# Annual Report | 2014 - 2015

**Capital Alliance Finance PLC**
Co.Reg.No. PB 765 PQ

## Vision

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

## Mission

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

## Core values of CALF

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

# Contents

# Corporate Information

**Name of the Company**
CAPITAL ALLIANCE FINANCE PLC

**Legal Form**
A Public Quoted Company with Limited Liability
Shares were quoted on the Colombo Stock Exchange on 04th day of October 2012.

**Date of Incorporation**
25th November 1981

**Company Registration No.**
PB 765 PQ

**Directors**
Mr. Ajith Fernando
Mr. Gihan Hemachandra
Mr. Prabhu Mathavan
Mr. Devasiri Rodrigo
Mr. Mangala Boyagoda
Mrs. S.M.G. Dunuwille

**Registered Office**
No. 21, Kumara Veediya, Kandy.

**Colombo Office**
123, Hunupitiya Lake Road, Colombo 02.
Tel : + 94 11 4317317
Fax :+ 94 11 2389411
E-mail : inquiries@cal.lk
Website : www.calfinance.lk

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

**Bankers**
Bank of Ceylon
People's Bank
Seylan Bank
Commercial Bank
DFCC Vardhana Bank
Nations Trust Bank
Union Bank
Cargills Bank Ltd

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

# Corporate Profile

Capital Alliance Finance PLC is a subsidiary of Cargills Bank Limited.

The firm's operations are at its head office in Kandy and a branch office in Colombo.

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

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

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

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

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

# Financial Highlights

| | 2015<br>LKR | 2014<br>LKR | Change<br>% |
|---|---|---|---|
| **Financial performance** | | | |
| Interest income | 173,413,528 | 168,878,706 | 3 |
| Net interest income | 86,365,160 | 68,171,519 | 27 |
| Profit/(loss) for the year | 8,766,400 | (8,108,217) | 208 |
| | | | |
| **Financial position** | | | |
| Loans and advances | 943,618,257 | 759,285,104 | 24 |
| Total assets | 1,151,016,723 | 1,252,048,898 | (8) |
| Shareholders'funds | 329,525,536 | 317,171,842 | 4 |
| Total deposits | 680,438,675 | 498,845,110 | 36 |
| | | | |
| **Information per ordinary share** | | | |
| EPS (Rs.) | 0.23 | (0.21) | 208 |
| Net assets (Rs.) | 8.50 | 8.18 | 4 |
| Market value as of end (Rs.) | 13.70 | 14.60 | (6) |
| Price earning (P/E) ratio | 60.58 | - | - |
| | | | |
| **Ratios** | | | |
| Return on average assets | 1% | -1% | 202 |
| Return on equity | 3% | -3% | 192 |
| Net interest margin (NIM) on average assets | 7% | 6% | 20 |
| | | | |
| **Compliance ratios** | | | |
| Core capital to risk weighted assets (minimum 5%) | 30% | 35% | (13) |
| Total capital to risk weighted assets (minimum 10%) | 30% | 35% | (13) |
| Liquid assets to deposits | 14% | 20% | (30) |
| Equity to total assets | 29% | 25% | 13 |

# Board of Directors

**Mr. W A T Fernando**
*Non-Executive Independent Director*
Mr. Fernando is a Fellow of the Chartered Institute of Management Accountants of the United Kingdom (FCMA) and has an MA in Financial Economics from the University of Colombo.

He counts for over 25 years' experience in the capital markets of Sri Lanka. He currently serves as the CEO of the Capital Alliance Group which he founded in 2000 and includes Capital Alliance Ltd. (a primary dealer for Government Securities, appointed by the Central Bank of Sri Lanka), Capital Alliance Securities (Pvt) Ltd. (a trading member of the Colombo Stock Exchange), Capital Alliance Investments Limited (Licensed by the Securities & Exchange Commission of Sri Lanka) and Capital Alliance Partners Limited.

In addition, he serves on the boards of two listed companies; namely Ceylon Tea Brokers PLC, Senkadagala Finance PLC, and many private companies including ADZ Insurance Brokers (Pvt) Ltd, Ashthi Holdings (Pvt) Ltd, and Zen Capital (Pvt) Ltd.

**Mr. E R G C G Hemachandra**
*Non-Executive Independent Director*
Mr. Hemachandra holds a Bachelor's Degree in Business Administration with Honours in Finance from the University of Colombo and is an Associate Member of the Chartered Institute of Management Accountants UK. He has wide experience in the fields of corporate investments, dealing and treasury operations. He commenced his career at Union Assurance Ltd. in 1999 and subsequently joined Ceylinco Shriram Securities Ltd. and Ceylinco Shriram Asset Management Ltd. in 2003 as Head of Dealing. He has been with Capital Alliance Ltd. since 2005 and currently he is the Chief Executive Officer. He counts over 13 years of experience in the field of financial services.

**Mr. Prabhu Mathavan**
*Non-Executive Director*
Prabhu Mathavan is an Associate Member of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka. He also holds a Bachelor's Degree in Commerce. He possesses over 22 years of experience in the fields of Finance, Auditing, Accounting and Taxation. He serves on the Boards of several other companies of Cargills Group including Cargills (Ceylon) PLC.

**Mr. Mangala Boyagoda**
*Non-Executive Director*
Mangala Boyagoda is a Senior Banker, possessing over 35 years' experience holding key positions in the filed of Financial Services. He is the former CEO of Standard Chartered Bank. He is the present Chairman of Wealth Lanka Management (Pvt) Ltd., Director SAFE Holdings (Pvt) Ltd., Wealth Trust Securities Ltd., Asset Trust Management (Pvt) Ltd., Ceylon Hotels Corporation PLC, Sierra Constructions (Pvt) Ltd., Ceylon Leather Products PLC, Dankotuwa Porcelain PLC, Sri Lanka Gateway Industries (Pvt) Ltd., CA Crushing (Pvt) Ltd., Ceylinco Insurance General (Pvt) Ltd., Maskeliya Plantation PLC, Capital Alliance Finance PLC, Royal Fernwood Porcelain (Pvt) Ltd., Faber Capital (Pvt) Ltd. & Virginia International Investments Ltd. He has served as a Consultant to the Asian Development Bank (ADB), the World Bank, the Central Bank of Sri Lanka & the Securities and Exchange Commissions of Sri Lanka & Bangladesh. He also serves as a Committee member of the Financial Reform Task Force and is a former President of the FOREX Association of Sri Lanka.

He holds a Master's Degree in Business Administration from the Irish International University (European Union).

**Ms. Sarojini Dunuwille**
*Non-Executive Director*
Sarojini Dunuwille is an Attorney-at-Law and counts over 40 years in the legal profession out of which over 33 years has been in the Banking sector.

She started her Banking career at DFCC as a Legal Officer in 1981 where she was exposed to development lending and company secretarial work. She resigned as the Acting Chief Legal Officer and Secretary to the Board, in 1994 to take a short career break and she was invited to set up the legal department of Union Bank of Colombo PLC in 1995 as Head of Legal and Secretary to the Board. She has had exposure to the entire spectrum of commercial banking business, personal banking, corporate banking, HR etc having drafted most of the legal documents for Union Bank.

She resigned in 2003 to join Commercial Bank of Ceylon PLC as its chief legal officer to overlook all its branches and attend to all legal matters.

She joined Cargills Bank Limited in April 2012 as Assistant General Manager - Legal and Company Secretary.

# Chief Executive Officer's Review

> **CAL Finance makes a remarkable turnaround in the Financial Year 2014 / 2015**

One of the leading non-banking financial sector players in the country, Capital Alliance Finance PLC (CALF) is privileged to have achieved remarkable performances in the Financial Year 2014/15. During the year under review, the company's Profit After Tax (PAT) rose to Rs.8.7 million from a loss of Rs.8.1 million in the previous year making it a notable turnaround. The company's interest income has increased from Rs.168.8 million in the previous year to Rs.173.4 million in the year under review, and the management has been able to clear the books from a higher Non Performing Loan (NPL) of 20.39% to 10.19 %. Accordingly, more than Rs.60 million had been provisioned during the last two years.

During the Financial Year 2014/15, the bottom line of Capital Alliance Finance has improved to a positive of Rs.12 million whilst the sales mix too changed to a more interest sensitive manner where the Company was able to reprise the lending with deposit interest rate changes. Subsequently, Net Interest Margin (NIM) too recorded a growth by 27% to Rs.86 million compared to Rs.68 million in the previous year. Further, staff cost was improved by 39% which reflected the investment to shift to the next level and the loan book improved by 24% to Rs.944 million from Rs.759 million in the previous year. During the year under review, the deposit base of the company improved by 36% to Rs.680 million from Rs.498 million in the previous year which reflect the increase of confidence on new strategies adopted by the company. Balance sheet re-structuring and structural changes made in respect of management positions in a more futuristic manner were two major activities during the year. Going forward, company officials believe Leasing and Total Working Capital Solutions will be the major focus area in coming years and the company is in the process of increasing the capital to make the sustainable expansion and development make a reality.

At the beginning Financial Year 2014/15, Central Bank introduced a Consolidation program in the financial sector in Sri Lanka with an active manner, as a result, stake owned by Capital Alliance (CAL) group was bought over by Cargills Bank Limited, the latest commercial bank launched its operations in the Banking sector. This acquisition occurred in the middle of the Financial Year 2014/15 nevertheless, it did not have any set back of existing business operations as existing management of CALF carried out smooth transition of controlling ownership to Cargills Bank Limited whilst achieving targeted business growth in a continuous manner sticking to the overall three year new strategic plan of the Company. During the latter part of Financial Year 2014/15, even though the overall economic growth of the country was adversely affected due to various factors, including snap elections and sudden changes of political environment, the management of CALF was able to further strengthen the company and take it forward to achieve desired goals in a scenario where the pace of merger process also slowed down.

With their expertise and experience in the relevant field, CAL was able to add more professionalism and value to the operations of CALF since then. Implementation of new guidelines in respect of Good corporate Governance and practices, migrating to a new state of the art Software system in order to meet modern day commercial demands and recruitment of many professionals to key management positions of the organization, were some of the important initiatives taken in this connection. Simultaneously, new products such as CAL X-Change, Factoring, Cheque Discounting, Revolving and Pledge Loans were added to the array of products of CALF with the said changes giving more financial options to customers.

# Chief Executive Officer's Review (Contd...)

**Appreciation**
It is a pleasure to work under the leadership of Mr. Ajith Fernando who is the founder of Capital Alliance Group. We warmly welcome him as the chairman of the Company.

My sincere appreciation to the Board of Directors, former Chairman Mr. Travis Waas, Management Team and all our staff for dedication and hard work towards guiding the company in the right direction. I look forward to their continued commitment and support.

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

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

**W L S Fonseka**
Chief Executive Officer

23rd June 2015

# Management Team

**W Lohika S Fonseka**

*Chief Executive Officer*

Lohika possesses a BA (Hons) in Business Accounting - UK, Diploma in Banking from the Bankers Institute of Sri Lanka, Investment Advisor Certificate of Securities Exchange Commission of Sri Lanka and an MBA from the University of Wales, Cardiff. He counts over 20 years of experience in the Banking and Financial Services sector, having commenced his career at Hatton National Bank followed by Seylan Bank, Mercantile Leasing Limited and Orient Finance PLC. Lohika has been in senior management for more than 10 years specializing in credit, marketing, operations and factoring. He took over operations at CAL Finance from October 2013.

**B G P Samantha**

*DGM / Chief Financial Officer*

Samantha functions as the Chief Financial Officer and is also responsible for Treasury and IT. He has over 07 years of experience in the Finance sector. Prior to joining Capital Alliance Finance PLC, on June 2013, he served 5 years at SANASA Development Bank PLC as the Assistant General Manager - Finance & Resource Mobilization. Earlier in his career, he was attached to Capital Maharaja Limited, PricewaterhouseCoopers (PwC) and D. Samson & Sons (Pvt.) Ltd. Samantha is a Member of the Institute of the Chartered Accountants of Sri Lanka and holds a BSc Degree Special (Hons) in Financial Management and Business Administration from the University of Sri Jayawardanapura and he is a level 2 candidate of the CFA (USA) programme. CA Sri Lanka has recognized CAL Finance as a training organization for strategic level under his supervision.

**Ashok K L Vitanachy**

Senior Manager Operations/Recoveries

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

**Sulochana A Munasinghe**

*Senior Manager Business Development / Credit*

Sulochana counts over twenty years of experience in the Banking and Financial sector out of which eleven years at senior management level. He began his career at Seylan Bank in 1994, followed by Nations Trust Bank and Union Bank of Colombo PLC. He joined CAL Finance as Senior Manager - Business Development in September 2012. Sulochana holds an AIB and a Diploma in Credit Management from the Institute of Bankers of Sri Lanka and was able to secure a merit pass in the management course “Developing Managers for the Future”, conducted by the Postgraduate Institute of Management in 2011.

**Tharaka S Wickrama**

*Head of Marketing / Factoring*

Tharaka is heading the Marketing and Factoring divisions of the company. He is proficient in Customer Care and Marketing, both locally and internationally. Prior to joining Capital Alliance Finance PLC he served at Orient Finance PLC for over 2 years as the Assistant Manager Factoring and counts 14 years of experience in Investments & Information Technology, having served Ceylon Asset Management, hSenid Business Solution, Excel Group of Companies and Abans Lanka (Pvt) Limited. He is a Diploma holder in Marketing from the London Business School.

# Management Discussion & Analysis

**Industry Overview**

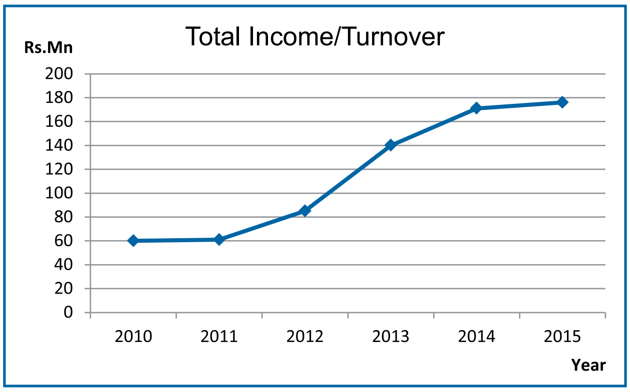
According to the Central Bank of Sri Lanka, the Licensed Finance Companies and Specialized Leasing Companies represent 7% of Sri Lanka's financial system has also played a vital role in the financial sector in 2014.

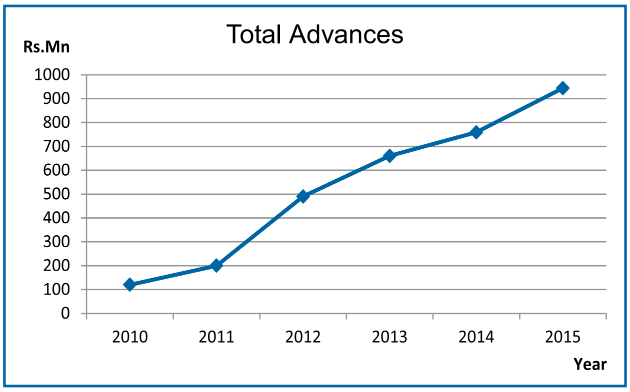
Despite moderate growth in accommodations in 2014, the industry witnessed an increase in non-performing accommodations (NPA's) from 6.7% in year 2013 to 6.9% in year 2014. In the latter part of the previous year as a measure of further strengthening the sector to avoid systemic risk and facilitate acceleration of economic growth, the Central Bank of Sri Lanka announced the financial sector consolidation plan, whereby they envisage reducing the number of LFI's to 20 by end 2014 through a process of mergers and acquisitions. As at end of 2014, 10 mergers were completed while 22 were in the process of being completed.

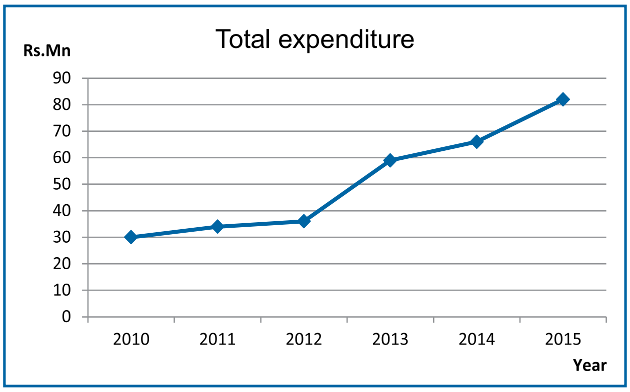
**Operations Review**

Other than Leasing, Hire Purchase and Margin Trading company diversified into working capital loans such as Factoring, Cheque Discounting and Revolving Loan facilities commenced last Year. Our performance in all these areas has been significant, with Hire Purchase being the leading income earner. At present, the company offers these facilities through its two branches. Our reach will gradually expand.

We provide Leasing and Hire Purchase facilities for all types of motor vehicles and equipment. Also the Company introduced a new product, "Tea Trade" under Leasing/ Hire Purchase scheme. Our Margin Trading operations, which commenced two years back has now reached a steady position and is expected to further expand by attracting a larger clientele. Our lending portfolio recorded a substantial increase during the year, growing by 25% from Rs.759 Million to Rs.944 Million, due to the following product portfolio;



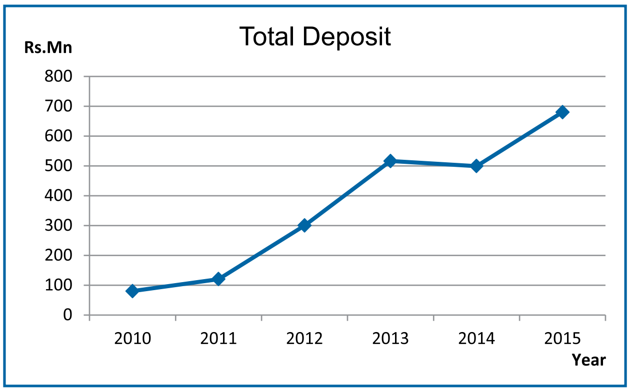



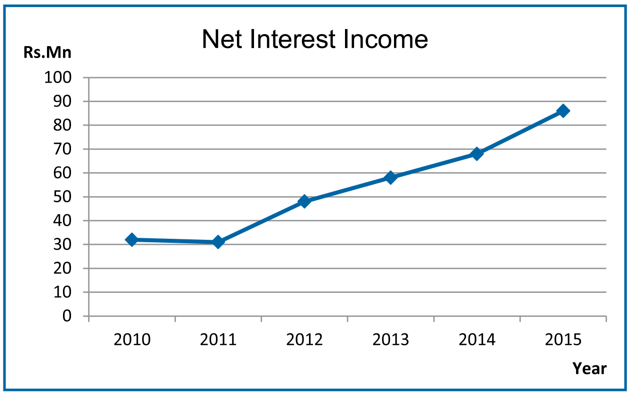




- Hire Purchases
- Leasing
- Business Loans
- Trade financing products
  - Pledge Loans
  - Revolving Loans
- Factoring
- Margin Trading
- Cheque Discounting

Income from the above amounted to Rs.152 Mn which is 88% of the total revenue.

# Management Discussion & Analysis (Contd...)



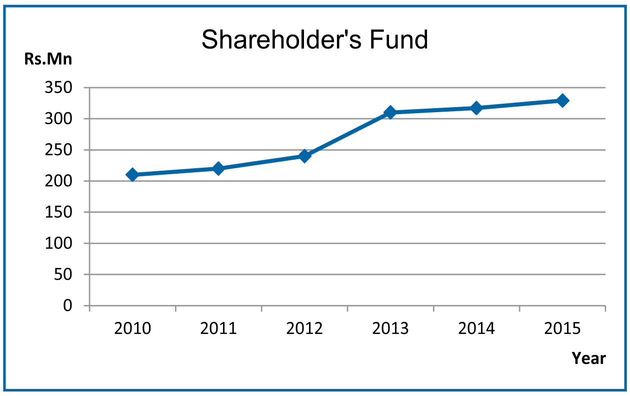




### Operating Expenses

Our operating expenses increased by 10% of which the personnel cost increased by 38% due to the investment in human resources where we have recruited professionals with much experience and expertise to take the company forward. We focused on maintaining a healthy portfolio while increasing disbursements.

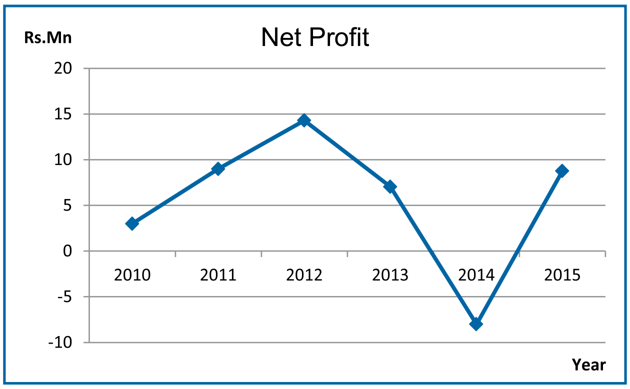
### Shareholders' Funds

The shareholders' funds have increased from Rs.317 Million to Rs.329 Million. The increase in bottom line was the main reason for this slight improvement.




### Deposits

Our deposit base improved from Rs.498 Million to Rs.680 Million, which is a raise of 36%. Our fixed deposit portfolio consists of both institutional investors, individuals as well as senior citizens.




### Financial Achievements

We are fully compliant with Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS). During the year under review, the Company's Profit After Tax (PAT) rose to Rs.8.7 Mn from the loss of Rs. 8 Mn recorded in 2013/14 making it a notable turnaround. Ultimate residual value further recorded positively due to increase in revaluation reserve, which is mentioned under other comprehensive income.

Interest income recorded a growth of 27% and net operating Income increased by 43%. Fee and commission income also marked a 8% YoY growth.

### Information Technology

We have successfully migrated to the new IT system "Inbank", implemented by Open Arc Systems Management (Pvt) Limited. Along with the launch of our new products, Factoring & Cheque Discounting facilities, we coupled a specialized Factoring IT system known as "Net Asset System" which was implemented by SASIA Net (Pvt) Ltd., in order to enhance our level of service.

# Risk Management

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

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

To minimize, sector or industry specific, risk Capital Alliance Finance PLC operations are diversified across many product lines, industries and sectors.

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

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

**Operational risks**

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

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

**Compliance risk**

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

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

**Legal risk**

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

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

# Corporate Governance

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

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

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

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

**Board Sub-Committees**
An Audit Committee, Integrated Risk Management Committee, and Remuneration Committee function as Sub-Committees of the Board. The above Committees consist of a majority of Non-Executive Directors and their names are given on pages 35 and 42. The Accountant functions as the Compliance Officer to ensure compliance with the regulatory and statutory requirements and the laws and regulations governing Finance Companies, Public Listed Companies and, generally, in business activities undertaken by the Company. Besides, the Company had identified Committees in-house for recoveries, credit and assets and liability management to regulate the relevant areas thereby ensuring that decision-making is on a participatory basis. The Report of the Audit Committee is given on page 39.

**Composition**
The Board comprises Five (5) members of whom including the Chairman and Non-Executive Directors with a balance of skills and experience which is appropriate for the business carried out by the Company. The Board has determined that two (2) Non-Executive Directors are 'independent' as per the criteria set out in the Listing Rules of the Colombo Stock Exchange.

The names of the Directors who served during the year under review are disclosed in the Annual Report of the Board of Directors on the Affairs of the Company on page 35.

**Board Meetings**
The results of the Company are regularly considered and monitored against the budgets at Board meetings at which a standard agenda is discussed together with any other matters that require the attention of the Board. The Board meets once a month, and wherever necessary Special Meetings of the Board are held. During the year ended 31st March 2015, Twelve (12) meetings of the Board were held. The attendance at the meetings were:

| Name of Director | Non-Executive / Independent Non-Executive | Attendance |
|---|---|---|
| Mr. M J T Waas (Chairman) | Non-Executive Independent Director (Resigned on 17th November 2014) | 08 |
| Mr. W A T Fernando | Non-Executive Independent Director (Appointed as Chairman from 17th November 2014) | 12 |
| Ms. N T M S Cooray | Non-Executive Director (Resigned on 17th November 2014) | 06 |
| Mr. E R G C G Hemachandra | Non-Executive Independent Director | 12 |
| Mr. R J Arasaratnam | Non-Executive Director (Resigned on 17th November 2014) | 03 |
| Mr. C S R S Anthony | Non-Executive Independent Director (Resigned on 17th November 2014) | 08 |
| Mr. G L H Premaratne | Non-Executive Non-Independent Director (Resigned on 16th February 2015) | 03 |
| Mr. P D Rodrigo | Non-Executive Non-Independent Director | 06 |
| Mr. E M M Boyagoda | Non-Executive Non-Independent Director | 06 |
| Mr. P S Mathavan | Non-Executive Non-Independent Director | 03 |

**The Management**

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

**Financial Disclosures and Transparency**

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

**Ethical Standards**

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

**Statutory Payments**

All statutory payments due to the Government, which have fallen due, have been made or where relevant provided. Retirement gratuities have been provided for in accordance with the Sri Lanka Accounting Standards, No. 19, Employee Benefits.

**Compliance with Central Bank Regulations**

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

**Accountability and Disclosure**

In the year ended 31st March 2015, the members of the Board of Directors have reviewed in detail the Quarterly Financial Statements and Annual Financial Statements in order to satisfy themselves that they present a true and fair view of the Company's affairs, and these practices have been further strengthened as per the Code of Best Practices on Corporate Governance, Listing Rules of the Colombo Stock Exchange and Directions issued under the Finance Companies Act. A summary of Directors' Responsibilities in respect of Financial Statements is given on page 38.

**Investor Rights and Relations**

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

By Order of the Board.

W A T Fernando
Chairman
Non-Executive Independent Director

23rd June 2015

# Corporate Governance (Contd...)

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| **2. The Responsibilities of The Board of Directors** | | |
| **2. (1) a, b, c, d, e, f, h, i, j, k, l, m** | Strengthening the safety and soundness of the company | **Complied**<br>The Board formulates the business strategy and ensures that the CEO and management team possesses the skills, experience and knowledge to implement the strategy. It also ensures that effective systems are in place to secure the integrity of the information, internal controls and risk management and compliance with all applicable laws and regulations. |
| **2.(1) g** | Areas of authority of board and key management personal | **Partially complied with.**<br>Company is in the process of preparing board charter. |
| **2. (2)** | Chairman and CEO | **Complied**<br>The Board has appointed the Chairman and the Chief Executive and the roles of the Chairman and the Chief Executive are separate. |
| **2. (3)** | Independent professional advice to Board Members | **Complied**<br>The Board members are permitted to obtain independent professional advice from a third party, including the Company's external auditors and lawyers, at the expense of the Company since the Board collectively, and Directors individually, must act in accordance with the laws of the Country, as applicable to the business enterprise. |
| **2. (4)** | Conflict of interests | **Not applicable** |
| **2. (5)** | Formal schedule of matters | **Complied**<br>The Board has a formal schedule of matters reserved to it. |
| **2. (6)** | Situation of insolvency | **Not applicable**<br>No such situation has arisen during the year. |
| **2. (7)** | Corporate Governance Report | **Complied**<br>This report addresses this requirement. |
| **2. (8)** | Annual self assessment by the Directors | **Noted for compliance** |
| **3. Meeting of the Board** | | |
| **3. (1)** | Board Meeting | **Complied**<br>Board Meetings were held at monthly intervals. |
| **3. (2)** | Inclusion of proposals by all Directors in the agenda | **Complied**<br>The Company Secretary facilitates any requests made by the Directors at the meetings or otherwise and ensures that the said matters and proposals are included in the agenda for the next meeting for discussion. |
| **3. (3)** | Notice of Meetings | **Partially complied with** |
| **3. (4)** | Attendance to Meetings | **Complied**<br>A Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance. |

# Corporate Governance (Contd...)

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| **3. (5)** | Board Secretary | **Complied**<br>Please refer section A.1.4. of the ICASL Code compliance table. |
| **3. (6)** | Agenda and minutes of the Meetings | **Complied**<br>The Secretary prepares the agenda. |
| **3. (7)** | Access to Secretary by Directors | **Complied**<br>All the Directors have access to the Company Secretary. |
| **3. (8)** | The Company Secretary shall maintain the minutes of Board Meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director. | **Complied**<br>The Company Secretary maintains the minutes of Board Meetings, which are available for inspection by any Director. |
| **3. (9)** | Minutes of Board Meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. | **Complied**<br>The Company Secretary records the proceedings of the meetings and the decisions taken thereon in sufficient detail. |
| **4. The Board's Composition** | | |
| **4. (1)** | Number of Directors | **Complied**<br>The Board comprises of five Directors |
| **4. (2)** | Period of service of a Director | **Complied** |
| **4. (3)** | Appointment of an employee as a Director | **Not applicable** |
| **4. (4)** | Independent Non-Executive Director | **Complied**<br>Two out of Five Directors are Independent Non-Executive Directors. |
| **4. (5)** | Alternate Director | **Not applicable** |
| **4. (6)** | Credibility, skills and experience of Non-Executive Directors | **Complied**<br>Profiles of the Non-Executive Directors describe the required qualities. |
| **4. (7)** | Presence of Non-Executive Directors at Board Meetings | **Complied**<br>One half of the quorum were Non-Executive Directors in all meetings held. |
| **4. (8)** | Details of Directors | **Complied**<br>Details of Directors are included in this Annual Report. |
| **4. (9)** | Appointment of new Directors | **Complied**<br>The Board collectively assesses the composition of the Board and makes appointments as necessary. |
| **4. (10)** | Appointment to fill a casual vacancy | **Not applicable** |
| **4. (11)** | Resignation/removal of a Director | **Complied** |
| **5. Criteria to assess the fitness and propriety of Directors** | | |
| **5. (1)** | Directors over 70 years of age | **Complied**<br>The Board does not consist of any Directors over the age of 70 years. |

# Corporate Governance (Contd...)

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| **5. (2)** | Holding in office in more than 20 companies | **Complied**<br>No Director holds such number of positions. |
| **6. Management function delegated by the Board** | | |
| **6. (1) & 6. (2)** | Delegation of work to the management and review of delegation process | **Complied**<br>The Board evaluates the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its functions. |
| **7. The Chairman and Chief Executive Officer** | | |
| **7. (1)** | Division of responsibilities of the Chairman and CEO | **Complied**<br>The roles of Chairman and Chief Executive Officer are separated. |
| **7. (2)** | Chairman shall be an Independent Non-Executive Director, and if not designate a Senior Director. | **Complied**<br>Chairman is an Independent Non-Executive Director. |
| **7. (3)** | Relationship between Chairman and CEO and other Directors | **Complied**<br>There are no material relationships between the Chairman / CEO and / or other members of the Board which will impair their respective roles. |
| **7. (4)** | Role of the Chairman | **Complied**<br>Please refer section A.3 of the ICASL Code compliance table. |
| **7. (5)** | Meeting Agenda | **Complied**<br>The chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The chairman may delegate the function of preparing the agenda to the company secretary. |
| **7. (6)** | Meeting Minutes | **Complied**<br>The chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting. |
| **7. (7)** | Board Members' Responsibility | **Complied**<br>The chairman shall encourage each director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the relevant establishment. |
| **7. (8)** | Contribution of Non-Executive Directors | **Complied**<br>The chairman shall facilitate the effective contribution of non-executive directors. |
| **7. (9)** | Chairman Role | **Complied**<br>Subject to the transitional provisions contained herein, the chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever. |

## Corporate Governance (Contd...)

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| **7. (10)** | Communication with Shareholders | **Complied**<br>The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board. |
| **7. (11)** | CEO's Role | **Complied**<br>The chief executive officer shall function as the apex executive-in-charge of the day-to-day-management of the relevant establishment's operations and business. |
| **8. Board appointed Committees** | | |
| **8. (1)** | Board appointed three Sub Committees | **Complied**<br>Audit Committee, Remuneration Committee and Integrated Risk Management Committee have been appointed as required by the direction. |
| **8. (2) Audit Committee** | | |
| **8.2.a** | The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit. | **Complied** |
| **8.2.b** | The Board members appointed to the Committee shall be Non-Executive Directors. | **Complied** |
| **8.2.c** | Committee recommendations | **Complied** |
| **8.2. d,e,f,g,h,i,j,k,l** | External and Internal Auditors | **Complied**<br>The Committee has met three times during the year. |
| **8.2.m** | Power of Committee | **Complied**<br>The committee shall have:<br>(i) explicit authority to investigate into any matter within its terms of reference;<br>(ii) the resources which it needs to do so;<br>(iii) full access to information; and<br>(iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. |
| **8.2.n** | Meeting of Committee | **Complied**<br>The Committee has met three times during the year.<br>The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities. |
| **8.2.o** | Disclosure of Audit Committee in Annual Report | **Complied** |
| **8.2.p** | Meeting minutes of the Audit Committee | **Complied** |

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| **8.2.q** | Whistle blowing policy | **Noted for Compliance**<br>At present the company is in the process of setting a proper whistle blowing policy by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. |
| **8.3 Integrated Risk Management Committee** | | |
| **8.3. a,b,c,d,f,h** | Integrated Risk Management Committee | **Complied** |
| **8.3. e** | Risk Committee Meetings | **Partially complied with**<br>During the year Risk Management Committee has met two times. |
| **8.3. g** | Risk Report | **Noted for compliance**<br>The committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions. |
| **9. Related Party Transactions** | | |
| **9. (2) to 9. (4)** | Avoiding conflict of interest in related party transactions and favourable treatment | **Complied**<br>Compliance steps have been taken by the Board to avoid any conflict of interests that may arise in transacting with related parties as per the definition of this Direction. Further, the Board ensures that no related party benefits from favourable treatment and board is in the process of further strengthening the compliance requirement. |
| **10. Disclosures** | | |
| **10. (1)** | Financial reporting, statutory and regulatory reporting | **Complied** |
| **10. (2)** | Minimum disclosure in the Annual Report | **Complied** |
| **Section 1**<br>Adherence with the principles of Finance Companies(Corporate Governance) Direction No. 3 of 2008 issued under Section 9 of the Finance Companies Act No. 78 of 1988 which is now repealed and replaced by Finance Business Act No. 42 of 2011 and the Code of Best Practice on Corporate Governance issued jointly by the ICASL and the SEC is tabulated below. | | |
| **A. Directors**<br>**A.1. The Board**<br>**Board should direct, lead and control the company** | | |
| **A.1.1** | **Meetings**<br>The Board should meet regularly. Board meetings should be held at least once every quarter of a financial year. | **Complied**<br>Board meetings were held in monthly intervals. |

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| A.1.2 | **The Board Responsibility**<br>The Board should be responsible for the following<br>• Ensuring the formulation and implementation of a sound business strategy.<br>• Ensuring that the Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy.<br>• Ensuring the adoption of an effective CEO and senior management succession strategy.<br>• Ensuring effective systems to secure integrity of information, internal controls and risk management ensuring compliance with laws, regulations and ethical standards.<br>• Ensuring all stakeholder interests are considered in corporate decisions.<br>• Ensuring that the company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations. | **Complied**<br>The Board collectively is responsible for the success of the company. The Board formulates the business strategy and ensures that the CEO and management team possess the skills, experience and knowledge to implement the strategy. It also ensures that effective systems are in place to secure the integrity of the information, internal controls and risk management and compliance with all applicable laws and regulations. The Independent Directors are responsible for bringing independent judgment to decisions made by the Board. |
| A.1.3 | **Access to Independent Professional Advice**<br>There should be a procedure agreed to by the Board of Directors to obtain independent professional advice, where necessary, at the company's expense. | **Complied**<br>The Board members are permitted to obtain independent professional advice from a third party, including the company's external auditors and lawyers at the expense of the company since the Board collectively, and Directors individually, must act in accordance with the laws of the country, as applicable to the business enterprise. |
| A.1.4 | **Company Secretary**<br>All Directors should have access to the advice and services of the Company Secretary. | **Complied**<br>All Directors have access to the Company Secretary. The Secretary ensures that all Board procedures as per the Board Terms of Reference are followed and applicable rules and regulations are adhered to. The Secretary possesses the required qualifications as set out in the Companies Act. Consent of all Board members is required for the removal of the Company Secretary. |

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| A.1.5 | **Independent Judgment of Directors**<br>All Directors should bring Independent judgments. | **Complied**<br>Directors bring independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct. |
| A.1.6 | **Adequate Time and Effort of Directors** | **Complied**<br>The Board members dedicate adequate time for the affairs of the company by attending Board meetings, Board sub-committee meetings, making decisions and adopting resolutions via circular. Additional meetings and discussions are held with the management whenever the need arises. |
| A.1.7 | **Training of Directors**<br>Every Director should receive appropriate training when first appointed to the Board of a company, and subsequently as necessary. | **Complied**<br>Adequate knowledge sharing opportunities are available to new and existing members of the Board on company and industry related matters on a continuous basis, and the experience of the Directors further guides the continuous training and an expansion of the knowledge and skills required to effectively perform their duties. |
| **A.2. Chairman & Chief Executive Officer (CEO)** | | |
| There are two key tasks at the top of every public company - conducting of the business of the Board, | | |
| A.2.1. | **Separation of Duties of Chairman & CEO**<br>There should be a clear division of responsibilities at the head of the company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. | **Complied**<br>The Chairman and CEO roles are conducted separately and there is a clear division of duties of the Chairman and CEO.<br>The Chairman is responsible for the leadership of the Board, the management of Board meetings and the business undertaken. It is also the duty of the Chairman, together with the Company Secretary, to ensure that all relevant issues are on the Board agenda, that Directors receive all appropriate and timely documentation and are enabled and encouraged to play their full part in relevant discussions and debate.<br>The CEO is responsible for the day-to-day functioning of the company's operations in accordance with the policies and objectives laid down by the Board. He is also accountable for the achievement of the financial and non-financial objectives agreed annually by the Board and contained within the company's Business Plan. This ensures the balance of power in strategic and operational decisions. |
| **A.3 Chairman's Role** | | |
| The Chairman's role in preserving good corporate governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions. | | |

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

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| A.5.4 | **Signed Declaration of Independence**<br>Each Non-Executive Director should submit a signed and dated declaration annually of their independence. | **Noted for Compliance**<br>All Non-Executive Directors of the company have made written submission of their independence. |
| A.5.5 | **The Determination of Independence of the Directors by the Board**<br>The Board should make a determination annually as to the independence or non-independence of each Non-Executive Director and should set out in the Annual Report the names of Directors determined to be 'independent.' | **Complied**<br>The following Directors are Independent Non-Executive Directors.<br>Mr. W A T Fernando<br>Mr. E R G C G Hemachandra |
| A.5.6<br>A.5.7 | **CEO & Chairman are the Same Person**<br>In the event the Chairman and CEO is the same person, the Board should appoint one of the Independent Non-Executive Directors to be the "Senior Independent Director." | **Complied**<br>The Chairman and CEO are two separate persons. |
| A.5.8 | **Meeting of Non Executive Directors**<br>The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year. | **Complied**<br>The Chairman meets with the Non-Executive Directors without the presence of the CEO, on a need basis. |
| A.5.9 | **Recording of Concern in Board Minutes**<br>Where Directors have concerns about the matters of the company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board Minutes. | **Complied**<br>No such matters have been reported. |
| **A.6 Supply of Information**<br>The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties. | | |
| A.6.1 | **Provision of Timely and Quality Information**<br>The management has an obligation to provide the Board with appropriate and timely information. | **Complied**<br>The Directors receive a comprehensive report of all Board papers and any other additional information requested by the members of the Board well in advance of the meeting. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings. |
| A.6.2 | The minutes, agenda and papers required for a Board Meeting should ordinarily be provided to Directors at least seven (7) days before the meeting, to facilitate its effective conduct. | **Partially Complied** |

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| **A.7. Appointments to the Board** There should be a formal and transparent procedure for the appointment of new Directors to the Board. | | |
| **A.7.1**<br>**A.7.2**<br>**A.7.3** | Nomination Committee, assessment of Board composition and disclosure of details of new Directors to shareholders. | **Complied**<br>The Board has a transparent procedure set out on making new appointments to the Board, which is done in consultation with the entire Board. |
| **A.8 Re-election** All Directors should be required to submit themselves for re-election at regular intervals and at least once every three years. | | |
| **A.8.1** | **Appointment of Non-Executive Directors & other Directors**<br>Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act relating to the removal of a Director, and their re-appointment should not be automatic. | **Complied** |
| **A.8.2** | All Directors including the Chairman of the Board, should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years. The names of Directors submitted for election or re-election should be accompanied by a resume minimally as set out in paragraph A.7.3 above, to enable shareholders to make an informed decision on their election. | **Complied** |
| **A.9. Appraisal of Board Performance** **Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.** | | |
| **A.9.1** | **Annual appraisal of Board performance and that of its committees.** | **Complied**<br>The Board annually evaluated its performances against the annual objectives set at the beginning of the year. The performances of Board committees were evaluated against the objectives of the respective committees. |
| **A.9.2** | **The Board should also undertake an annual self-evaluation of its own performance and that of its Committees.** | **Noted for Compliance** |
| **A.9.3** | **The Board should state how such performance evaluations have been conducted, in the Annual Report.** | **Complied** |
| **A.10. Disclosure of Information in Respect of Directors** Shareholders should be kept advised of relevant details in respect of Directors. | | |

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| A.10.1 | **Details in respect of Directors**<br>The Annual Report of the company should be set out in a manner which includes information relevant to the Directors. | **Complied**<br>Relevant details of each Director are given under each member's profile in the Annual Report. |
| **A.11. Appraisal of Chief Executive Officer (CEO)**<br>The Board should be required, at least annually, to assess the performance of the CEO. | | |
| A.11.1 | Financial and non-financial targets for the CEO and annual evaluation of the performance of the CEO. | **Complied**<br>At the commencement of every year, financial targets are set by approving the annual budget and non-financial targets are set in consultation with the CEO by the Board and at the end of each financial year the performance of the CEO is evaluated to ascertain whether the targets have been achieved. |
| A.11.2 | The performance of the CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets set by the Board have been achieved and if Not, whether the failure to meet such targets was reasonable in the circumstances. | **Complied**<br>At the commencement of every year, financial targets are set by approving the annual budget and non-financial targets are set in consultation with the CEO by the Board and at the end of each financial year, the performance of the CEO is evaluated to ascertain whether the targets have been achieved. |
| **B. Directors' Remuneration**<br>**B.1. Remuneration Procedure**<br>Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration. | | |
| B.1.1 | **Creation of a Remuneration Committee**<br>The Board of Directors should set up a Remuneration Committee to make recommendations to the Board, within agreed terms of reference, on the company's framework of remunerating Executive Directors. | **Complied**<br>The Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Director and the corporate management, and for making all relevant disclosures. The Committee determines and agrees with the Board, the broad policy framework for the remuneration of the CEO. The CEO participates in meetings by invitation in deciding the remuneration of the corporate management in order to recruit, retain and motivate the corporate management team. |
| B.1.2 | **Composition of Remuneration Committee**<br>Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board. | **Complied** |
| B.1.3 | **Disclosure of Remuneration Committee in the Annual Report**<br>The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year. | **Noted for Compliance** |

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| B.1.4 | **Remuneration of Non-Executive Directors**<br>The Board as a whole, or where required by the Articles of Association, the shareholders, should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association. Where permitted by the Articles, the Board may delegate this responsibility to a sub-committee of the Board, which might include the CEO. | **Complied**<br>The Board as a whole decides the remuneration of the Non-Executive Directors. The Non-Executive Directors receive a fee for being a Director on the Board. |
| B.1.5 | **Consultation of the Chairman and Access to Professional Advice**<br>The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors and have access to professional advice from within and outside the company in discharging their responsibilities. | **Complied**<br>The input of the Chairman is obtained by his involvement as a member of the said Subcommittee. External professional advice is sought by the Remuneration Committee on a need basis through the Board Secretary. |
| **B.2. The Level & Make-up of Remuneration**<br>**Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.** | | |
| B.2.9 | **Remuneration of the Non-Executive Directors** | **Complied**<br>Non-Executive Directors receive a nominal fee in line with the market practices as disclosed in this Annual Report. |
| **B.3. Disclosure of Remuneration**<br>**The company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.** | | |
| B.3.1 | The Annual Report should set out the names of Directors comprising the Remuneration Committee, contain a statement of remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors. | **Partially Complied**<br>The fees paid to the Directors for attending meetings is disclosed in the Annual Report. |
| **C. Relations with Shareholders**<br>**C.1. Constructive use of the Annual General Meeting (AGM) and conduct of general meetings Boards should use the AGM to communicate with shareholders and should encourage their participation.** | | |
| C.1.1 | Consideration of proxy votes | **Complied** |
| C.1.2 | Separate resolution for all separate issues | **Complied** |

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| C.1.3 | The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman. | **Complied** |
| C.1.4 | **Circulation of Notice of AGM and Other Documents**<br>Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 15 working days or other period determined by statute before the meeting. | **Complied** |
| C.1.5 | Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at general meetings. | **Complied** |
| | | |
| **C.2. Major Transactions**<br>**Further to compliance with the requirements under the Companies Act, Directors should disclose to shareholders all proposed corporate transactions, which if entered into, would materially alter/vary the company's net asset base or in the case of a company with subsidiaries, the consolidated group net asset base.** | | |
| C.2.1 | Disclosure of major transactions prior to a company engaging in or committing to a 'Major Transaction', involving the acquisition, sale or disposition of greater than half of the net value of the company's assets or that of a subsidiary which has a material bearing on the consolidated net assets of the company. Directors should disclose to shareholders all material facts of such transactions. | **Complied**<br>During the year Cargills Bank Limited acquired 76.51% of CALF. Therefore Capital Alliance Holding Limited divested the ownership to Cargills Bank Limited. |
| **D. Accountability & Audit**<br>**D.1. Financial Reporting**<br>**The Board should present a balanced and understandable assessment of the company's financial position, performance and prospects.** | | |
| D.1.1 | **Reports to Public, Regulatory & Statutory Reporting**<br>The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements. | **Complied**<br>CALF has reported a true and fair view of its position and performance for the year ended 31st March, 2015. In the preparation of financial statements, CALF had strictly complied with the requirements of the Companies Act No.7 of 2007, the Finance Business Act No. 42 of 2011 and amendments thereto, and Directions issued under the same Act. They were prepared and presented in conformity with LKASs. |

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| **D.1.2** | **Directors' Report in the Annual Report** | **Complied**<br>Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are presented in pages 35 to 37. |
| **D.1.3** | **Statement of Directors' Responsibility for the Financial Statements** | **Complied**<br>The statement of Directors responsibility for financial reporting is given in page 38 as required by the direction. |
| **D.1.4** | **Management Discussion and Analysis** | **Complied**<br>A detailed management discussion and analysis is presented in pages 12 to 13. |
| **D.1.5** | **Declaration of Going Concern by the Directors** | **Complied**<br>This information is provided in page 35. |
| **D.1.6** | In the event the net assets of the company fall below 50% of the value of the company's shareholders' funds, the Directors shall forthwith summon an Extraordinary General Meeting of the company to notify shareholders of the position and of remedial action being taken. | **Complied**<br>Company maintained healthy net assets position. |
| **D.2. Internal Control**<br>**The Board should maintain a sound system of internal control to safeguard shareholders' investments and the company's assets.** | | |
| **D.2.1** | **Maintain a sound system of Internal Control** | **Complied**<br>The company has established a comprehensive framework of policies and procedures, which are regularly reviewed and updated. The company's Audit Committee ensures that there is an effective internal control and financial reporting system by adopting the following measures:<br>(i) Audits are conducted by the internal auditors in areas involving high risks as identified in the annual internal audit plan.<br>(ii) The Audit Committee follows up on the status of implementation of all audit recommendations. |
| **D.2.2** | Companies which do not have an internal audit function should from time to time review the need for one. | **Complied**<br>The company has outsourced the internal audit function to Ernst & Young, Chartered Accountants. |
| **D.3. Audit Committee**<br>**The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the company's auditors.** | | |

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| D.3.1 | **Composition of the Audit Committee**<br>The Audit Committee should be comprised of a minimum of two Independent Non-Executive Directors or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher. | **Complied**<br>The company's Audit Committee consists of three members all of whom are Non-Executive Directors; out of Three, Two are Independent. The Committee operates within clearly defined terms of reference. |
| D.3.2 | **The Duties of the Audit Committee** | **Complied**<br>The Committee maintains an appropriate relationship with the external auditors KPMG to ensure their objectivity and independence. The payment to the external auditors for audit and non-audit services is disclosed in the Directors' Report of this Annual Report. |
| D.3.3 | **Terms and reference of the Audit Committee** | **Complied**<br>The Audit Committee is guided by clearly defined terms and references. |
| **D.3.4 Disclosures** | | |
| D.3.4 | **Disclosure of the Audit Committee** | **Complied**<br>Names of the members of the Audit Committee are given in the Audit Committee Report. |
| **D.4. Code of Business Conduct & Ethics**<br>**Companies must adopt a Code of Business Conduct & Ethics for Directors and members of the senior management team and must promptly disclose any waivers of the Code for Directors or others.** | | |
| | | |
| D.4.1 | **Adoption of a Code of Business Conduct & Ethics** | **Complied**<br>The company has developed a code of business conduct and ethics for all employees, which addresses conflict of interest, corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the company's assets, compliance with applicable laws and regulations and encouraging the reporting of any illegal or unethical behaviour, etc. |
| D.4.2 | The Chairman must affirm in the company's Annual Report that he is not aware of any violation of any of the provisions of the Code of Business Conduct & Ethics. | **Complied**<br>There is no violation of the company's code of ethics during the year. |
| **D.5. Corporate Governance Disclosure**<br>**Directors should be required to disclose the extent to which the company adheres to established principles and practices of good corporate governance.** | | |
| D.5.1 | **Disclosure of corporate governance** | **Complied**<br>This report addresses this requirement. |
| **Section 2 Shareholders**<br>**E. Institutional Investors**<br>**E.1 Shareholder Voting**<br>**Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.** | | |

# Corporate Governance (Contd...)

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| E.1.1 | **Regular and structured dialogue with shareholders** | **Complied**<br>The primary mode of communication between the company and the shareholders is through the Annual General Meeting. The Chairman ensures the views of shareholders are communicated to the Board as a whole. |
| E.2 | **EVALUATION OF GOVERNANCE DISCLOSURES** | |
| | **When evaluating Companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.** | **Complied**<br>The governance arrangements including, Board structure and composition are available in the Annual Report and the company Website. |
| **F. Other Investors**<br>**F.1 Investing/Divesting Decision** | | |
| F.1 & F.2 | **Individual shareholder and voting** | **Complied**<br>Individual shareholders are encouraged to participate in general meetings and exercise their voting rights. |
| **Section 3**<br>**Continuing Listing Rules Section 7.10 on Corporate Governance of the Colombo Stock Exchange** | | |
| | **CSE Rule Reference** | **Compliance Status** |
| **Non-Executive Directors** | 7.10.1 (a) | **Complied**<br>All Directors of the Board are Non-Executives, which is more than the requirement of the rule. |
| | 7.10.2 (a) | **Complied**<br>More than one third of the Non-Executive Directors are Independent. |
| **Disclosures Relating to Directors** | 7.10.3 (a) | **Complied**<br>Declarations of Independence by the Directors were assessed by the full Board. The Directors who are Independent are disclosed on page 35. |
| | 7.10.3 (b) | **Complied** |
| | 7.10.3 (c) | **Complied**<br>Please refer page 8 for the brief biography of each Director. |
| | 7.10.3.(d) | **Complied**<br>Information relating to new appointments to the Board is disclosed to the Colombo Stock Exchange, when appointments are made. |

# Corporate Governance (Contd...)

| Rule Reference | Rule Description | Compliance Status |
|---|---|---|
| **Remuneration Committee** | 7.10.5 (a) Composition | **Complied**<br>The Remuneration Committee comprises of Non-Executive Directors and the majority of the members are Independent. |
| | 7.10.5 (b) Function | **Noted for Compliance** |
| | 7.10.5 (c) Disclosure in the Annual Report | **Partially Complied**<br>Remuneration paid to Directors is given in note No. 32 to the financial statements on page 71. |
| **Audit Committee** | 7.10.6 (a) Composition | **Complied**<br>The Audit Committee comprises of three Non-Executive Directors; out of Three, Two Independent. |
| | 7.10.6 (b) Function | **Complied**<br>Functions of the Audit Committee are given in detail in the Audit Committee Report on page 39. |
| | 7.10.6 (c) Disclosure in the Annual Report | **Complied**<br>The names of the Directors comprising the Audit Committee and the basis of determination of independence of the Auditor are given in the Audit Committee report on page 39. |

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

The Directors of Capital Alliance Finance PLC are pleased to present their Report and the Audited Financial Statements of the Company for the year ended 31 March 2015.

**1. REVIEW OF THE YEAR**

Review of the Company business and its performance during the year, with comments on financial results and future strategic developments, are contained in the Page No. 09.

**2. THE PRINCIPAL ACTIVITY**

The Company is carrying on finance business.

**3. FINANCIAL STATEMENT**

The Financial Statements of the Company are given on page 44 to 78 and authorised to issue on 23rd June 2015.

**4. GOING CONCERN**

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

**5. AUDITOR'S REPORT**

The Auditor's Report on the Financial Statements of the Company is given on page 43.

**6. ACCOUNTING POLICY**

The significant accounting policies adopted in the preparation of the Financial Statements are given in Note No. 2 on page 48.

**7. TAXATION**

Provision for taxation has been computed at the rates given in Note 12 to the financial statements.

**8. DIVIDENDS**

The Directors have not recommended a dividend on ordinary shares for the year ended 31 March 2015.

**9. BOARD OF DIRECTORS**

The Directors of the Company as at 31 March 2015 were:

**Mr. W A T Fernando**
(Chairman) Non-Executive Independent Director

**Mr. E R G C G Hemachandra**
Non-Executive Independent Director

**Mr. P S Mathavan**
Non-Executive Director

**Mr. P D Rodrigo**
Non-Executive Director

**Mr. E M M Boyagoda**
Non-Executive Director

**10. DIRECTORS' INTEREST IN CONTRACTS**

There are no other interests in contracts or proposed contracts with the Company by the Directors other than those specified in note 32 to the Financial Statements.

**11. CORPORATE GOVERNANCE**

The Company had put in place systems and procedures to ensure the implementation of sound Corporate Governance Principles. An overview of such practices adopted within the Company is given on pages 18 to 34 of the Annual Report.

**12. AUDIT COMMITTEE**

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

Mr. W A T Fernando - Chairman
Mr. E R G C G Hemachandra
Mr. P D Rodrigo

The report of the Audit Committee is given on page 39 of the Annual Report.

**13. PROPERTY, PLANT AND EQUIPMENT**

The details of the property, plant and equipment are given in Note 20 to the Accounts. Following particulars also required to disclose regarding property, plant and equipment.

i. During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs 1,242,258 (2014 - Rs. 15,129,411/-)

ii. The fair value of the revalued land was determined by Mr. P W Senaratne Chartered Valuation Surveyor valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the revalued properties. (Note 20 of Page No. 65)

Date of the revaluation: 28th October 2014

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

| As at 31 March | 2015 (Rs.) | 2014 (Rs.) |
|---|---|---|
| Cost | 24,168,713 | 24,168,713 |
| Accumulated depreciation | 3,042,899 | 2,510,656 |
| Net book value | 21,125,814 | 21,658,057 |

**iii. Property Details**

**Details of Lands & Building of the Company**

| Address | Land Extent | Building Extent | Cost | | Accumulated Depreciation | Last Valuation | | Carrying Amount | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Land | Building | | Land | Building Cost | 2015 | 2014 |
| | A-R-P | (Sq. Ft.) | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| No: 21, Kumara Veediya, within Ward No: 19 of Kandy Municipal Council, Kandy District, Central Province. | 0A-0R-4.75P | 3040 | 8,312,500 | 15,856,213 | 3,042,899 | 22,500,000 | 15,856,213 | 35,313,314 | 32,345,557 |

**14. DONATIONS**

During the year, the Company made donations amounting to Rs. 9,700/-.

**15. STATED CAPITAL**

The Stated Capital of the Company as at 31st March 2015 was Rs. 193,590,566 representing 38,766,036 ordinary shares.

**16. RESERVES**

**General Reserve**

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

**Statutory Reserve Fund**

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

**17. SHAREHOLDINGS**

An analysis of the distribution of the ordinary shareholders is given on page 80 of the Annual report. The list of 20 largest Ordinary shareholders of the Company is given on page 79 of the Annual Report.

**18. DIRECTOR'S HOLDINGS OF SECURITIES OF THE COMPANY**

Details of Director's shareholdings in the Company are given on page 79 of the Annual Report.

**19. DIRECTOR'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The Directors are responsible for the preparation of the financial statements of the Company to reflect a true and fair view of its state of affairs. The Directors are of the view that these financial statements have been prepared in conformity with the Sri Lanka Accounting Standards and the Companies Act No. 07 of 2007. The Directors are accordingly satisfied that the financial statements presented herein give a true and fair view of the state of affairs of the Company as at 31st March 2015 and the profit for the year then ended.

**20. STATUTORY PAYMENTS**

The Directors are satisfied that to the best of their knowledge and belief, all statutory payments due to the

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

Government and to the employees of the Company have been made up to date.

**21. EVENTS OCCURRING AFTER THE REPORTING PERIOD**

No events have occurred after the reporting date which would require adjustments to or disclosure in the Accountants, other than those given in Note 31 to the Accounts.

**22. AUDITORS**

Messrs. KPMG, Chartered Accountants are the Company's Auditors during the period under review. A sum of Rs. 440,000 payable as professional fee for the year under review and Rs 815,000 was paid for non-audit related work such as agreed upon engagements. Based on the declaration made by Messrs. KPMG, and as far as the Directors are aware, the Auditors do not have any relationship or interest other than statutory auditor.

The Board of Directors recommends that Messrs. KPMG, Chartered Accountants be re-appointed as the Auditors of the Company for the ensuring year. A resolution relating to their re-appointment and authorizing, the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

**23. EMPLOYMENT POLICY**

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

**24. NOTICE OF MEETING**

Notice of Meeting relating to the 34th Annual General Meeting of the Company is given on page 82 of the Annual Report.

For and on behalf of the Board,

**W A T Fernando**

S S P CORPORATE SERVICES (PRIVATE) LIMITED
SECRETARIES

23rd June 2015

# Directors' Responsibility for Financial Reporting

The Directors of the Company are responsible for the preparation and presentation of the Financial Statements to the shareholders in accordance with the relevant provisions of the Companies Act No.7 of 2007 and other statutes which are applicable to the preparation of the Financial Statements.

Financial Statements for the financial year gives a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

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

Accordingly, the Directors confirm that the Financial Statements of the Company for the year ended 31st March 2015 incorporated in this Annual Report have been prepared in accordance with the Sri Lanka Accounting Standards and comply with the requirements of Companies Act No.7 of 2007 and Finance Business Act No.42 of 2011 (Repealed and replaced the Finance Companies Act No.78 of 1988) and other applicable standards and statutes.

The Financial Statements of the Company have been approved by the Board of Directors, who is responsible for the preparation of the Financial Statements in compliance with the provisions of the Companies Act.

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

In preparing these Financial Statements, the Directors have also ensured that appropriate accounting policies have been applied in a consistent manner and material departures, if any, have been disclosed and explained. The Directors are also satisfied that the Company possesses adequate resources to continue its operations and the Financial Statements are continued to be prepared on that basis.

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

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

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory dues as were due and payable by the Company as at the balance sheet date have been paid or where relevant provided for in the Financial Statements.

On behalf of the Board,

W A T Fernando
Independent Non-Executive Director

23rd June 2015

# Audit Committee Report

The Audit Committee comprises Two Independent Non-Executive Directors and One Non Independent Non-Executive Director (as shown on page 35 of the Annual Report). The Chairman of the Audit Committee is a Fellow Member of the Chartered Institute of Management Accountants, UK.

The Audit Committee met on 3 occasions during the financial year. The attendance of Committee members at meetings is as follows:

| Member | Number of meetings held | No. of meetings attended |
|---|---|---|
| Mr. W A T Fernando – Chairman | 3 | 3 |
| Mr. E R G C G Hemachandra | 3 | 2 |
| Mr. E M M Boyagoda | 3 | 3 |

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

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

**The following activities were carried out by the Committee**

**Financial Reporting and Internal Control System**

- The Committee reviewed the Interim and Annual Financial Statements of the Company and has recommended same to the Board for approval and publication.
- Review of the preparation of the Annual Report to ensure the reliability of the process, consistency of the accounting policies and methods and compliance with Sri Lanka Accounting Standards.
- The Committee is satisfied that the control environment prevailing in the Company provides reasonable, but not absolute assurance that the financial position of the company is adequately monitored and that the systems are in place to minimize the impact of identifiable risks.
- The Committee also monitors the timely payments of all statutory obligations.
- The Company's budget proposals are also reviewed by the Committee.

**Internal Audit**

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

**External Audit**

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

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

The Audit Committee has recommended to the Board of Directors M/s KPMG, Chartered Accountants as External Auditors for the financial year ending 31st March 2016.

W A T Fernando
Chairman - Audit Committee

23rd June 2015

# Directors' Statement on Internal Controls

**Responsibility**
In line with Finance Companies Direction No.3 of 2008, Section 10(2) b, the Board of Directors presents this Report on Internal Control.

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

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

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

**Key Features of the Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System on Financial Reporting**
The Board has adopted key processes in reviewing the design and operating effectiveness of the system of internal controls with respect to financial reporting, including the following;

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

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

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

Since the adoption of new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012, processes that are required to comply with new requirements of recognition, measurement, presentation and disclosures were introduced and implemented in 2013. Continuous monitoring is in progress and steps are being taken to make improvements to the processes where required, to enhance effectiveness and efficiency. The Company manually computes the impairment for loans and advances under SLFRS requirements and the Board will assess the need to automate the same in the future years. During the year Company has not utilized an independent party/ Internal auditors to test the internal controls and instead the management has tested the key internal controls.

# Directors' Statement on Internal Controls (Contd...)

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

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

**Review of the Statement by External Auditors**

The External Auditors, Messrs KPMG, have reviewed the above Directors Statement on Internal Control over Financial Reporting included in the Annual Report of the Company for the year ended 31 March 2015 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal controls over financial reporting of the Company.

W A T Fernando
Chairman
Audit Committee

23rd June 2015

# Integrated Risk Management Committee Report

The Integrated Risk Management Committee (IRMC) as at the end of the financial year comprised of the following members:
Mr. W A T Fernando (Chairman)
Mr. E R G C G Hemachandra
Mr. W L S Fonseka (CEO)
Mr. B. G. P Samantha (CFO)

Brief profiles of the Directors representing the Committee are given on page 8 of the Annual Report.

**Terms of Reference**

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

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

**Meetings**

The Committee meets on a quarterly basis and the discussion and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for information and advice.

W A T Fernando
Independent Non-Executive Director

23rd June 2015

KPMG
(Chartered Accountants)
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## INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF CAPITAL ALLIANCE FINANCE PLC

**Report on the Financial Statements**

We have audited the accompanying financial statements of Capital Alliance Finance PLC, ("the Company"), which comprise the statement of financial position as at March 31, 2015, and the statements of profit or loss and other comprehensive income, changes in equity and, cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 44 to 78.

**Board's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

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

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

**Opinion**

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

**Report on Other Legal and Regulatory Requirements**

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

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

KPMG.

CHARTERED ACCOUNTANTS
Colombo
23rd June 2015

# Statement of Financial Position

**As at 31st March**

| | Notes | 2015 Rs. | 2014 Rs. |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 14 | 14,744,068 | 24,562,713 |
| Securities purchased under repurchase agreements | | 57,373,525 | 63,474,554 |
| Financial assets at fair value through profit or loss | 15 | 2,074,962 | 2,911,810 |
| Loans and advances | 16 | 943,618,257 | 759,285,104 |
| Financial investments - Available-for-sale | 17 | 345,775 | 345,775 |
| Financial investments - Held to maturity | 18 | 40,565,220 | 38,230,587 |
| Other financial assets | 19 | - | 274,725,071 |
| Property, plant and equipment | 20 | 49,888,588 | 48,378,648 |
| Intangible assets | 21 | 10,448,352 | 11,749,793 |
| Other assets | 22 | 27,479,744 | 28,384,843 |
| Deferred tax assets | 23 | 4,478,232 | - |
| **Total assets** | | 1,151,016,723 | 1,252,048,898 |
| **Liabilities** | | | |
| Deposits from customers | 24 | 680,438,675 | 498,845,110 |
| Other borrowings | 25 | 104,990,538 | 390,642,586 |
| Employee benefits | 26 | 3,066,225 | 1,890,527 |
| Deferred tax liability | 23 | - | 6,579,972 |
| Other liabilities | 27 | 32,995,749 | 36,918,861 |
| **Total liabilities** | | 821,491,187 | 934,877,056 |
| **Equity** | | | |
| Stated capital | 28 | 193,590,566 | 193,590,566 |
| Statutory reserve fund | 29 | 11,123,465 | 10,685,145 |
| Other reserves | 30 | 74,187,500 | 72,151,251 |
| Retained earnings | | 50,624,005 | 40,744,880 |
| **Total equity** | | 329,525,536 | 317,171,842 |
| **Total equity and liabilities** | | 1,151,016,723 | 1,252,048,898 |

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of these financial statements of the Company.

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

**Mr. B.G.P. Samantha**
Chief Financial Officer

**Mr. W.L.S. Fonseka**
Chief Executive Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Approved and signed for on behalf of the Board:

**Mr. W.A.T. Fernando**
Director

**Mr. P.S. Mathavan**
Director

Colombo
23rd June 2015

# Statement of Profit or Loss and Other Comprehensive Income

**Year ended 31st March**

| | Notes | 2015 Rs. | 2014 Rs. |
|---|---|---|---|
| Interest income | 3 | 173,413,528 | 168,878,706 |
| Interest expense | 4 | (87,048,368) | (100,707,187) |
| **Net interest income** | | 86,365,160 | 68,171,519 |
| | | | |
| Fee and commission income | 5 | 2,475,706 | 2,288,846 |
| Fee and commission expenses | 6 | (598,849) | (622,407) |
| **Net fee and commission income** | | 1,876,857 | 1,666,439 |
| | | | |
| Net gains/(losses) from Trading | 7 | 2,910,308 | 9,717,069 |
| Other operating income | 8 | 11,146,806 | 17,643,991 |
| Total operating income | | 102,299,131 | 97,199,018 |
| | | | |
| Impairment charge for loans and advances | 9 | (19,668,687) | (39,541,725) |
| Net operating income | | 82,630,444 | 57,657,293 |
| | | | |
| Operating expenses | | | |
| | | | |
| Personnel expenses | 10 | (40,484,308) | (29,034,902) |
| Depreciation and amortization | | (4,401,627) | (4,025,250) |
| Other expenses | 11 | (37,154,448) | (32,673,841) |
| Operating profit/(loss) before Value Added Tax (VAT) on financial services | | 590,061 | (8,076,700) |
| | | | |
| Value Added Tax (VAT) on financial services | | (2,671,548) | (1,125,202) |
| Profit/(loss) before income tax | | (2,081,487) | (9,201,902) |
| | | | |
| Income tax (expense)/reversal | 12 | 10,847,887 | 1,093,685 |
| Profit/ (loss) for the year | | 8,766,400 | (8,108,217) |
| | | | |
| **Other comprehensive income** | | | |
| Revaluation surplus on property, plant and equipment | | 3,500,000 | 10,687,500 |
| Actuarial gains/(losses) on defined benefit obligation | 26 | 121,243 | (237,959) |
| Deferred tax on actuarial gain | | (33,948) | - |
| Other comprehensive income, net of tax | | 3,587,295 | 10,449,541 |
| | | | |
| Total comprehensive income for the year | | 12,353,695 | 2,341,324 |
| | | | |
| Earnings / (loss) per Share | 13 | 0.23 | (0.21) |

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of these financial statements of the Company.

# Statement of Changes in Equity

**Year ended 31st March 2015**

| | Stated capital | Statutory reserve fund | Other Reserves | | | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | | | Investment reserve fund | Revaluation reserve | General reserve | | |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Balance as at 01st April 2013 | 193,590,566 | 10,685,145 | 487,468 | - | 60,000,000 | 50,067,339 | 314,830,518 |
| Loss for the year | - | - | - | - | - | (8,108,217) | (8,108,217) |
| Other comprehensive income | - | - | - | 10,687,500 | - | (237,959) | 10,449,541 |
| Transferred to investment fund | - | - | 976,283 | - | - | (976,283) | - |
| Transferred to statutory reserve fund | - | - | - | - | - | - | - |
| Balance as at 31st March 2014 | 193,590,566 | 10,685,145 | 1,463,751 | 10,687,500 | 60,000,000 | 40,744,880 | 317,171,842 |
| Balance as at 01st April 2014 | 193,590,566 | 10,685,145 | 1,463,751 | 10,687,500 | 60,000,000 | 40,744,880 | 317,171,842 |
| Profit for the year | - | - | - | - | - | 8,766,400 | 8,766,400 |
| Other comprehensive income, net of tax | - | - | - | 3,500,000 | - | 87,294 | 3,587,294 |
| Transferred to statutory reserve fund | - | 438,320 | - | - | - | (438,320) | - |
| Transferred to retained earnings | - | - | (1,463,751) | - | - | 1,463,751 | - |
| Balance as at 31st March 2015 | 193,590,566 | 11,123,465 | - | 14,187,500 | 60,000,000 | 50,624,005 | 329,525,536 |

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of these financial statements of the Company.

# Statement of Cash Flows

**Year ended 31st March**

| | Notes | 2015 Rs. | 2014 Rs. |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit/(loss) before income tax | | (2,081,487) | (9,201,902) |
| **Adjustment For,** | | | |
| Depreciation and amortization | | 4,401,627 | 4,025,250 |
| Provision for retirement benefits obligation | | 1,296,941 | 583,132 |
| Loss/(profit) on disposal of Property, Plant & Equipment | | 17,134 | (2,153,000) |
| Impairment on loans and advances | | 19,668,687 | 39,541,725 |
| Net (gains)/losses from trading | | (1,124,212) | (73,402) |
| **Operating profit/(loss) before working capital changes** | | 22,178,690 | 32,721,803 |
| | | | |
| (Increase)/decrease in loans and advances | | (204,001,841) | (137,755,252) |
| (Increase)/decrease in other assets | | 905,099 | (4,990,358) |
| Increase/(decrease) in deposits from customers | | 181,593,565 | (17,614,226) |
| Increase/(decrease) in other liabilities | | (4,167,379) | 15,240,252 |
| **Cash used in operations** | | (3,491,866) | (112,397,781) |
| | | | |
| Payment of retirement gratuity | | - | (92,500) |
| Income tax (paid)/refund | | - | - |
| **Net cash flows from operating activities** | | (3,491,866) | (112,490,281) |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant & equipment and intangible assets | | (1,242,258) | (14,754,411) |
| Proceeds from Sale of Property Plant & Equipment | | 115,000 | 4,420,467 |
| Maturity/(purchase) of treasury bills | | (2,334,633) | 1,821,091 |
| Proceeds from disposal of trading investments | | 1,961,060 | - |
| Net cash flow from Securities purchased under repurchased agreement | | 6,101,029 | (35,622,948) |
| (Investment)/sale of other financial assets | | 274,725,071 | (70,797,724) |
| **Net cash flows from investing activities** | | 279,325,269 | (114,933,525) |
| | | | |
| **Cash flows from financing activities** | | | |
| Net borrowings | | (390,642,586) | 237,535,157 |
| **Net cash flows from financing activities** | | (390,642,586) | 237,535,157 |
| | | | |
| **Net Increase/(decrease) in cash and cash equivalents** | | (114,809,183) | 10,111,351 |
| **Cash and cash equivalents at the beginning of the year** | | 24,562,713 | 14,451,362 |
| **Cash and cash equivalents at the end of the year** | A | (90,246,470) | 24,562,713 |
| | | | |
| **Note A** | | | |
| **Analysis of cash and cash equivalents** | | | |
| Cash and bank balances | 14 | 14,744,068 | 24,562,713 |
| Bank overdraft | 25 | (104,990,538) | - |
| | | (90,246,470) | 24,562,713 |

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form an integral part of these financial statements of the Company.

# Notes to the Financial Statements

**Year ended 31st March 2015**

**1. Corporate information**

**1.1 General**

Capital Alliance Finance PLC is a public limited liability company incorporated and domiciled in Sri Lanka, incorporated under the Companies Act No 07 of 2007 and Finance Business Act No 42 of 2011.

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

As a registered finance company, it is supervised by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

**1.2 Principal activities**

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

**1.3 Parent entity and ultimate parent entity**

The Parent and ultimate parent entity is Cargills Bank Limited.

**1.4 Date of authorization of issue**

The financial statements of Capital Alliance Finance PLC, for the year ended 31 March 2015 were authorized for issue in accordance with a resolution of the Board of Directors on 23 June 2015.

**2. Significant accounting policies**

**2.1 Basis of preparation**

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

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

The financial statements are presented in Sri Lankan Rupees (Rs.) and all values are rounded to the nearest rupee, except when otherwise indicated.

**2.1.2 Statement of Compliance**

The Financial Statements of the Company are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No 7 of 2007, Finance Companies Act, No 78 of 1988 which is replaced by the new Finance Business Act No 42 of 2011 and Finance Leasing Act No 56 of 2000 and the amendments to these acts and provide appropriate disclosures as required by the Central Bank of Sri Lanka and Listing rules of Colombo Stock Exchange.

**2.1.3 Comparative information**

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

**2.2 Significant accounting judgments, estimates and assumptions**

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

**(a) Going concern**

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

**(b) Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

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

Loans and advances that have been assessed individually and found to be impaired have been provide for impairment. All individually not insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). The impairment loss on loans and advances as disclosed in Note 9 and Note 16.

**(d) Impairment of available-for-sale investments**
The Company records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

**(e) Deferred tax assets**
Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

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

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

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

**(h) Useful life-time of the Property and equipment**
The Company reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

### 2.3 Summary of significant accounting policies

#### 2.3.1 Foreign currency translation
The financial statements are presented in Sri Lankan Rupees (Rs.)

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date. All differences arising on non–trading activities are taken to 'Other operating income' in the statement of comprehensive income.

#### 2.3.2 Financial instruments

#### 2.3.2.1 Initial recognition and subsequent measurement

**(a) Date of recognition**
All financial assets and liabilities are initially recognized on

the trade date, i.e., the date that the company becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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

**(c) Subsequent measurement**
The subsequent measurement of financial assets depends on their classification as described below:

**(i) Financial assets or financial liabilities held–for–trading**
Financial assets or financial liabilities held–for–trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Net operating income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities, equities and short positions.

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.

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

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

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

**(iii) 'Day 1' profit or loss**
When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognizes the difference between the transaction price and fair value ('Day 1' profit or loss) in 'Net operating income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable, or when the instrument is derecognized.

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

available–for–sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the following two years.

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

**(v) Loans and advances to customers (Loans and receivables)**

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

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

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

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

**(vi) Debt issued and other borrowed funds**

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

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

**(vii) Available–for–sale financial investments**

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

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

**2.3.2.2 Determination of fair value**

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

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognized only when the inputs become observable or on de recognition of the instrument.

**2.3.2.3 Impairment of financial assets**

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

**(a) Financial assets carried at amortized cost**

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

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

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

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

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

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

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

**2.3.2.4 De-recognition of financial assets and financial liabilities**

**(a) Financial assets**
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognized when:

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

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

**(b) Financial liabilities**
A financial liability is de-recognized 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 de-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 recognized in profit or loss.

**2.3.2.5 Offsetting financial instruments**

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

**2.3.3 Repurchase and reverse repurchase agreements**

Securities sold under agreements to repurchase at a specified future date are not de-recognized from the statement of financial position as the company retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'repurchase agreements', reflecting the transaction's economic substance as a loan to the company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re - pledge the securities, the company reclassifies those securities in its statement of financial position to 'Financial assets held–for–trading pledged as collateral' or to 'Financial investments available–for–sale pledged as collateral', as appropriate. Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the company.

**2.3.4 Leases**

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

**2.3.4.1 Operating leases**

**Company as a lessor**

Leases where the company does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

**2.3.4.2 Finance leases**

**Company as a lessor**

Assets leased to customers whom transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as 'Finance Leases'. Amounts receivable under finance leases are included under 'Loans and Advances' in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognized as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognized as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

**2.3.5 Cash and cash equivalents**

Cash and cash equivalents as referred to in the statement of cash flow comprises cash on hand and balances with banks on demand or with an original maturity of three months or less.

**2.3.6 Property, plant and equipment**

The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets (including assets under operating leases where the Company is the lessee) which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

**2.3.6.1 Basis of Recognition**
Property, Plant & Equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be reliably measured.

**2.3.6.2 Basis of Measurement**
An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing). The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalized as part of Computer Equipment.

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

**2.3.6.2.1 Cost Model**
The Company applies the Cost Model to all Property, Plant & Equipment except for freehold land and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

**2.3.6.2.2 Revaluation Model**
The Company applies the Revaluation Model for the entire class of freehold land for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any accumulated impairment losses charged subsequent to the date of valuation. Freehold land of the Company is revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.
On revaluation of an asset, any increase in the carrying amount is recognized in Other Comprehensive Income and presented in Revaluation Reserve in Equity or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. In this circumstance, the increase is recognized as income only to the extent of the previous write down in value.

Any decrease in the carrying amount is recognized as an expense in the profit or loss or charged in Other Comprehensive Income and presented in Revaluation Reserve in equity only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the Revaluation Reserve in respect of an asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

**2.3.6.3 Subsequent Cost**
The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is de-recognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

**2.3.6.4 De-recognition**
An item of Property, Plant & Equipment is de-recognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognized in ‘Other Income/ Expenses’ in profit or loss in the year the asset is de-recognized.

When replacement costs are recognized in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is de-recognized as required by Sri Lanka Accounting Standard - LKAS 16 on ‘Property, Plant & Equipment’.

**2.3.6.5 Depreciation**
The provision for depreciation is calculated by using the reducing balance method on the cost of all property, plant and equipment other than freehold land, in order to write off such amounts over the following estimated useful lives by equal installments.

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

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

**2.3.7 Intangible Assets**

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

**2.3.7.1 Subsequent Expenditure**

Expenditure incurred on intangible assets 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.

**2.3.7.2 Amortization**

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

**2.3.7.3 Computer Software**

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

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

Subsequent expenditure on software assets 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.

**2.3.8 Impairment of non–financial assets**

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

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

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

**2.3.9 Provisions**

Provisions are recognized when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

**2.3.10 Retirement benefit obligations**

**(a) Defined benefit plan - Gratuity**

Based on the Sri Lanka Accounting Standard LKAS 19- Employee Benefits, the company has adopted the actuarial valuation method for employee benefit liability an actuarial valuation is carried out every year to ascertain the full liability. A separate fund is not maintained for this purpose.

The principal assumptions, which have the most significant effects on the valuation, are the rate of discount, rate of increase in salary, rate of turnover at the selected ages, rate of disability, death benefits and expenses.

The liability is measured on an actuarial basis using the projected unit credit method, adjusted for unrecognized actuarial gains and losses. The defined benefit plan liability is discounted using rates equivalent to the market yields at the date of statement of financial position.

The company recognizes all actuarial gains and losses arising from the defined benefit plan in other comprehensive income (OCI) and all other expenses related to defined benefit plans are recognize as personnel expenses in profit or loss.

**(b) Defined Contribution Plan - Employees' Provident Fund and Employees' Trust Fund**

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective Statutes and Regulations. The company contributes a minimum 12% and 3%.

**2.3.11 Recognition of income and expenses**

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

**(a) Interest and similar income and expense**

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available–for–sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which 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 of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income'. However, for a reclassified financial asset for which the company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

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

**(b) Fee and commission income**

The company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- 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. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

- Fee income from providing transaction services

**(c) Dividend income**

Dividend income is recognized when the company's right to receive the payment is established.

**(e) Net operating income**

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held–for–trading'.

**2.3.12 Taxes**

**(a) Current tax**

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

**(b) Deferred tax**

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

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Current tax and deferred tax relating to items recognized directly in other comprehensive income are also recognized in other comprehensive income.

**(c) VAT on financial services**

VAT on Financial Services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto.

**2.3.13 Dividends on ordinary shares**

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the company's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the company.

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

**2.3.14 Segment reporting**

A segment is a distinguishable component of the company that is engaged in providing services (Business Segments) or in providing services within a particular economic environment (Geographical Segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the Sri Lankan Accounting Standard SLFRS 8- 'Segmental Reporting', segmental information is presented in respect of the company based on company management and internal reporting structure.

The company's segmental reporting is based on the following operating segments.

- Finance lease
- Hire purchase
- Loans and advances
- Investments
- Margin trading
- Factoring, Revolving loan & Cheque discounting

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss of respective segment.

**2.3.15 Events after reporting period**

Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made.

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

**2.3.17 Statement of cash flows**
The Statement of Cash flow has been prepared using the 'Indirect Method' of preparing Cash Flows in accordance with the LKAS – 7- 'Cash Flow Statements.' Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents comprise of cash in hand and cash at banks and other highly liquid financial assets which are held for the purpose of meeting short-term cash commitments with original maturities of less than three months which are subject to insignificant risk of changes in their fair value.

**2.4 New Accounting Standards issued but not effective as at reporting date**
A number of new standards and amendments to standards which have been issued but not yet effective as at the Reporting date have not been applied in preparing these Financial Statements. Accordingly, these Accounting Standards have not been applied in preparing these financial statements.

**SLFRS 9 Financial Instruments**
SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments. It also carries forward the guidance on recognition and de recognition of financial instruments from LKAS 39.

Effective date of SLFRS 9 for the Company is 01st April 2018.

The Company is assessing the potential impact on its financial statements resulting from the application of SLFRS 9.

**SLFRS 15 Revenue from Contracts with Customers**
SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, and LKAS 11 Construction Contracts.

SLFRS 15 is effective for the Company beginning on or after 01st April 2017.

The above new standard (SLFRS 15) is not expected to have a significant impact of the Company's financial statements.

The following new or amended standards are not expected to have an impact of the Company's financial statements.

- SLFRS 14 Regulatory Deferral Accounts - effective from 01st April 2016
- Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41) - effective from 01st April 2016

| | | Notes | 2015 Rs. | 2014 Rs. |
|---|---|---|---|---|
| 3 | **Interest income** | | | |
| | Money market | | 384,496 | 423,510 |
| | Fixed deposit | | 2,805,848 | 2,254,733 |
| | Securities purchased under repurchase agreements | | 4,171,373 | 3,557,425 |
| | Sri Lanka government securities | | 2,947,792 | 4,659,695 |
| | Fixed deposits loan | | 2,101,031 | 1,256,113 |
| | Commercial papers | | 3,345,045 | 17,485,238 |
| | Margin trading | | 19,452,070 | 27,464,950 |
| | Cheque discounting | | 8,925,212 | 934,654 |
| | Staff loan | | 35,262 | 25,714 |
| | Factoring loan | | 5,992,883 | - |
| | Hire purchase | | 56,396,931 | 54,544,756 |
| | Finance leases | | 31,618,694 | 39,616,008 |
| | Mortgage loan | | 5,981,947 | 3,721,174 |
| | Demand loan | | 14,478,870 | 8,633,365 |
| | Business loan | | - | 1,958,064 |
| | Revolving loan | | 14,776,074 | 2,343,307 |
| | **Total interest income** | | 173,413,528 | 168,878,706 |

**3.1 Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions**

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

Accordingly the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statement & the resulting notional Tax credit amounts to Rs. 792,818/-

| | | | 2015 Rs. | 2014 Rs. |
|---|---|---|---|---|
| 4 | **Interest expense** | | | |
| | Deposits from customers | | 65,723,421 | 68,678,309 |
| | Commercial paper borrowings | | 17,931,108 | 25,727,002 |
| | Securities sold under repurchase agreement | | 573,139 | 526,526 |
| | Other borrowings | | 2,820,700 | 5,775,350 |
| | **Total interest expense** | | 87,048,368 | 100,707,187 |
| 5 | **Fee and commission income** | | | |
| | Commission received | | 586,922 | 571,035 |
| | Finance charges - Hire purchase | | 463,736 | 799,198 |
| | Finance charges - Lease | | 566,085 | 663,777 |
| | Finance charges - Demand loan | | 81,604 | 169,928 |
| | Finance charges - Mortgage loan | | 107,500 | 55,000 |
| | Transfer fee | | 417,031 | 1,908 |
| | Other charges-Cheque discounting | | 252,828 | 28,000 |
| | | | 2,475,706 | 2,288,846 |
| 6 | **Fee and commission expenses** | | | |
| | Commission expenses | | 598,849 | 622,407 |
| | | | 598,849 | 622,407 |

# Notes to the Financial Statements (Contd...)

**Year ended 31st March 2015**

| | | 2015<br>Rs. | 2014<br>Rs. |
|---|---|---|---|
| **7** | **Net gains/(losses) from Trading** | | |
| | **Interest rates** | | |
| | Government debt securities-Treasury bills and bonds | 1,786,096 | 9,643,667 |
| | **Equities** | | |
| | Net market-to-market gains | 967,081 | 73,402 |
| | Net capital gains | 157,131 | - |
| | | 2,910,308 | 9,717,069 |
| **8** | **Other operating income** | | |
| | Default charges | 8,754,916 | 8,778,089 |
| | Valuation charges | - | 30,340 |
| | Bad debt recoveries | 496,382 | 699,351 |
| | Other charges | 93,213 | 1,514 |
| | Sundry income | 758,649 | 5,083,339 |
| | Cheque return charges | 98,893 | 56,036 |
| | Profit on repossessed assets | - | 266,859 |
| | Dividend income | 112,396 | 49,100 |
| | Building rent income | 768,000 | 480,000 |
| | Early settlement charges - Lease | 21,613 | 1,022 |
| | Early settlement charges - Hire purchase | 30,593 | 11,901 |
| | Early settlement charges - Other | 29,285 | 8,440 |
| | Handling charges | - | 25,000 |
| | Profit/(loss) from sale of fixed assets | (17,134) | 2,153,000 |
| | | 11,146,806 | 17,643,991 |
| **9** | **Impairment charge for loans and advances** | | |
| | Impairment charge on individual impairment | 28,405,962 | 35,903,030 |
| | Impairment charge/(reversal) on collective impairment | (8,737,275) | 3,638,695 |
| | | 19,668,687 | 39,541,725 |
| **10** | **Personnel expenses** | | |
| | Salaries | 28,335,759 | 20,909,816 |
| | Directors emoluments | 1,800,000 | 1,832,525 |
| | Contributions to defined contribution plans | 4,194,071 | 3,164,230 |
| | Contributions to defined benefit plans | 1,296,941 | 583,132 |
| | Bonus expense | 2,272,900 | - |
| | Others | 2,584,637 | 2,545,199 |
| | | 40,484,308 | 29,034,902 |
| **11** | **Other expenses** | | |
| | Auditor’s remuneration | 440,000 | 400,000 |
| | Professional and legal expenses | 3,247,817 | 2,870,185 |
| | Office administration and establishment expenses | 32,432,922 | 32,876,632 |
| | Provision/(reversal) of unrecoverable VAT | 1,033,709 | (3,472,976) |
| | | 37,154,448 | 32,673,841 |

| | | | Notes | 2015 Rs. | 2014 Rs. |
|---|---|---|---|---|---|
| 12 | **Income tax expense** | | | | |
| | Current tax expense | | 12.1 | 1,394,787 | 371,476 |
| | Over provision in respect of prior years | | | (1,150,522) | (1,727,112) |
| | Deferred tax expense / (reversal) | | 12.2 | (11,092,152) | 261,951 |
| | | | | (10,847,887) | (1,093,685) |
| 12.1 | **Reconciliation of current tax expense** | | | | |
| | Tax charge is based on taxable income which differs from profit for financial reporting purposes. These differences are explained in the following reconciliation statement. | | | | |
| | Net profit/ (loss) before income tax | | | (2,081,487) | (9,201,902) |
| | Add - Disallowable expenses | | | 63,155,886 | 76,488,373 |
| | Less - Allowable expenses | | | (81,128,440) | (73,260,224) |
| | | | | (20,054,041) | (5,973,753) |
| | Less - Exempted income | - Treasury bond | | (1,786,096) | (9,643,667) |
| | | - Capital gains | | (1,124,212) | (73,402) |
| | Loss from lease business during the year | | | 27,945,733 | 17,017,523 |
| | Business loss claimed during the year | | | - | - |
| | Taxable income | | | 4,981,384 | 1,326,701 |
| | Current tax @ 28% | | | 1,394,787 | 371,476 |
| 12.2 | **Deferred tax expense/(reversal)** | | | | |
| | Origination/(Reversal) of temporary differences | | 23 | (11,092,152) | 261,951 |
| | | | | (11,092,152) | 261,951 |
| 13 | **Earnings/ (loss) Per Share** | | | | |
| | Basic earnings/(loss) per share has been calculated by dividing the net profit/(loss) for the period attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. | | | | |
| | Profit/(loss) attributable to the equity holders of the Company (Rs.) | | | 8,766,400 | (8,108,217) |
| | Weighted average number of ordinary shares | | | 38,766,036 | 38,766,036 |
| | Basic earnings/ (loss) per share | | | 0.23 | (0.21) |
| 14 | **Cash and cash equivalents** | | | | |
| | Cash in hand | | | 121,820 | 10,799 |
| | Balances with banks | | | 14,622,248 | 24,551,914 |
| | | | | 14,744,068 | 24,562,713 |
| 15 | **Financial assets at fair value through profit or loss** | | | | |
| | Quoted equity shares | | 15.1 | 2,074,962 | 2,911,810 |
| | | | | 2,074,962 | 2,911,810 |

**As at 31st March 2015**

| | | 2015 | | 2014 | |
|---|---|---|---|---|---|
| | | No of shares | Market value Rs. | No of shares | Market value Rs. |
| **15.1** | **Quoted equity shares** | | | | |
| | Balangoda Plantations PLC | 22,000 | 448,800 | 22,000 | 679,800 |
| | Tokyo Cement Company (Lanka) PLC | 6,798 | 373,211 | 8,800 | 318,560 |
| | ACL Cables PLC | 5,800 | 440,800 | 5,800 | 353,800 |
| | Ceylon Hotels Corporation PLC. | 4,500 | 106,200 | 4,500 | 70,650 |
| | The Kingsbury PLC | 15,000 | 240,000 | 15,000 | 192,000 |
| | John Keells Hotels- PLC | 32,584 | 465,951 | 32,584 | 407,300 |
| | Sunshine Holdings PLC | - | - | 31,000 | 889,700 |
| | **Total market value** | | 2,074,962 | | 2,911,810 |

| | | Notes | 2015 Rs. | 2014 Rs. |
|---|---|---|---|---|
| **16** | **Loans and Advances** | | | |
| | Leases | 16.1 | 218,263,375 | 191,206,871 |
| | Hire purchase | 16.2 | 224,214,791 | 279,716,351 |
| | Other loans and advances | 16.3 | 358,310,110 | 188,063,152 |
| | Margin trading receivable | 16.4 | 142,829,981 | 100,298,730 |
| | | | 943,618,257 | 759,285,104 |
| **16.1** | **Lease Receivables** | | | |
| | Lease rental receivable within one year | 16.1.1 | 109,810,442 | 106,914,699 |
| | Lease rental receivable between one to five years | 16.1.2 | 140,287,368 | 116,993,804 |
| | Lease rental receivable more than five years | 16.1.3 | 5,099,802 | 128,339 |
| | Net investment in finance leases | | 255,197,612 | 224,036,842 |
| | Provision for individual impairment | | (32,662,320) | (23,565,967) |
| | Provision for collective impairment | | (4,271,917) | (9,264,004) |
| | Net investment in finance leases after impairment | | 218,263,375 | 191,206,871 |
| **16.1.1** | **Leases rental receivable within one year** | | | |
| | Lease rental receivable | | 140,569,060 | 139,569,052 |
| | Unearned lease income | | (30,758,618) | (32,654,353) |
| | Net lease receivable within one year | | 109,810,442 | 106,914,699 |
| **16.1.2** | **Leases rental receivable between one to five years** | | | |
| | Lease rental receivable | | 178,180,147 | 153,289,302 |
| | Unearned lease income | | (37,892,779) | (36,295,498) |
| | Net lease receivable between one to five years | | 140,287,368 | 116,993,804 |
| **16.1.3** | **Leases rental receivable more than five years** | | | |
| | Lease rental receivable | | 5,373,341 | 157,999 |
| | Unearned lease income | | (273,539) | (29,660) |
| | Net lease receivable more than five years | | 5,099,802 | 128,339 |
| **16.2** | **Hire purchase receivable** | | | |
| | Hire purchase receivable within one year | 16.2.1 | 113,022,404 | 121,438,990 |
| | Hire purchase receivable between one to five years | 16.2.2 | 141,246,863 | 180,931,074 |
| | Net investment in hire purchase | | 254,269,267 | 302,370,064 |
| | Provision for individual impairment | | (26,688,517) | (16,274,967) |
| | Provision for collective impairment | | (3,365,959) | (6,378,746) |
| | Net investment in hire purchase after impairment | | 224,214,791 | 279,716,351 |
| **16.2.1** | **Hire purchase receivable within one year** | | | |
| | Hire purchase receivable | | 148,012,947 | 173,417,853 |
| | Unearned lease income | | (34,990,543) | (51,978,863) |
| | Net receivable within one year | | 113,022,404 | 121,438,990 |

As at 31st March 2015

| | | 2015 Rs. | 2014 Rs. |
|---|---|---|---|
| **16.2.2** | **Hire purchase receivable between one to five years** | | |
| | Hire purchase rental receivable | 175,076,012 | 238,408,607 |
| | Unearned lease income | (33,829,149) | (57,477,533) |
| | Net receivable between one to five years | 141,246,863 | 180,931,074 |
| **16.3** | **Other loans and advances** | | |
| | Gross investment in other loans and advances | 157,004,233 | 157,122,454 |
| | Other loans and advances in arrears | 11,066,281 | 13,980,773 |
| | | 168,070,514 | 171,103,227 |
| | Unearned loan income | (33,977,323) | (46,041,762) |
| | | 134,093,191 | 125,061,465 |
| | Revolving loan | 139,049,513 | 33,585,916 |
| | Cheque discounting | 50,788,310 | 29,396,410 |
| | Factoring | 42,584,023 | 10,282,110 |
| | Net investment in other loans and advances | 366,515,037 | 198,325,901 |
| | Provision for individual impairment | (4,369,886) | (1,655,242) |
| | Provision for collective impairment | (3,835,041) | (8,607,507) |
| | Net investment in other loans and advances after impairment | 358,310,110 | 188,063,152 |
| **16.4** | **Margin trading receivables** | | |
| | Opening balance | 102,316,590 | 171,990,338 |
| | Increase/Decrease in net position | (77,840,225) | 91,746,103 |
| | Net payment and receipts | 121,143,266 | (161,419,851) |
| | Provision for collective impairment | (462,572) | - |
| | Provision for individual impairment | (2,327,078) | (2,017,860) |
| | Closing balance | 142,829,981 | 100,298,730 |

**16.5 Movements in Individual and collective impairment during the year**

| | Individual impairment | Collective impairment | Total impairment |
|---|---|---|---|
| | Rs. | Rs. | Rs. |
| As at 1st April 2013 | 5,593,146 | 20,611,563 | 26,204,709 |
| Charge to profit or loss | 35,903,030 | 3,638,695 | 39,541,725 |
| Reversal of provision during the year | - | - | - |
| Reimbursement of margin trading provision | 2,017,860 | - | 2,017,860 |
| As at 31st March 2014 | 43,514,036 | 24,250,258 | 67,764,294 |
| As at 1st April 2014 | 43,514,036 | 24,250,258 | 67,764,294 |
| Charge to profit or loss | 28,405,962 | - | 28,405,962 |
| Reversal of provision during the year | - | (8,737,275) | (8,737,275) |
| Write off during the year | (5,872,198) | (3,577,494) | (9,449,692) |
| As at 31st March 2015 | 66,047,800 | 11,935,489 | 77,983,289 |

| | | 2015 Rs. | 2014 Rs. |
|---|---|---|---|
| **17** | **Financial Investments-Available-for-Sale** | | |
| | Credit Information Bureau | 345,775 | 345,775 |
| | | 345,775 | 345,775 |
| **18** | **Financial investments - Held to maturity** | | |
| | Government securities - Treasury bills | 38,647,387 | 36,413,560 |
| | Government securities - Treasury bonds | 1,917,833 | 1,817,027 |
| | | 40,565,220 | 38,230,587 |
| **19** | **Other financial assets** | | |
| | Investment in commercial papers | - | 194,725,071 |
| | Investment in fixed deposits | - | 80,000,000 |
| | | - | 274,725,071 |

## 20 Property, Plant and Equipment

| | Land | Buildings | Computer hardware | Machinery and equipment | Furniture and fittings | Office equipment | Vehicles | Total Rs. |
|---|---|---|---|---|---|---|---|---|
| **20.1 Cost/fair value** | | | | | | | | |
| **Opening balance as at 01.04.2014** | 19,000,000 | 15,856,213 | 5,337,752 | 5,929,289 | 5,631,604 | 8,053,229 | 755,679 | 60,563,766 |
| Additions | - | - | 977,371 | 71,900 | - | 192,987 | - | 1,242,258 |
| Disposals | - | - | - | (147,000) | (255,224) | (294,161) | (109,030) | (805,415) |
| Revaluation | 3,500,000 | - | - | - | - | - | - | 3,500,000 |
| **Closing balance as at 31.03.2015** | 22,500,000 | 15,856,213 | 6,315,123 | 5,854,189 | 5,376,380 | 7,952,055 | 646,649 | 64,500,609 |

| | Land | Buildings | Computer hardware | Machinery and equipment | Furniture and fittings | Office equipment | Vehicles | Total Rs. |
|---|---|---|---|---|---|---|---|---|
| **Cost/fair value** | | | | | | | | |
| **Opening balance as at 01.04.2013** | 8,312,500 | 15,522,663 | 2,057,821 | 5,900,589 | 5,229,118 | 8,540,855 | 755,679 | 46,319,225 |
| Error correction | - | - | - | - | - | (1,286,830) | - | (1,286,830) |
| Additions | - | 333,550 | 3,279,931 | 28,700 | 402,486 | 799,204 | - | 4,843,871 |
| Revaluation | 10,687,500 | - | - | - | - | - | - | 10,687,500 |
| **Closing balance as at 31.03.2014** | 19,000,000 | 15,856,213 | 5,337,752 | 5,929,289 | 5,631,604 | 8,053,229 | 755,679 | 60,563,766 |

**Revaluation of free hold land**
Free hold land was revalued as at 28th October 2014 by Mr. P.W. Senaratne, Chartered Valuation Surveyor who is a professionally qualified independent valuer. The revaluation surplus, amounting to Rs. 3.5 million was credited to the revaluation reserve account during the year.

**20 Property, Plant and Equipment (Continued.)**

**20.2 Accumulated depreciation**

| | Buildings | Computer hardware | Machinery and equipment | Furniture and fittings | Office equipment | Vehicles | Total Rs. |
|---|---|---|---|---|---|---|---|
| **Opening balance as at 01.04.2014** | 2,510,656 | 1,979,723 | 3,651,534 | 1,433,030 | 2,055,582 | 554,592 | 12,185,117 |
| Charge for the year | 532,243 | 1,519,023 | 94,896 | 409,940 | 493,429 | 50,654 | 3,100,185 |
| | | | | | | | - |
| Disposal | - | - | (131,031) | (208,270) | (235,103) | (98,877) | (673,281) |
| **Closing balance as at 31.03.2015** | 3,042,899 | 3,498,746 | 3,615,399 | 1,634,700 | 2,313,908 | 506,369 | 14,612,021 |
| | | | | | | | |
| **Opening balance as at 01.04.2013** | 1,961,072 | 875,205 | 3,625,776 | 964,291 | 1,361,377 | 487,054 | 9,274,775 |
| Charge for the year | 549,584 | 1,104,518 | 25,758 | 468,738 | 694,205 | 67,538 | 2,910,342 |
| **Opening balance as at 31.03.2014** | 2,510,656 | 1,979,723 | 3,651,534 | 1,433,030 | 2,055,582 | 554,592 | 12,185,117 |

**20.3 Net book value**

| | Land | Buildings | Computer hardware | Machinery and equipment | Furniture and fittings | Office equipment | Vehicles | Total Rs. |
|---|---|---|---|---|---|---|---|---|
| **Total net book value as at 31.03.2015** | 22,500,000 | 12,813,314 | 2,816,377 | 2,238,790 | 3,741,680 | 5,638,147 | 140,280 | 49,888,588 |
| Total net book value as at 31.03.2014 | 19,000,000 | 13,345,557 | 3,358,029 | 2,277,755 | 4,198,574 | 5,997,646 | 201,087 | 48,378,648 |

# Notes to the Financial Statements (Contd...)

**As at 31st March 2015**

| | | Note | 2015 Rs. | 2014 Rs. |
|---|---|---|---|---|
| **21** | **Intangible assets** | | | |
| | Computer software | 21.3 | 10,448,352 | 11,749,793 |
| | | | 10,448,352 | 11,749,793 |
| **21.1** | **Computer software** | | | |
| | Cost | | | |
| | Opening balance | | 13,060,633 | 2,775,093 |
| | Additions during the year | | - | 9,910,540 |
| | Transfers/adjustments | | - | 375,000 |
| | Closing balance | | 13,060,633 | 13,060,633 |
| **21.2** | **Accumulated amortization** | | | |
| | Opening balance | | 1,310,840 | 195,934 |
| | Charge for the year | | 1,301,441 | 1,114,906 |
| | Closing balance | | 2,612,281 | 1,310,840 |
| **21.3** | **Net book value** | | 10,448,352 | 11,749,793 |
| **22** | **Other assets** | | | |
| | VAT control account | | 2,502,755 | 2,941,205 |
| | Deposits and prepayments | | 7,526,183 | 6,875,092 |
| | Inventory | | 1,895 | 1,682,819 |
| | Tax Receivable | | 8,224,488 | 5,067,021 |
| | Land held for sale | | 1,722,506 | 1,722,506 |
| | Other receivable | | 5,915,952 | 8,425,358 |
| | FS VAT over payment | | 1,585,965 | 1,670,842 |
| | | | 27,479,744 | 28,384,843 |
| **23** | **Deferred Tax (Assets)/Liabilities** | | | |
| | Balance at the beginning of the year | | 6,579,972 | 6,318,021 |
| | Recognized in profit or loss | | (11,092,152) | 261,951 |
| | Recognized in other comprehensive income | | 33,948 | - |
| | Balance at the end of the year | | (4,478,232) | 6,579,972 |

| | 31.03.2015 | | 31.03.2014 | |
|---|---|---|---|---|
| | Temporary difference Rs. | Tax effect Rs. | Temporary difference Rs. | Tax effect Rs. |
| Taxable Temporary differences on Leases | 52,174,734 | 14,608,925 | 61,677,494 | 17,269,698 |
| Taxable Temporary differences on fixed Assets | 21,111,733 | 5,911,285 | 22,692,139 | 6,353,799 |
| Deductible Temporary difference on defined benefit obligation | (3,066,225) | (858,543) | (1,890,527) | (529,348) |
| Deferred Tax Assets on Tax Losses | (49,329,739) | (13,812,327) | (36,451,426) | (10,206,399) |
| Deferred Tax Assets on B/F disallowed Bad debt provision | (36,884,187) | (10,327,572) | (22,527,780) | (6,307,778) |
| | (15,993,684) | (4,478,232) | 23,499,900 | 6,579,972 |

| | | 2015 Rs. | 2014 Rs. |
|---|---|---|---|
| **24** | **Deposits from customers** | | |
| | Deposits from customers | 680,944,206 | 499,260,259 |
| | (less): Amortized interest payable | (505,531) | (415,149) |
| | | 680,438,675 | 498,845,110 |
| **25** | **Other borrowings** | | |
| | Commercial paper borrowings | - | 390,642,586 |
| | Bank overdraft | 104,990,538 | - |
| | | 104,990,538 | 390,642,586 |

# Notes to the Financial Statements (Contd...)

**As at 31st March 2015**

| | | Note | 2015 Rs. | 2014 Rs. |
|---|---|---|---|---|
| **26** | **Employee benefits** | | | |
| | Defined benefit obligation - retirement gratuity | 26.1 | 3,066,225 | 1,890,527 |
| | | | 3,066,225 | 1,890,527 |
| **26.1** | **Defined benefit obligation - retirement gratuity** | | | |
| | As at the beginning of the year | | 1,890,527 | 1,161,936 |
| | Current service cost | | 1,107,888 | 455,319 |
| | Interest cost | | 189,053 | 127,813 |
| | Benefits paid/payable | | - | (92,500) |
| | Actuarial (gain)/loss | | (121,243) | 237,959 |
| | As at the end of the year | | 3,066,225 | 1,890,527 |
| **26.2** | **Amount recognized for defined benefit obligation in profit or loss** | | | |
| | Current service cost | | 1,107,888 | 455,319 |
| | Interest cost | | 189,053 | 127,813 |
| | | | 1,296,941 | 583,132 |
| **26.3** | **Amount recognized for defined benefit obligation in other comprehensive income** | | | |
| | Actuarial (gain)/loss for the year | | (121,243) | 237,959 |
| | | | (121,243) | 237,959 |
| **26.4** | **Details of actuarial assumptions are as follows,** | | | |
| | Discount rate per annum | | 9.5% | 10% |
| | Future salary growth | | 10% | 10% |
| | Retirement age (years) | | 55 years | 55 years |

Mr. M Poopalanathan AIA of Messers Acturial & Management Consultants (Pvt) Ltd, a firm of professional actuary has carried out an independent actuarial valuation of the retirement gratuity on March 31, 2015. The valuation was carried out using the Projected Unit Credit Method, the method recommended by Sri Lanka Accounting Standard LKAS 19 Employee benefit.

**26.5 Sensitivity analysis on actuarial valuation**

Reasonable possible changes at the reporting date, 31st march 2015 to one of relevant actuarial assumptions, holding other assumptions constant, would have affected the defined retirement obligation as shown below,

| | 1% Increase Rs. | 1% decrease Rs. |
|---|---|---|
| Discount rate | 2,777,911 | 3,406,049 |
| Future salary growth | 3,413,916 | 2,766,393 |

| | | 2015 Rs. | 2014 Rs. |
|---|---|---|---|
| **27** | **Other Liabilities** | | |
| | Accruals and other payables | 12,587,230 | 17,625,030 |
| | Rental received in advance | 4,002,472 | 7,089,288 |
| | Rental over payment | 4,019,266 | 5,953,790 |
| | Advanced received from repossessed assets | 30,000 | 50,000 |
| | Payable to margin trading customers | 10,505,537 | - |
| | Sports club deduction | 50,500 | 43,550 |
| | Sasia net agreement (Payable for factoring system) | 1,472,000 | 5,152,000 |
| | VAT on financial services payable | 328,744 | 1,005,203 |
| | | 32,995,749 | 36,918,861 |

# Notes to the Financial Statements (Contd...)

**As at 31st March 2015**

**28 Stated capital**

| Ordinary shares | 2015 Number of Shares | 2015 Amount (Rs.) | 2014 Number of Shares | 2014 Amount (Rs.) |
|---|---|---|---|---|
| At the beginning of the year | **38,766,036** | **193,590,566** | **38,766,036** | **193,590,566** |
| Sub division of shares | - | - | - | - |
| Movement during the year | - | - | - | - |
| Balance at the end of the year | **38,766,036** | **193,590,566** | **38,766,036** | **193,590,566** |

**28.1 Shares held by the parent company**

The ordinary shares of the Company held by the parent company is as follows.

| Held by parent company | 2015 Number of Shares | 2015 Holding % | 2014 Number of Shares | 2014 Holding % |
|---|---|---|---|---|
| Cargills Bank Limited | 29,659,894 | 76.51 | - | - |
| Capital Alliance Holdings Limited | - | - | 26,528,468 | 68.43 |

**29 Statutory reserve fund**

| | 2015 Rs. | 2014 Rs. |
|---|---|---|
| Balance at the beginning of the year | 10,685,145 | 10,685,145 |
| Transfers during the year | 438,320 | - |
| Balance at the end of the year | 11,123,465 | 10,685,145 |

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

**30 Other reserves**

**30.1 General Reserve**

| | | |
|---|---|---|
| Balance at the beginning of the year | 60,000,000 | 60,000,000 |
| Transfers during the year | - | - |
| Balance at the end of the year | 60,000,000 | 60,000,000 |

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

**30.2 Revaluation reserve**

| | | |
|---|---|---|
| Balance at the beginning of the year | 10,687,500 | - |
| Revaluation surplus on free hold land during the year | 3,500,000 | 10,687,500 |
| Balance at the end of the year | 14,187,500 | 10,687,500 |

**30.3 Investment fund reserve**

| | | |
|---|---|---|
| Balance at the beginning of the year | 1,463,751 | 487,468 |
| Transfers during the year | (1,463,751) | 976,283 |
| Balance at the end of the year | - | 1,463,751 |
| **Total Other Reserves** | 74,187,500 | 72,151,251 |

**30.3.1 Cessation of the regulatory requirement for Investment Fund Reserve**

The regulatory requirement for the Investment Fund Reserve ceased with effect from 01st October 2014 and remaining balance in Investment Reserve Fund has been transferred to retained earnings through the statement of changes in equity, according to guidelines issued to all finance companies and specialised leasing companies by the Central Bank of Sri Lanka via letter dated on 7th August 2014.

**31 Events Occurring after the Reporting Period**

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

# Notes to the Financial Statements (Contd...)

**Year ended 31st March 2015**

**32 Related party disclosure**

**32.1 Parent and ultimate parent:-**

Capital Alliance Holdings LTD was the parent company of the Company till 5th August 2014. From the 5th August 2014, ownership of Company was transferred to Cargills Bank Limited. The Directors of the Company are also directors of the following related companies. The Company carried out transactions in the ordinary course of business at commercial rates with these related entities.

| | Mr. T Waas | Ms. S Coorey | Mr. R Arsarathnam | Mr. S Anthony | Mr. W A T Fernando | Mr. E R G C G Hemachandra | Mr. P S Mathavan | Mr. E M M Boyagoda | Mr. P D Rodrigo |
|---|---|---|---|---|---|---|---|---|---|
| Cargills Bank Limited | | | | | | | x | x | x |
| Capital Alliance Holdings Ltd | | x | x | | x | | | | |
| Capital Alliance Ltd | | | x | | x | | | | |
| Capital Alliance Securities Ltd | | | | | x | | | | |
| Capital Alliance Investments Ltd | | | | | x | x | | | |
| Ceylon Tea Brokers PLC | | x | | | x | | | | |
| Shift Solutions (Pvt) Ltd | | | | | x | | | | |

**32.2 Transactions with the parent and related Entities**

| Name of the Company | Relationship | Nature of transaction | Amount (paid) / received during the year | | Balance (payable) / receivable | |
|---|---|---|---|---|---|---|
| | | | 2015 Rs. | 2014 Rs. | 2015 Rs. | 2014 Rs. |
| Cargills Bank | Parent | Bank Overdraft - Settlement | 462,822,374 | - | | |
| | | Bank Overdraft - Used | (567,812,912) | - | (104,990,538) | - |
| Capital Alliance Limited | Related Company | Treasury Bill Purchases & Repo - Investment | 1,156,130,081 | 1,073,395,818 | | |
| | | Treasury Bill Purchases & Repo - Withdrawal | (1,150,633,977) | (1,052,362,168) | 91,383,981 | 85,887,877 |

**32 Related party disclosure (continued)**

**32.2 Transactions with the parent and related Entities (continued)**

| Name of the Company | Relationship | Nature of transaction | Amount (paid) / received during the year | | Balance (payable) / receivable | |
|---|---|---|---|---|---|---|
| | | | 2015 Rs. | 2014 Rs. | 2015 Rs. | 2014 Rs. |
| Capital Alliance Securities Limited | Related Company | Margin Trading Business-Increase in net position | 661,845,193 | 91,746,103 | - | - |
| | | Margin Trading Business-Settlement | (629,047,689) | (161,419,851) | 135,114,094 | 102,316,590 |
| Capital Alliance Investments Ltd | Related Company | Commercial Paper - Borrowings | 102,840,060 | 212,260,995 | - | - |
| | | Commercial Paper - Re-Payment | (315,101,055) | - | - | 212,260,995 |
| Jetwing Travels (Pvt) Ltd | Related Company | Commercial Paper - Borrowings | - | 27,938,193 | - | - |
| | | Commercial Paper - Re-Payment | (27,938,193) | - | - | 27,938,193 |
| Ceylon Tea Brokers PLC | Related Company | Commercial Paper - Investments | - | 129,550,339 | - | - |
| | | Commercial Paper - Withdrawal | (75,000,000) | (183,404,574) | - | 75,000,000 |
| Ceylon Tea Brokers PLC | Related Company | Loan - Granted | - | 6,400,000 | - | - |
| | | Loan - Settled | (1,279,702) | (379,136) | 4,741,162 | 6,020,864 |
| Shift Solutions (Pvt) Ltd | Related Company | Loan - Granted | - | 7,801,385 | - | - |
| | | Loan - Settled | (664,029) | (859,450) | 6,277,906 | 6,941,935 |

**32.3 Transactions with Key Management personnel**

The Key Management personnel of the Company are the members of its and parent company's Board of Directors and Chief Executive Officer of the Company. Following transactions have taken place between the company and its Key Management Personnel and their close family members.

**32.3.1 Compensation of Key management personnel**

| | | |
|---|---|---|
| Short Term Employee Benefits | 7,290,000 | 4,382,525 |
| Post-employment benefits | 693,000 | 306,000 |

**32.3.2 Other transactions with key management personnel (KMP) and their close family members**

| | 2015 Rs. | 2014 Rs. |
|---|---|---|
| Fixed deposits accepted during the year | 4,852,500 | 9,400,000 |
| Fixed deposits held at the end of the year | 1,464,000 | 69,549,341 |
| Interest paid on fixed deposits | 315,902 | 10,185,261 |
| Loans given | 1,271,641 | - |
| Interest received | 7,816 | - |
| Recovery of loans | 26,184 | - |

## 33 FINANCIAL REPORTING BY SEGMENT

| | Finance lease | | Hire purchase | | Loans and advances | | Investments | | Margin trading | | Factoring,Cheque discounting and Revolving Loan | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| **Income from** | | | | | | | | | | | | | | | | |
| **External operations** | | | | | | | | | | | | | | | | |
| Interest | 31,618,694 | 39,616,008 | 56,396,931 | 54,544,756 | 22,597,111 | 15,594,430 | 13,654,553 | 28,380,601 | 19,452,070 | 27,464,950 | 29,694,169 | 3,277,961 | - | - | 173,413,528 | 168,878,706 |
| Fee based income and others | 566,085 | 663,777 | 463,736 | 799,198 | 189,104 | 224,928 | | | | | 252,828 | 28,000 | 1,003,953 | 572,943 | 2,475,707 | 2,288,846 |
| Capital gains | - | - | | | | | | | | | | | | | | |
| Dividends | - | - | | | | | | | | | | | | | | |
| Other | 3,266,516 | 5,860,430 | 4,806,819 | 2,176,839 | 681,581 | 740,820 | 2,910,308 | 9,717,069 | | | | | 2,391,890 | 8,865,902 | 14,057,114 | 27,361,060 |
| **Total revenue** | 35,451,295 | 46,140,215 | 61,667,486 | 57,520,793 | 23,467,796 | 16,560,178 | 16,564,861 | 38,097,670 | 19,452,070 | 27,464,950 | 29,946,997 | 3,305,961 | 3,395,843 | 9,438,845 | 189,946,348 | 198,528,612 |
| Profit/(loss) before tax | | | | | | | | | | | | | | | (2,081,487) | (9,201,902) |
| Taxation | | | | | | | | | | | | | | | 10,847,887 | 1,093,685 |
| **Profit after tax** | | | | | | | | | | | | | | | 8,766,400 | (8,108,217) |
| **Other information** | | | | | | | | | | | | | | | | |
| As at 31st March | | | | | | | | | | | | | | | | |
| Segment assets | 218,263,375 | 191,206,871 | 224,214,791 | 279,716,351 | 125,888,264 | 114,798,716 | 100,359,482 | 379,687,797 | 142,829,981 | 100,298,730 | 232,421,846 | 73,264,436 | 107,038,984 | 113,075,997 | 1,151,016,723 | 1,252,048,898 |
| | 19% | 15% | 20% | 22% | 11% | 9% | 9% | 30% | 12% | 8% | 20% | 6% | 9% | 9% | 100% | 100% |
| Segment liabilities | 155,195,134 | 142,481,204 | 159,426,860 | 208,435,620 | 89,512,251 | 85,544,307 | 71,360,132 | 282,931,122 | 101,558,578 | 74,739,384 | 165,262,447 | 54,594,299 | 79,175,785 | 86,151,120 | 821,491,187 | 934,877,056 |

34 Maturity Analysis of assets and liabilities

As at 31st March 2015

| Category | Maturity period | | | | | |
|---|---|---|---|---|---|---|
| | up to 3 Months Rs. | 3-12 Months Rs. | 1-3 Years Rs. | Over 3 Years Rs. | Total 2015 Rs. | Total 2014 Rs. |
| **Assets** | | | | | | |
| Cash and cash equivalents | 14,744,068 | - | - | - | 14,744,068 | 24,562,713 |
| Securities purchased under resale agreement | 57,373,525 | - | - | - | 57,373,525 | 63,474,554 |
| Financial Assets fair value through profit or loss | 2,074,962 | - | - | - | 2,074,962 | 2,911,810 |
| Other Financial Assets | - | - | - | - | - | 274,725,071 |
| Loans and advance | 324,875,116 | 256,183,848 | 259,568,948 | 102,990,345 | 943,618,257 | 759,285,104 |
| Financial Investments - available-for-sale | - | - | - | 345,775 | 345,775 | 345,775 |
| Financial Investments - held to maturity | 115,441 | 38,647,387 | - | 1,802,392 | 40,565,220 | 38,230,587 |
| Property, Plant and Equipment | - | - | - | 49,888,588 | 49,888,588 | 48,378,648 |
| Intangible Assets | - | - | - | 10,448,352 | 10,448,352 | 11,749,793 |
| Other Assets | 2,228,249 | 4,269,469 | 8,415,057 | 12,566,969 | 27,479,744 | 28,384,843 |
| Deferred tax assets | - | - | - | 4,478,232 | 4,478,232 | - |
| **Total Assets** | 401,411,361 | 299,100,704 | 267,984,005 | 182,520,653 | 1,151,016,723 | 1,252,048,898 |
| **Liabilities** | | | | | | |
| Deposit from customers | 254,651,657 | 369,440,712 | 48,722,803 | 7,623,503 | 680,438,675 | 498,845,110 |
| Other Borrowings | 104,990,538 | - | - | - | 104,990,538 | 390,642,586 |
| Deferred tax liabilities | - | - | - | - | - | 6,579,972 |
| Retirement benefit obligation | - | - | - | 3,066,225 | 3,066,225 | 1,890,527 |
| Other liabilities | 29,150,415 | 696,350 | 1,885,300 | 1,263,684 | 32,995,749 | 36,918,861 |
| **Total Liabilities** | 388,792,610 | 370,137,062 | 50,608,103 | 11,953,412 | 821,491,187 | 934,877,056 |
| **Equity** | | | | | | |
| Stated capital | - | - | - | 193,590,566 | 193,590,566 | 193,590,566 |
| Statutory reserve fund | - | - | - | 11,123,465 | 11,123,465 | 10,685,145 |
| Retained earnings | - | - | - | 50,624,005 | 50,624,005 | 40,744,880 |
| Other reserves | - | - | - | 74,187,500 | 74,187,500 | 72,151,251 |
| **Total Equity** | - | - | - | 329,525,536 | 329,525,536 | 317,171,842 |
| **Total equity and liabilities** | 388,792,610 | 370,137,062 | 50,608,103 | 341,478,948 | 1,151,016,723 | 1,252,048,898 |

As at 31st March 2014

| Assets | Maturity period | | | | | |
|---|---|---|---|---|---|---|
| | Less than 3 Months Rs. | 3 - 12 M Rs. | 1 - 3 Year Rs. | Over 3 years Rs. | Total 2014 Rs. | Total 2013 Rs. |
| Cash and cash equivalents | 24,562,713 | - | - | - | 24,562,713 | 24,077,042 |
| Investment in repurchase agreement | 63,474,554 | - | - | - | 63,474,554 | 27,851,606 |
| Financial assets fair value through profit or loss | 2,911,810 | - | - | - | 2,911,810 | 2,838,409 |
| Other financial asset | 274,725,071 | - | - | - | 274,725,071 | 203,927,347 |
| Loans and advance | 262,419,920 | 117,844,259 | 274,043,963 | 104,976,962 | 759,285,104 | 661,071,577 |
| Financial investments - Available-for-sale | - | - | - | 345,775 | 345,775 | 345,775 |
| Financial investments - Held to maturity | - | 36,413,560 | - | 1,817,027 | 38,230,587 | 40,051,678 |
| Property, plant and equipment | - | - | - | 60,128,441 | 60,128,441 | 39,623,608 |
| Other assets | 8,425,359 | 8,371,475 | 5,067,021 | 6,520,988 | 28,384,843 | 23,394,485 |
| **Total assets** | 636,519,427 | 162,629,294 | 279,110,984 | 173,789,193 | 1,252,048,898 | 1,023,181,527 |
| **Liabilities** | | | | | | |
| Deposit from customer | 122,050,110 | 228,394,000 | 142,979,000 | 5,422,000 | 498,845,110 | 516,459,336 |
| Other borrowings | 197,429,944 | 193,212,642 | - | - | 390,642,586 | 153,107,428 |
| Deferred tax liabilities | - | - | - | 6,579,972 | 6,579,972 | 6,318,021 |
| Retirement benefit obligation | - | - | - | 1,890,527 | 1,890,527 | 1,161,936 |
| Other liabilities | 12,204,545 | 17,625,028 | 7,089,288 | - | 36,918,861 | 31,304,288 |
| **Total liabilities** | 331,684,599 | 439,231,670 | 150,068,288 | 13,892,499 | 934,877,056 | 708,351,009 |
| **Equity** | | | | | | |
| Stated capital/Assigned capital | - | - | - | 193,590,566 | 193,590,566 | 193,590,566 |
| Statutory reserve fund | - | - | - | 10,685,145 | 10,685,145 | 10,685,145 |
| Retained earnings | - | - | - | 40,744,880 | 40,744,880 | 50,067,339 |
| Other reserves | - | - | - | 72,151,251 | 72,151,251 | 60,487,468 |
| **Total equity** | - | - | - | 317,171,842 | 317,171,842 | 314,830,518 |
| **Total equity and liabilities** | 331,684,599 | 439,231,670 | 150,068,288 | 331,064,341 | 1,252,048,898 | 1,023,181,527 |

**35 Risk management**

**35.1 Introduction**

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

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

More specifically, the committee is responsible for ensuring

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

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

**35.2 Credit risk**

**Impairment assessment**

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

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

**Individually assessed allowances**

It is determined the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty. Projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the 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**

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

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

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

### 35.3 Credit quality by class of financial assets

| | Neither past due nor impaired Rs. | Past due but not impaired Rs. | Individually Impaired Rs. | Total Rs. |
|---|---|---|---|---|
| **As at 31st March 2015** | | | | |
| Cash and cash equivalents | 14,744,068 | - | - | 14,744,068 |
| Investment In Repurchase Agreement | 57,373,525 | - | - | 57,373,525 |
| Loans and Advances | 824,631,786 | 26,664,383 | 92,322,088 | 943,618,257 |
| Financial investments - Held To Maturity | 40,565,220 | - | - | 40,565,220 |
| Total | 937,314,599 | 26,664,383 | 92,322,088 | 1,056,301,070 |
| **As at 31st March 2014** | | | | |
| Cash and cash equivalents | 24,562,713 | - | - | 24,562,713 |
| Investment In Repurchase Agreement | 63,474,554 | - | - | 63,474,554 |
| Loans and Advances | 640,970,603 | 39,968,765 | 78,345,736 | 759,285,104 |
| Financial investments - Held To Maturity | 38,230,587 | - | - | 38,230,587 |
| Other Financial Asset | 274,725,070 | - | - | 274,725,070 |
| Total | 1,041,963,527 | 39,968,765 | 78,345,736 | 1,160,278,028 |

### 35.4 Liquidity risk and fund management

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

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

### 35.4.1 Statutory liquid assets ratio

As per the requirements of Finance Companies (Liquid Assets) Direction No. 01 of 2009, Company has to maintain minimum liquid assets, not less than 7.5% of the average of the month end total deposit liabilities of the twelve months of the preceding financial year.

As at 31 March 2015 the Company maintained Statutory Liquid Asset ratio at 14.10%.

### 35.4.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2015.

| As at 31st March 2015 | Less than 03 Months Rs. | 03-12 Months Rs. | 01-03 Years Rs. | Over 03 Years Rs. | Total Rs. |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash and Cash equivalents | 14,744,068 | - | - | - | 14,744,068 |
| Investment in repurchase agreement | 57,373,525 | - | - | - | 57,373,525 |
| Financial Investments - Held for fair value | 2,074,962 | - | - | - | 2,074,962 |
| Loans and Advances | 324,875,116 | 256,183,848 | 259,568,948 | 102,990,345 | 943,618,257 |
| Financial Investments - Available for sale | - | - | - | 345,775 | 345,775 |
| Financial Investments - Held to maturity | 115,441 | 38,647,387 | - | 1,802,392 | 40,565,220 |
| Other financial assets | - | - | - | - | - |
| **Total Financial Assets** | 399,183,112 | 294,831,235 | 259,568,948 | 105,138,512 | 1,058,721,807 |
| | | | | | |
| **Financial Liabilities** | | | | | |
| Deposit From Customer | 254,651,657 | 369,440,712 | 48,722,803 | 7,623,503 | 680,438,675 |
| Other borrowings | 104,990,538 | - | - | - | 104,990,538 |
| **Total Financial Liabilities** | 359,642,195 | 369,440,712 | 48,722,803 | 7,623,503 | 785,429,213 |
| | | | | | |
| **Total Net Financial Assets/(Liabilities)** | 39,540,916 | (74,609,477) | 210,846,145 | 97,515,009 | 273,292,593 |

| As at 31st March 2014 | Less than 03 Months Rs. | 03-12 Months Rs. | 01-03 Years Rs. | Over 03 Years Rs. | Total Rs. |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash and Cash equivalents | 24,562,713 | - | - | - | 24,562,713 |
| Investment in repurchase agreement | 63,474,554 | - | - | - | 63,474,554 |
| Financial Investments - Held for fair value | 2,911,810 | - | - | - | 2,911,810 |
| Loans and Advances | 262,419,920 | 117,844,259 | 274,043,963 | 104,976,961 | 759,285,103 |
| Financial Investments - Available for sale | - | - | - | 345,775 | 345,775 |
| Financial Investments - Held to maturity | - | 36,413,560 | - | 1,817,027 | 38,230,587 |
| Other financial assets | 274,725,071 | - | - | - | 274,725,071 |
| **Total Financial Assets** | 628,094,068 | 154,257,819 | 274,043,963 | 107,139,763 | 1,163,535,613 |
| | | | | | |
| **Financial Liabilities** | | | | | |
| Deposit From Customer | 122,050,110 | 228,394,000 | 142,979,000 | 5,422,000 | 498,845,110 |
| Other borrowings | 197,429,944 | 193,212,641 | - | - | 390,642,585 |
| Other Financial Liabilities | - | - | - | - | - |
| **Total Financial Liabilities** | 319,480,054 | 421,606,641 | 142,979,000 | 5,422,000 | 889,487,695 |
| | | | | | |
| **Total Net Financial Assets/(Liabilities)** | 308,614,014 | (267,348,822) | 131,064,963 | 101,717,763 | 274,047,918 |

**35.5 Market risk**

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

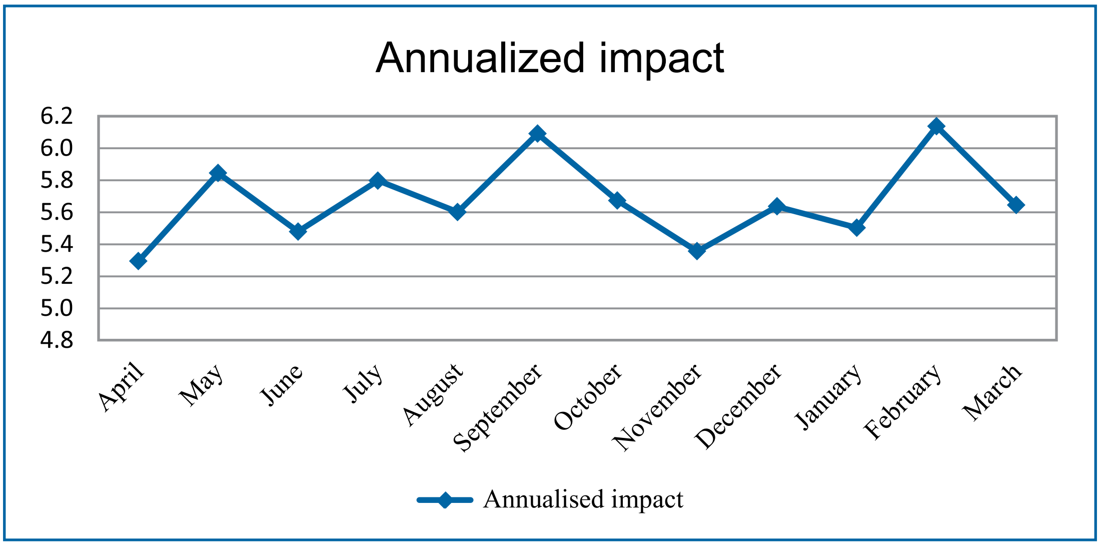
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

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

**35.6 Interest rate risk**

The graph below depicts the sensitivity analysis carried out on the statement of financial position as at 31st March 2015 on the changes of interest rate right across the market in a hypothetical situation. The company may expose to a sudden interest rate hit due to the availability of short term funding. The exposure will partly diminish by the short term rates sensitive investments. The time horizon of the study restricted to a 12 month period. The Company undertakes varying degrees of such rates shocks and evaluates them to ensure that the risk exposures are within the risk appetite of the company as compares to the anticipated market rate moments.

**Impact on NII-Rate shocks of 100 bp**




| | 100 bp increase 2015 Rs. |
|---|---|
| Maximum for the year | 6,140,000 |
| Minimum for the year | 5,290,000 |

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

**36 Operational risk**
The company has in place a process of continuous internal audit utilizing the services of Messrs. Ernst & Young, Chartered Accountants.

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

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

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

**Capital and risk weighted assets**

| **As at 31 March** | **Minimum Requirement** | **2015** | **2014** |
|---|---|---|---|
| **Capital to risk weighted asset ratio** | | | |
| Tier I % | | 30 | 35 |
| Deduction - Tier I % | | | |
| Core capital | 5 | 30 | 35 |
| Tier II % | | - | - |
| Deduction - Tier II % | | | |
| Total capital base | 10 | 30 | 35 |

# Share Information

## INFORMATION ON ORDINARY SHARES OF THE COMPANY

### Market Price Per Share

Market Prices per ordinary share for the quarter ended 31st March 2015 were as follows;

| | Rs. |
|---|---|
| Highest Price | 17.50 |
| Lowest Price | 13.00 |
| Last Traded Price | 13.70 |

## SHAREHOLDERS' INFORMATION

### Twenty Largest Shareholders as at 31.03.2015

| | | No of Shares | % of Holding |
|---|---|---|---|
| 1 | Cargills Bank Limited | 29,660,140 | 76.51 |
| 2 | Pan Asia Banking Corporation PLC/ Lankem Ceylon PLC | 3,488,580 | 9.00 |
| 3 | Pan Asia Banking Corporation PLC/ Divasa Equity (Pvt) Ltd | 1,119,053 | 2.89 |
| 4 | Seylan Bank PLC/ HVA Lanka Exporters (Pvt) Ltd. | 1,041,990 | 2.69 |
| 5 | Seylan Bank PLC/ Divasa Equity (Pvt) Ltd. | 687,542 | 1.77 |
| 6 | Mr. A R H Fernando | 246,620 | 0.64 |
| 8 | South Asian Investment (Pvt) Ltd | 227,679 | 0.59 |
| 7 | Mrs. S G De Silva | 181,210 | 0.47 |
| 9 | Mr. De W A S P Saram | 171,794 | 0.44 |
| 10 | Navara Capital Limited | 119,158 | 0.31 |
| 11 | Lankem Ceylon PLC | 56,000 | 0.14 |
| 12 | Sampath B ank PLC/Mr D B N Samaratunge | 52,342 | 0.14 |
| 13 | Mr. A N William | 50,000 | 0.13 |
| 14 | Mr. M G A R Cooray | 50,000 | 0.13 |
| 19 | People's Leasing & Finance PLC/Mr M.A.U Gunathilake | 49,563 | 0.13 |
| 15 | Lankem Developments PLC | 47,474 | 0.12 |
| 16 | Mrs. P Reichberger | 41,000 | 0.11 |
| 17 | First Capital Markets Ltd/Mr D B N Samaratunge | 39,000 | 0.10 |
| 18 | Mr. D.A.M.A.D.C Degahawatura | 38,906 | 0.10 |
| 20 | People's Leasing & Finance PLC/M. M. S. V. Prematunge | 38,628 | 0.10 |
| | | 37,406,679 | 96.49 |
| | Others | 1,359,357 | 3.51 |
| | **Total** | **38,766,036** | **100.00** |

| Directors' / CEO's Holding in Shares as at 31st March | 2015 |
|---|---|
| Mr. W A T Fernando | Nil |
| Mr. E R G C G Hemachandra | Nil |
| Mr. P S Mathavan | Nil |
| Mr. P D Rodrigo | Nil |
| Mr. E M M Boyagoda | Nil |
| Mr. W L S Fonseka | Nil |
| Mrs. S M G Dunuwille | Nil |

Public shareholding percentage was 14.49% and number of shareholders representing the public holding was 687 as at 31st March 2015.

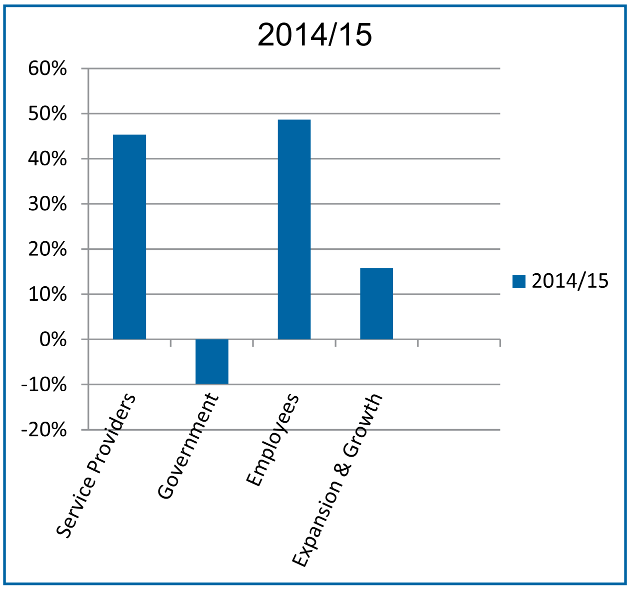
# Distribution of Shareholders

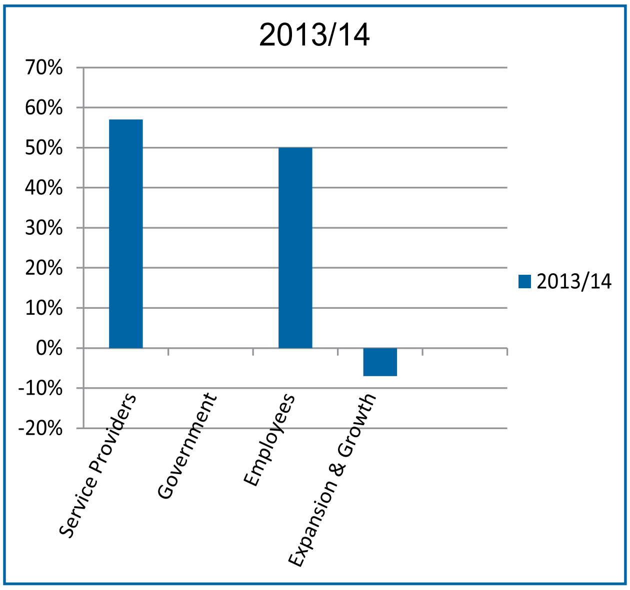
| Shareholdings | RESIDENT | | | NON RESIDENT | | | TOTAL | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shareholders | No of Shares | (%) | Number of Shareholders | No of Shares | (%) | Number of Shareholders | No of Shares | Percentage (%) |
| 1 to 1000 Shares | 449 | 111,504 | 0.29 | 2 | 330 | 0.00 | 451 | 111,834 | 0.29 |
| 1001 to 10,000 shares | 183 | 640,876 | 1.65 | 1 | 10,000 | 0.03 | 184 | 650,876 | 1.68 |
| 10,001 to 100,000 shares | 43 | 1,018,560 | 2.63 | 1 | 41,000 | 0.11 | 44 | 1,059,560 | 2.74 |
| 100,001 to 1000,000 shares | 6 | 1,634,003 | 4.22 | 0 | 0 | 0.00 | 6 | 1,634,003 | 4.22 |
| over 1000,000 shares | 4 | 35,309,763 | 91.08 | 0 | 0 | 0.00 | 4 | 35,309,763 | 91.08 |
| | 685 | 38,714,706 | 99.86 | 4 | 51,330 | 0.14 | 689 | 38,766,036 | 100 |

| Categories of Shareholders | No of Shareholders | No of Shares | % |
|---|---|---|---|
| Individual | 651 | 1,929,654 | 4.98 |
| Institutional | 38 | 36,836,382 | 95.02 |
| | 689 | 38,766,036 | 100.00 |

# Value Added Statement

| | 2014/15 | % | 2013/14 | % |
|---|---|---|---|---|
| **Value added** | | | | |
| Interest income | 173,413,528 | | 168,878,706 | |
| Interest expenses | (87,048,368) | | (100,707,187) | |
| **Value added** | 86,365,160 | | 68,171,519 | |
| Other income | 14,057,114 | | 27,361,060 | |
| Income from fee based activities | 2,475,706 | | 2,288,846 | |
| Impairment (charges)/reversal for loans and advances and other losses | (19,668,687) | | (39,541,725) | |
| **Wealth created** | 83,229,293 | | 58,279,700 | |
| | | | | |
| **Distribution of value added** | | | | |
| **To service providers** | | | | |
| Overhead and support services | 37,753,297 | 45% | 33,296,248 | 57% |
| | | | | |
| **To the government** | | | | |
| Value added tax on financial services | 2,671,548 | | 1,125,203 | |
| Tax expense/(reversal) | (10,847,887) | | (1,093,685) | |
| | (8,176,339) | -10% | 31,518 | 0% |
| **To employees** | | | | |
| Salaries, wages and other benefits | 40,484,308 | 49% | 29,034,902 | 50% |
| | | | | |
| **To expansion & growth** | | | | |
| Retained earnings | 8,766,400 | | (8,108,217) | |
| Depreciation | 4,401,627 | | 4,025,250 | |
| | 13,168,027 | 16% | (4,082,967) | -7% |
| | | | | |
| | 83,229,293 | | 58,279,701 | |



# Notice of Meeting

NOTICE is hereby given that the THIRTY FOURTH ANNUAL GENERAL MEETING of CAPITAL ALLIANCE FINANCE PLC will be held at SRILANKA FOUNDATION, 100, Sri Lanka Padanama Mawatha , Independence Square, Colombo 07 on Wednesday, 30th September 2015 at 3.00 p. m. to transact the following business:-

1. To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31st March 2015 together with the Report of the Auditors thereon.

2. To re-appoint Messrs. KPMG, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.

3. To authorize the Board of Directors to determine contributions to charities and other donations for the year 2015/ 2016.

By Order of the Board of
CAPITAL ALLIANCE FINANCE PLC
S S P CORPORATE SERVICES (PRIVATE) LIMITED

SECRETARIES
Colombo.
28th August 2015

NOTE :

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

# Form of Proxy

I/We……………………......……………………………........…… of ……………………………………………….............................

being a member/members of Capital Alliance Finance PLC hereby appoint: ………………………….................................

…...................................…………………………………………………………………………………………………………….of

…………………………………………………………………………………. or failing him/her

| | |
|---|---|
| Mr. W. A. T. Fernando | of Colombo failing him |
| Mr. E. R. G. C. G. Hemachandra | of Colombo failing him |
| Mr. E. M. Mangala Boyagoda | of Colombo failing him |
| Mr. Prabaharan S. Mathavan | of Colombo failing him |
| Mrs. Sarojini M. G. Dunuwille | |

as my/our proxy to represent me/us to vote for me/us and on my/our behalf at the 34th Annual General Meeting of the Company to be held on 30th September 2015 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

| **Agenda Item** | **For** | **Against** |
|---|---|---|
| 1. To receive and consider the Report of the Directors and the Statements of Accounts for the year ended 31st March 2015 together with the Report of the Auditors thereon. | | |
| 2. To re-appoint the Auditors and authorize the Directors to determine their remuneration | | |
| 3. To authorize the Board of Directors to determine contributions to charities and other donations for the year 2015/2016. | | |

Signed this ……………………….............……… day of …………….............…………… 2015.

……………………………………

Signature of the Shareholder

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

# Instructions as to Completion of Proxy

1. Kindly perfect the Form of Proxy by legibly filling your full name and address, signing in the space provided, and filling in the date of signature.

2. If the Proxy Form is signed by an Attorney, the relative Power of Attorney should also accompany the Proxy form for registration, if such Power of Attorney has not already been registered with the Company.

3. In the case of Company/Corporation, the Proxy must be filled and attested in the legally prescribed manner.

4. The completed Form of Proxy should be deposited at the office of the Secretaries, S S P Corporate Services (Private) Limited, No. 101, Inner Flower Road, Colombo 03, not less than 48 hours, before the Meeting.

5. A shareholder appointing a Proxy (other than a Director of the Company) to attend the meeting should indicate the Proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the Proxy holder to bring his/her National Identity Card with him/her.

6.

| Please provide the following details | |
|---|---|
| Shareholder's NIC No. | |
| No. of Shares held | |
| Proxy holders NIC No.<br>(If not a Director of the Company) | |

Design & Concept by **SKILLS ADVERTISING**


**Capital Alliance Finance PLC**
Co.Reg.No. PB 765 PQ

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