis of Risk Concentration

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

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

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	130,070	-	-	130,070
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	601,679	-	-	-	601,679
Factoring receivables	430,355	14,915	50,984	500,296	105,289	-	55,296	-	-	-	-	1,157,136
Gold loan receivables	-	-	-	-	-	-	-	-	-	770,839	-	770,839
Loan receivables	-	258	270	47,185	-	512	238,743	-	-	-	-	286,968
Lease receivables	86,172	89,312	515,385	1,214,630	193,264	200,928	5,782,582	-	-	-	1,148,457	9,230,730
Hire purchase receivables	21,266	29,846	117,696	441,922	31,291	30,858	1,220,933	-	-	-	189,758	2,083,571
Other assets	-	-	-	-	-	-	-	-	-	-	168,527	168,527
Financial instruments- Available for Sale	-	-	-	-	-	-	-	-	56	-	-	56
Financial investments Held to Maturity	-	-	-	-	-	-	-	4,274	-	-	-	4,274
	537,792	**134,332**	**684,336**	**2,204,032**	**329,845**	**232,298**	**7,297,555**	**605,953**	**130,127**	**770,839**	**1,506,742**	**14,433,851**

As at 31 December 2014 **Rs' 000**

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-		-	-	88,655	-	-	88,655
Securities purchased under repurchase agreements	-	-	-	-	-		-	489,685	-	-	-	489,685
Factoring receivables	526,118	35,097	11,626	252,663	85,742	-	85,195	-	-	-	-	996,440
Pawning receivables	-	-	-	-	-		-	-	-	456,193	-	456,193
Loan receivables	-	-	530	39,810	-	7,697	458,490	-	-	-	-	506,526
Lease receivables	42,165	16,820	343,341	738,311	167,226	77,549	1,708,995	-	-	-	289,190	3,383,597
Hire purchase receivables	30,802	46,052	267,538	996,843	61,142	68,889	2,501,983	-	-	-	277,305	4,250,553
Other assets	-	-	-	-	-	-	-	-	-	-	78,836	78,836
Financial instruments- Available for Sale	-	-	-	-	-	-	-	-	56	-	-	56
Financial investments Held to Maturity	-	-	-	-	-	-	-	4,198	-	-	-	4,198
	599,085	**97,969**	**623,035**	**2,027,626**	**314,110**	**154,134**	**4,754,663**	**493,884**	**88,712**	**456,193**	**645,331**	**10,254,741**

39. RISK MANAGEMENT (Contd…)

39.5 Interest Rate Risk

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

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

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

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

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

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

39.5.1 Interest Rate Sensitivity

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

			Rs. Million
Currency of Borrowings/ Advance	**Increase (Decrease) in basis points**	**Sensitivity of Profit or Loss**	**Sensitivity of Equity**
	2015	**2015**	**2015**
Long Term Loans linked to AWPLR	+1/ (-1)	(52.94)/52.94	14.11%
	+0.5 / (0.5)	(26.47)/26.47	7.05%
	+0.25 / (0.25)	(13.24)/13.24	3.53%
	2014	**2014**	**2014**
Long Term Loans linked to AWPLR	+1/ (-1)	(53.17)/53.17	25.80%
	+0.5 / (0.5)	(26.58)/26.58	11.42%
	+0.25 / (0.25)	(13.29)/13.29	5.40%

The base ratio considers in the Interest Rate Sensitivity Analysis is the AWPLR. Since 43.95% (2015) of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity, due to changes in the Average Weighted Prime Lending Rate.

39. RISK MANAGEMENT (Contd…)

39.5.2 Interest Rate Risk (Contd..)

Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

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

As at 31 December 2015	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Non Interest Bearing Rs'000	Total as at 31/12/2015 Rs'000
Financial Assets							
Cash and bank balances	130,070	-	-	-	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	-	-	-	601,679
Factoring receivables	1,157,136	-	-	-	-	-	1,157,136
Lease receivables	710,828	1,832,910	4,190,037	2,407,306	89,649	-	9,230,730
Hire purchase receivables	337,616	568,626	1,050,589	126,740	-	-	2,083,572
Gold loan receivables	696,731	74,109	-	-	-	-	770,839
Loan receivables	48,054	71,213	139,567	28,134	-	-	286,968
Other assets	-	-	-	-	-	168,527	168,527
Financial instruments- Available for Sale	-	-	-	-	56	-	56
Financial investments Held to Maturity	-	-	-	-	4,274	-	4,274
Total Financial Assets	3,682,114	2,546,857	5,380,194	2,562,180	93,979	168,527	14,433,851
Financial Liabilities							
Bank overdraft	163,583	-	-	-	-	-	163,583
Due to other customers	73,519	1,096,559	59,551	3,412	-	-	1,233,041
Debt instruments issued and other borrowed funds	6,885,664	556,055	1,399,600	2,084,102	-	-	10,925,421
Other payables	-	-	-	-	-	400,093	400,093
Total Financial Liabilities	7,122,766	1,652,614	1,459,151	2,087,514	-	400,093	12,722,138
Interest Sensitivity Gap	(3,440,652)	894,243	3,921,043	474,666	93,979	(231,566)	1,711,713

As at 31 December 2014	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Non Interest Bearing Rs'000	Total as at 31/12/2014 Rs'000
Financial Assets							
Cash and bank balances	88,655	-	-	-	-	-	88,655
Securities purchased under repurchase agreements	489,685	-	-	-	-	-	489,685
Factoring receivables	996,440	-	-	-	-	-	996,440
Lease receivables	455,737	822,473	1,508,445	574,110	22,832	-	3,383,597
Hire purchase receivables	524,548	925,140	2,078,768	717,215	4,883	-	4,250,553
Pawning receivables	65,816	390,377	-	-	-	-	456,193
Loan receivables	41,053	116,661	256,272	90,765	1,775	-	506,526
Other Assets	-	-	-	-	-	78,836	78,836
Financial instruments- Available for Sale	-	-	-	-	56	-	56
Financial investments Held to Maturity	-	-	-	-	4,198	-	4,198
Total Financial Assets	2,661,934	2,254,651	3,843,485	1,382,090	33,743	78,836	10,254,740
Financial Liabilities							
Bank overdraft	83,921	-	-	-	-	-	83,921
Debt instruments issued and other borrowed funds	6,900,377	558,546	69,999	-	1,000,000	-	8,528,922
Other payables	-	-	-	-	-	234,184	234,184
Total Financial Liabilities	6,984,298	558,546	69,999	-	1,000,000	234,184	8,847,027
Interest Sensitivity Gap	(4,322,363)	1,696,104	3,773,486	1,382,090	(966,257)	(155,348)	1,407,713

39. RISK MANAGEMENT (Contd…)

39.6 Liquidity Risk

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

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

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

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

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

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

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

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

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

39. RISK MANAGEMENT (Contd…)

39.6 Liquidity Risk (Contd..)

39.6.1 Statutory Liquid Asset Ratio

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

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

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

The table below summarizes the maturity profile of the undiscounted cash flows of the companies financial assets and liabilities as at 31 December 2015.

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

As at 31 December 2015	**Up to 03 Months Rs'000**	**03-12 Months Rs'000**	**01-03 Years Rs'000**	**03-05 Years Rs'000**	**Over 05 Years Rs'000**	**Total as at 31/12/2015 Rs'000**
Financial Assets						
Cash and bank balances	130,070	-	-	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	-	-	601,679
Factoring receivables	1,157,136	-	-	-	-	1,157,136
Lease receivables	1,105,559	2,651,400	5,460,855	2,699,907	94,939	12,012,660
Hire purchase receivables	470,128	775,898	1,260,808	135,193	-	2,642,026
Gold loan receivables	709,989	81,608	-	-	-	791,597
Loan receivables	47,785	93,296	170,415	34,628	-	346,125
Other assets	94,613	11,149	22,712	30,252	9,801	168,527
Financial instruments- Available for Sale	-	-	-	-	56	56
Financial investments Held to Maturity	-	-	-	-	4,274	4,274
Total Financial Assets	4,316,958	3,613,350	6,914,790	2,899,980	109,071	17,854,149
Financial Liabilities						
Bank overdraft	163,583	-	-	-	-	163,583
Due to other customers	78,355	1,155,965	70,103	5,090	-	1,309,513
Debt instruments issued and other borrowed funds	2,170,338	2,427,700	5,027,517	3,087,244	-	12,712,799
Other payables	400,093	-	-	-	-	400,093
Total Financial Liabilities	2,812,369	3,583,665	5,097,620	3,092,334	-	14,585,988
Liquidity Gap	1,504,589	29,685	1,817,170	(192,354)	109,071	3,268,161

As at 31 December 2014	**Up to 03 Months Rs'000**	**03-12 Months Rs'000**	**01-03 Years Rs'000**	**03-05 Years Rs'000**	**Over 05 Years Rs'000**	**Total as at 31/12/2014 Rs'000**
Financial Assets						
Cash and bank balances	88,655	-	-	-	-	88,655
Securities purchased under repurchase agreements	489,685	-	-	-	-	489,685
Factoring receivables	996,440	-	-	-	-	996,440
Lease receivables	633,533	1,190,271	1,979,832	661,092	24,490	4,489,217
Hire purchase receivables	798,288	1,390,997	2,696,966	793,968	5,109	5,685,327
Pawning Receivables	67,269	450,290	-	-	-	517,559
Loan receivables	41,917	116,661	256,272	90,765	1,775	507,389
Other assets	75,956	2,880	-	-	-	78,836
Financial instruments- Available for Sale	-	-	-	-	56	56
Financial investments Held to Maturity	-	-	-	-	4,198	4,198
Total Financial Assets	3,191,742	3,151,098	4,933,071	1,545,825	35,628	12,857,364
Financial Liabilities						
Bank overdraft	83,921	-	-	-	-	83,921
Debt instruments issued and other borrowed funds	2,026,022	1,764,643	2,756,154	1,982,103	-	8,528,921
Other payables	292,440	-	-	-	-	292,440
Total Financial Liabilities	2,402,383	1,764,643	2,756,154	1,982,103	-	8,905,283
Liquidity Gap	789,360	1,386,455	2,176,917	(436,278)	35,628	3,952,081

40. MATURITY ANALYSIS

As at 31 December 2015	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total as at 31/12/2015 Rs'000
Assets						
Cash and bank balances	130,070	-	-	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	-	-	601,679
Factoring receivables	1,157,136	-	-	-	-	1,157,136
Lease receivables	710,828	1,832,910	4,190,037	2,407,306	89,649	9,230,730
Hire purchase receivables	337,616	568,626	1,050,589	126,740	-	2,083,572
Pawning receivables	-	-	-	-	-	-
Gold loan receivables	696,731	74,109	-	-	-	770,839
Loan receivables	48,054	71,213	139,567	28,134	-	286,968
Other assets	122,532	33,145	33,338	34,729	10,674	234,418
Financial instruments- Available for Sale	-	-	-	-	56	56
Financial investments Held to Maturity	-	-	-	-	4,274	4,274
Intangible assets	-	-	-	14,889	-	14,889
Property, plant & equipment	-	-	-	43,493	81,204	124,697
Total Assets	3,804,647	2,580,001	5,413,532	2,655,290	185,857	14,639,327
Liabilities						
Bank overdraft	163,583	-	-	-	-	163,583
Due to other customers	73,519	1,096,559	59,551	3,412	-	1,233,041
Debt instruments issued and other borrowed funds	2,033,579	1,836,285	4,187,415	2,868,142	-	10,925,421
Other payables	488,706	20,216	-	-	-	508,922
Deferred taxation liability	-	-	-	-	102,306	102,306
Income taxation payable	-	75,663	-	-	-	75,663
Retirement benefit obligations	-	-	-	-	19,259	19,259
Total Liabilities	2,759,387	3,028,724	4,246,966	2,871,554	121,565	13,028,195

As at 31 December 2014	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total as at 31/12/2014 Rs'000
Assets						
Cash and bank balances	88,655	-	-	-	-	88,655
Securities purchased under repurchase agreements	489,685	-	-	-	-	489,685
Factoring receivables	996,440					996,440
Lease receivables	455,737	822,473	1,508,445	574,110	22,833	3,383,598
Hire purchase receivables	524,548	925,140	2,078,768	717,215	4,883	4,250,553
Pawning receivables	65,816	390,377	-	-	-	456,193
Loan receivables	41,053	116,661	256,272	90,765	1,775	506,526
Other assets	82,839	26,238	12,052	5,882	63	127,074
Financial instruments- Available for Sale	-	-	-	-	56	56
Financial investments Held to Maturity	-	-	-	-	4,198	4,198
Intangible assets	-	-	-	-	17,097	17,097
Property, plant & equipment	-	-	-	-	97,716	97,716
Total Assets	2,744,774	2,280,889	3,855,537	1,387,972	148,620	10,417,790
Total Liabilities						
Bank overdraft	83,921	-	-	-	-	83,921
Debt instruments issued and other borrowed funds	2,026,022	1,764,643	2,756,154	1,982,103	-	8,528,921
Other payables	299,606	-	-	-	-	299,606
Deferred taxation liability	-	-	-	-	69,983	69,983
Income taxation payable	-	111,179	-	-	-	111,179
Retirement benefit obligations	-	-	-	-	12,535	12,535
Total Liabilities	2,409,549	1,875,822	2,756,154	1,982,103	82,518	9,106,145

41. COMMITMENTS AND CONTINGENCIES

	2015		2014	
	Rs. '000		Rs. '000	
	On Demand	Total	On Demand	Total
Commitments				
Undrawn commitments factoring	315,071	315,071	228,058	228,058
	315,071	315,071	228,058	228,058
Contingencies	-	-	-	-
Total commitments & contingencies	315,071	315,071	228,058	228,058

41.1 Litigation filed by the Company/ against the Company

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

42. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the financial statements, other than those disclosed below.

Acquisition of Land for the proposed Head Office of the Company
The Board of Directors of the Company has approved to purchase a land for the proposed Head Office of the Company for a total value of Rs. 195.27 Million. This approval was made by way of a Board Resolution dated 26th January 2016.

43. COMPARATIVE INFORMATION
The comparative information is reclassified wherever necessary to conform to the current year's presentation the details of which are given below.

43.1 Income Statement

	Note	Re-classified Rs.000	As disclosed in 2014 Rs.000	Adjustment Rs.000
Other operating expenses	43.1.1	313,209	310,625	2,584
Crop insurance levy	43.1.1	-	2,584	(2,584)

43.1.1 "Crop Insurance Levy" amounting to Rs.2.58 Million has been re-classified under "Other Operating Expenses".

43.2 Statement of Financial Position

	Note	Re-classified Rs.000	As disclosed in 2014 Rs.000	Adjustment Rs.000
Other assets	43.2.1	127,074	125,327	1,747
Inventories	43.2.1	-	1,747	(1,747)

43.2.1 "Inventories" amounting to Rs.1.75 Million has been re-classified under "Other Assets".

44. RELATED PARTY TRANSACTIONS

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

44.1 Parent and Ultimate Controlling Party

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

44. RELATED PARTY TRANSACTIONS (Contd..)

44.2 Transactions with Key Managerial Personnel

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

For the year ended 31 December	2015 Rs'000	2014 Rs'000
Short term employee benefits	9,018	7,885
Directors' fees and expenses	11,160	13,328
Total	20,178	21,213

44.2.1 Loans and advances granted

No loans or advances were given to Key Managerial Personnel and their close family members during the year.(2014- Nil).

44.2.2 Borrowings through debt instruments

No borrowing through debt instruments were made from or no investments made by key management personnel during the year 2015. (2014- Nil)

44.3 Transactions with Group Companies

Sampath Bank PLC

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

Balance outstanding of Credit Facilities	2015 Rs'000	2014 Rs'000
Short Term Loans		
Opening Balance	540,000	515,000
Net proceeds from Short Term Loans	(540,000)	25,000
Closing Balance	-	540,000
Term Loan		
Opening Balance	713,705	1,071,112
Granted during the year	2,500,000	-
Less : Repayment during the year	(445,785)	(357,407)
Closing Balance	2,767,920	713,705
Bank Overdraft	163,583	61,799
Total Accommodation Obtained	2,931,503	1,315,504
Less : Placements with Bank	4,742	75,092
	2,926,761	1,240,412
Net Accommodation as a percentage of Capital Funds	181.66%	94.57%
Interest Paid	153,163	149,036
Bank Guarantee Fee paid	6,252	12,271

Staff training expenses were paid to Sampath Bank PLC for facilitating staff training

	2015	2014
Staff training paid	40	-

Rent was paid to Sampath Bank PLC for the window offices located within Sampath Bank premises.

	2015	2014
Rent Paid	1,374	784

Broker commission was paid to Sampath Bank PLC for sourcing of lease facilities to Siyapatha Finance PLC.

	2015	2014
Broker Commission Paid	-	389

		2015 Rs'000	2014 Rs'000
44.	**RELATED PARTY TRANSACTIONS (Contd..)**		

Automated Teller Machines(ATMs) of Sampath Bank PLC are located at branch premises of the Company.

Thus a fee has received by the Company for supplying such services to Sampath Bank PLC.

	2015 Rs'000	2014 Rs'000
Fee from ATM operations	405	-

Payment of dividend to parent company.

	2015 Rs'000	2014 Rs'000
Dividend Paid (Gross)	31,500	21,525

The company also invested in short term government securities through Sampath Bank PLC.

	2015 Rs'000	2014 Rs'000
Outstanding balance of short term government securities	601,679	489,685
Interest Income on short term government securities	38,930	35,044

Sampath Information Technology Solutions Ltd

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

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

	2015 Rs'000	2014 Rs'000
Hardware/Software maintenance paid	4,876	4,184
Fee for General Ledger Integration		
Payment for Software		
Pawning	473	120
Leasing	315	2,157
Loan Management	-	-
Facilities granted	953	5,703
Interest Income and other fees for the Leasing Facilities granted	1,159	2,297

44.4 Transactions, Arrangements and Agreements Involving KMPs

44.4.1 Agreement

	2015	2014
Rent Paid	20,628	20,007

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

44.4.2 Loans and Advances to the Related Companies of KMPs

	2015	2014
Lease Facilities	910	1,889
Interest Income earned	362	552

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

45. CAPITAL

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

Capital Management

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