

# Strength and Support

Leasing . Hire Purchase . Fixed Deposits . Loans . Savings Accounts



# Vision

To be the preferred non-banking financial institution in Sri Lanka

# Mission

To strive to delight our customers through custom- made financial solutions, served through our professional and highly motivated team, committed to excellence.

To create shareholder value through stability and above average returns.

To sustain our continued commitment to being a good corporate citizen, and make a positive contribution to the community and environment.

## Values

- Performance** : We are committed to a result - oriented culture. We place customers at the centre of our activities and we hold ourselves responsible to deliver what we promise in keeping with customer need.
- Innovation** : We constantly challenge conventional wisdom and develop new solutions to meet customer requirements.
- Integrity** : We act fairly and honestly. We believe in ethics and transparency in all our dealings.
- Human Capital** : We benefit from the diversity of our business and our people by working together to achieve success. We treat all our staff with respect and dignity, provide opportunities to their career enhancement and reward them for good performance.
- Success** : We always strive to be the best in our business and possess a will to win.
- Corporate Responsibility** : We care for the community and the environment taking responsibility to protect them. We are a good corporate citizen and support worthy causes and CSR projects.

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# Strength and Support

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Since 1999, we've been offering a broad and well-managed portfolio of financial products and services to a diversity of clients from all around the island. Our credentials of corporate strength and stability are now well established as our balance sheet results and investment grade RAM ratings of BBB-/P3 (Stable) prove.

While we include services such as leasing, hire purchase, fixed deposits, loans and savings accounts in our portfolio, we have a special focus on the Small and Medium Enterprise sector of Sri Lanka, empowering the thousands of people who lack the support they need to achieve their full potential. In line with this vision, this year Softlogic Finance signed an agreement with the Dutch development bank FMO (*Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.*) - one of the world's largest multi-lateral developmental finance institutions, for a funding facility of USD 10mn which will be directed towards the many SME customers we serve.

This is our strength and this is how we support Sri Lankans everywhere.

**Softlogic Finance.** Strength and support.

## Resilient Performance

“Softlogic Finance PLC is on a steady path of profitable growth and the Company notched up another impressive performance in the financial year 2012/13, succeeding in demonstrating steady growth despite the unfavourable economic conditions that prevailed through much of the year.”

Revenue

**2,278Mn**

**48%**

Profit After Tax

**164Mn**

**36%**

Total Assets

**13,219Mn**

**31%**

Shareholders' Funds

**1,205Mn**

**9%**

Deposit Base

**6,957Mn**

**49%**

Lending Portfolio

**9,946Mn**

**23%**

EPS

**4.38**

**20%**

# Chairman's Statement



*Dear shareholder,*

“Softlogic Finance navigated the turbulent period admirably and closed the Financial Year 31st March 2013 with a creditable performance.”



The year 2012 began on a positive note buoyed by Central Bank of Sri Lanka's view that Sri Lanka would achieve a GDP growth rate of 8% for the year 2012. This announcement boosted business confidence and infused an air of expectancy in business circles. The year 2011 had seemingly set the stage for further consolidation and growth backed by heavy investments in infrastructure and a budget for 2012 that would stimulate economic growth.

## **Unfavourable Economic Conditions in 2012**

The events that unfolded subsequently however indicated that certain challenges on the economic front that were lurking in the background had not been fully factored into the planning. The widening trade gap was the first omen of difficult economic times in the days ahead. In addition, the pressure on the exchange rate was intense, with the rupee depreciating by as much as 11% during the year. The economic unravelling further gathered speed when interest rates climbed up by 3-4%. These unfavourable factors resulted in an uncertain operating environment, as the vision of a lucrative 2012 marked by stable exchange and interest rates on the top of strong economic growth started to fade that brought about revisions to the growth target at 7.2% in March and lower to 6.2% in September.

Following on, the rest of the year witnessed turbulence in corporate circles, further buffeted by rising inflation with the annual average reaching 7.6% and point to point inflation recorded at 9.2% by the end of the year. As a direct corollary, this additional pressure impacted on economic activity in general and the financial services industry in particular, that was exacerbated by a cap placed on bank lending and an acute shortfall in liquidity that curbed business opportunities for the Non-Banking Financial Institutions (NBFI) segment. Despite the economic setback, the NBFI's forged ahead in 2012 to record growth of 22% in Total Assets, with Loan accommodations growing 21% and Deposit growth accelerating to 37%, that reflected increased public confidence in the sector.

### **Softlogic Finance attracts DFI Funding**

I am happy to report that Softlogic Finance navigated the turbulent period admirably and closed the Financial Year 31st March 2013 with a creditable performance. We remain focused on the SME customer segment where we see enormous potential to develop meaningful relationships that will uplift small Sri Lankan entrepreneurs by providing them with access to finance and developing their businesses. Our strong focus on the SME sector coupled with a comprehensive business strategy that is being implemented has enabled Softlogic Finance to access funding from the Development Finance Institutions (DFI) sector for the first time. A key highlight of the year was an agreement with FMO from Netherlands for a funding facility of USD 10Mn in November of 2012. Softlogic Finance is only the third player from within the Non-Banking Financial Institutions (NBFI) category to receive funding from overseas Development Finance Institutions (DFI's). This is a reflection of the stability, track record and immense growth potential of the Company. Part of this facility was in the form of a Subordinated Loan that helped boost capital adequacy of the Company to 15.76%. DFI's that lend in developing markets such as

Sri Lanka require local lending institutions to maintain impeccable operating standards and adopt international best practices in order to secure funding, and at Softlogic Finance we are extremely pleased to have been recognised in this manner. FMO is a multi-lateral development financing institution (DFI) that has superb credentials and is rated AAA, being majority owned by the Government of Netherlands.

The fact that reputed Institutions such as FMO have chosen to partner with the Softlogic Group and Softlogic Finance strengthens our credentials in Sri Lanka's financial services industry. Furthermore, we are proud that this has consequently raised Sri Lanka's investor profile as well and we hope this will have a snowballing effect in terms of attracting long term investors of this nature to our shores. These high profile investors obviously perceive Softlogic as a conglomerate with a strong future and as one that epitomises the entrepreneurial spirit of Sri Lanka.

### **Achieving Substantial Growth**

We have much to be proud of during the year. Although navigating through uneasy conditions, the Company stayed focused on its objectives and achieved significant growth with Total Assets increasing 31% to Rs 13.2Billion, Customer Deposits increasing 49% to Rs 6.9Billion and Customer Advances increasing 23% to Rs 9.9 Billion. These figures are being reported under the new SLFRS format for the first time, with the previous year's figures being re-stated as required. Stringent control of credit quality has ensured that the Company retains one of the lowest non-performing loan ratios in the industry that was recorded at 1.7% on a gross basis and nett NPL of 0.9%.

Profit after tax of the Company surged to Rs 164Mn recording an increase of 36% compared with Rs 121Mn for the previous year. The Company has now set up the network infrastructure necessary for the current phase of

## Chairman's Statement contd.

growth that will cover the next three years. The distribution network comprises 17 branches around the country and 19 standalone Gold Loan centres. The setting up costs of branch infrastructure that was completed in the previous year was not fully utilised in the current year due to sluggish market conditions, but will be recouped when business expands at these locations without additional overheads required for branch expenditure.

### Product Innovation

Heralded as the first initiative of its kind in the NBFi sector, Softlogic Finance introduced the launch of its special proposition to its top end customers that is titled "Premium", which is a relationship package that combines exclusive financial services, investments and a host of other financial privileges with the highest level of personalised service and value, specially designed to recognise and reward the relationship that the top end customers of Softlogic Finance maintain with the Company.

"Premium" customers will enjoy a whole host of privileges and benefits that are brought to them by courtesy of the different diversified sectors of the rapidly expanding Softlogic Group. The "Premium" experience starts off with One-on-One Relationship Management where customers will receive personalised, undivided attention from a dedicated Relationship Manager, who will deliver customised financial solutions to cater to their unique needs. The "Premium" proposition will initially be available at the Metro Branch and will subsequently be housed in a dedicated location, whilst also being made available through the entire branch network of the Company. We have observed that the competition has been quick to follow us in this area.

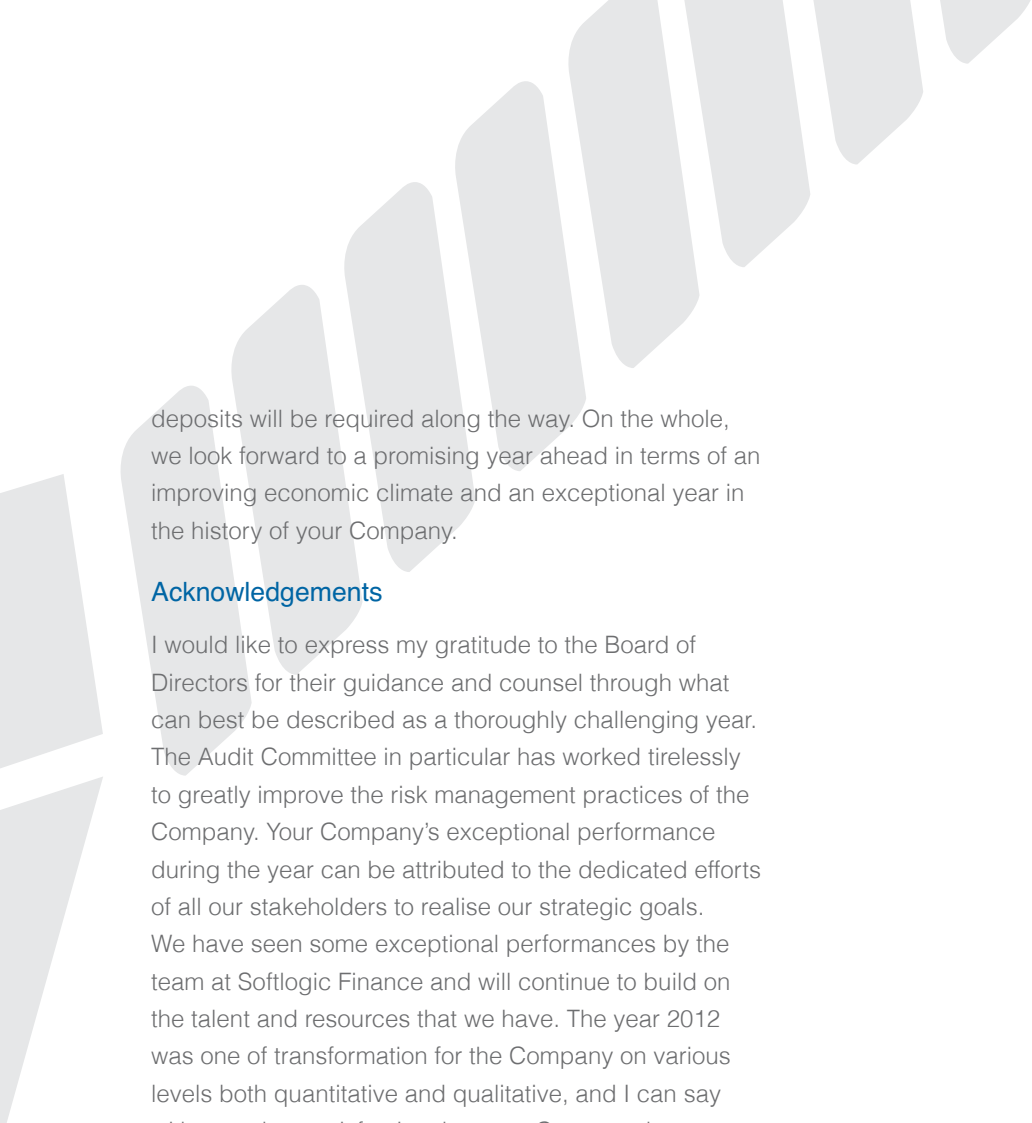
We have also commenced work on upgrading our IT capability with a view to increasing processing efficiency across the network and providing our valued customers with products and services that are both convenient and cater to their multi-faceted needs. We shall shortly be delivering on initiatives that will be trail blazing for the NBFi sector.

### Future Outlook

We are extremely positive about the prospects for the financial services industry in the coming years and have put in place a combination of dynamic resources and branch infrastructure at Softlogic Finance that is set to deliver superlative results. The signal for lower interest rates will further improve business prospects for the ensuing year. Our main focus will continue to be centered on the all important SME sector that we feel will play a key role in Sri Lanka's economic development drive and we stand ready to provide them with the financing and investment requirements that they need as our country shifts gears to achieve greater growth.

Towards the end of 2012 there were indications of the macro economic situation easing up, with factors such as inflation subsiding and lowering of interest rates. Further, the signal from the Central Bank that interest rates should slide downwards offers greater maneuverability for companies in tandem with greater stability of the exchange rate. We think Sri Lanka will come out of the dip it finds itself in and that economic growth will bounce back to 7.5% in 2013 given the government's stated objective to achieve the US\$4,000 per capita GDP mark by 2016. This increase in per capita GDP augurs well for the financial services industry as a multitude of opportunities for lending and





deposits will be required along the way. On the whole, we look forward to a promising year ahead in terms of an improving economic climate and an exceptional year in the history of your Company.

### **Acknowledgements**

I would like to express my gratitude to the Board of Directors for their guidance and counsel through what can best be described as a thoroughly challenging year. The Audit Committee in particular has worked tirelessly to greatly improve the risk management practices of the Company. Your Company's exceptional performance during the year can be attributed to the dedicated efforts of all our stakeholders to realise our strategic goals. We have seen some exceptional performances by the team at Softlogic Finance and will continue to build on the talent and resources that we have. The year 2012 was one of transformation for the Company on various levels both quantitative and qualitative, and I can say with complete satisfaction that your Company has emerged a stronger and more profitable one. I believe our performance during the period under review has awarded us the necessary confidence to guide our future growth and look forward with relish to an exciting future.

**Ashok Pathirage**

Chairman

27 June 2013

# CEO's Review



“Softlogic Finance PLC is well on its way to become one of the top five registered finance companies in the country.”

The 2012/13 financial period marked another year of robust growth for Softlogic Finance PLC, during which the Company was able to consolidate and rationalise the expansion activities undertaken in the two preceding years. Significantly, we were able to sustain our momentum of expansion despite severely challenging conditions. On the whole, it was a year of navigating through turbulent market conditions whilst simultaneously supporting and servicing our customers business and personal financial requirements in an expeditious manner.

## Challenging Macro Conditions

Although financial markets were volatile in early 2012 due to policy measures adopted by the Central Bank of Sri Lanka, stability was restored in the latter part of the year. The tightening of monetary policy to prevent the build-up of demand pressures and liquidity constraints that prevailed placed upward pressure on deposits and lending rates during much of 2012.

Casting a glance at the performance of the Sri Lankan economy, the three major contributors - services, agriculture and industry - grew in 2012 and are expected to demonstrate continuous growth in 2013 as well. The agriculture sector proved resilient despite emerging from a period of drought during the Yala season, which

was unfortunately followed by flash floods later in the year. On the upside, the sector is poised to post a better performance in 2013.

The non banking financial sector recorded a growth of 22% in 2012 due to measures taken by the Central Bank to ensure the safety and soundness of the financial system. The rapid branch expansion experienced during the period under review supported the further growth of the sector. However, the vehicle duty increase on vehicle imports alongside the devaluation of the rupee during 2012 affected the leasing and hire - purchase portfolios across the non banking financial sector.

### Strong Company Performance

Softlogic Finance PLC posted another exceptional year by earning an income of Rs. 2.27 billion for the year ended 31st March 2013, which marks an increase of 48% over the previous year's income of Rs. 1.53 billion. As a direct result of interest rate increases, interest cost too rose from Rs. 793 million in 2011/12 to Rs. 1.39 billion in 2013, indicating an increase of 75%.

Further, the Company recorded a profit after tax of Rs. 164 million compared to Rs. 121 million in the previous year, a 36% increase despite operating in a difficult year. The Company's assets stood at Rs. 13.2 billion in the year under review, which reflects a 31% growth over and above the average industry growth of 22%. Softlogic Finance posted an impressive increase in loan assets to Rs. 9.9 billion compared to Rs. 8.1 billion in the previous year, which reflects an increase of 22%. During the year under review, the Company remained focused on its Small and Medium Enterprises (SME) core target group. Although SMEs remain our focus area, we also have large institutional investors and smaller individual investors availing of our services.

The year under review proved favourable for deposit mobilisation driven by branch expansion and innovative marketing strategies adopted by the deposits team, which succeeded in driving a growth of 49% in deposit

mobilisation, to reach Rs. 6.9 billion, compared to the non banking financial sector average deposit mobilisation growth of 37%. The deposit growth recorded by Softlogic Finance is the highest in the industry and has been achieved through personalised service and confidence in its strong balance sheet and the backing that the Company receives from the dynamic Softlogic Group. Further, the Company was able to maintain its non performing loan ratio at 1.7% during the year compared to industry levels of 5%.

### Setting New Benchmarks in Customer Convenience

The Softlogic Finance team took customer convenience to new heights during the period under review by introducing revolutionary services which enhance customer convenience to unprecedented levels. Our customers can now withdraw cash at branch level for the first time ever in the history of the industry and not merely at selected branches as per the industry norm. Moreover, we now issue Fixed Deposit certificates on the spot. Also, customers can avail of loans against deposits and are even able to make premature withdrawals without giving us prior notice. These strategic services clearly differentiate our services from the rest of the industry whilst setting new benchmarks in customer convenience.

During the year under review, we launched Softlogic Finance "Premium" – an initiative to provide personalised financial solutions to high net worth customers. We provide "Premium" customers with Asiri Amazing Care special discounts by leveraging on group synergies, a personal accident cover of Rs 1 million from Asian Alliance Insurance and a 50% discount on motor insurance along with special offers extended to our Premium customers at Softlogic Group outlets. Further, raffle draws are held every quarter to reward the customers. The first Premium Centre is located in the Western Province and we plan to establish Premium Centres in other provinces for high net worth customers in those regions during 2013/14.

## CEO's Review contd.

Meanwhile, the Western Union money transfer service was extended to all Softlogic Finance Pawning Centres in addition to its availability at all our branches. Our leasing and hire-purchase services too are now accessible at selected Softlogic showrooms to take advantage of Group synergies. We are offering special vehicle packages for Ford cars, which are imported by the Group. During the year, we opened a branch at Anuradhapura and plan to relocate the Negombo branch and open another one in the Western Province, whilst also refurbishing the Dambulla, Embilipitiya and Matara branches for enhanced customer convenience. We have also set up a call centre to expedite the loan recovery process, which has delivered a much improved recovery ratio.

### Attracting Institutional Investors

A significant development during the year was the fact that the Dutch development bank FMO awarded Softlogic Finance a funding facility of US \$ 10 million, which will enable the Company to fulfil its vision of financing the SME segment, widely considered to be the backbone of the economy. Softlogic Finance is one of the few non banking financial institutions in Sri Lanka to obtain foreign funding from a Development Finance Institution (DFI), which reflects the stability, track record and immense growth potential of the Company. Sri Lanka needs to develop and uplift SMEs to achieve inclusive growth and Softlogic Finance with its network and expertise coupled with the FMO loan is ideally positioned to cater to the segment. From US \$ 10 Million, US \$ 4Million will take the form of a Subordinated Convertible Term Loan of five years, including an option to convert to equity in the Company. The funding received will boost the Tier II Capital Adequacy of Softlogic Finance to over 15% as at FYE March 2013, well in excess of the regulatory requirement of 10%.

### Future Outlook

Our future plans include developing best practices in IT capability to support our expansion plans. In a decisive move, we have decided to relocate our Head Office to Level 2, No. 33, Park Road in a bid to streamline operations and offer increased convenience and accessibility to customers. We intend to keep the Colombo City Office open from 8 am to 8 pm to cater to after-office hours customers. We will also be introducing the savings account this year to our portfolio. In order to enhance customer convenience the savings account holders will have access to their accounts via ATMs Islandwide .

Softlogic Finance PLC is well on its way to become one of the top five registered finance companies in the country. While 2011/12 was a year of aggressive expansion, the year 2012/13 was one of consolidation. Our First Staff Annual Congress was held on 27th April 2013 and the positive impact of this on employee morale has inspired us to make this an annual feature.

We expect the country's economic situation to improve in the months ahead following the measures taken by the Central Bank to strengthen the framework of the non banking financial sector and absorb risk, which has helped the sector to improve asset quality. Steps taken to improve liquidity and stabilise interest rates and exchange rates will help the recovery process. In tandem with these developments, the Company is gearing up to leverage on improved market conditions expected in the latter half of 2013/14.

During the period under consideration, we adopted new accounting standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka in line with IFRS, which came into effect from 1st January 2012. The Company adopted this new standard effectively and

in this annual report we place before you our financial statements under this accounting framework. The transformation from primarily time bound provisioning policy to development of collective impairment model based on incurred loss pattern was a significant step taken by the Company based on new accounting standards.

In conclusion, sustainability remained our foremost priority through the year and sustainable practices remain embedded in our systems and processes and our robust risk management framework to minimise risks to customers, while the quality of our earnings is a reflection of our strong performance during the year.

### **In Appreciation**

I would like to place on record my fullest gratitude for the support and backing of the Chairman and Board of Directors. On behalf of the Company, I extend appreciation to my predecessor, Mr. Mayura Fernando, who resigned from the Company in Jan 2013. I would also like to commend the staff at the Central Bank of Sri Lanka for their guidance and my appreciation also to external auditor, PricewaterhouseCoopers for their professional advice and timely auditing. Last, but never the least, I must commend the Softlogic Finance team for having surpassed previous efforts by helping the Company post an exceptional year of financial and operational excellence.

**Nalin Wijekoon**  
Director/CEO

27 June 2013

# Board of Directors



1. R A K Pathirage | 2. B H S Jayawardena | 3. N H G Wijekoon |  
4. Saliya Wickremasinghe | 5. T M I Ahamed | 6. Dushan Soza | 7. Chris Corea

#### **A K Pathirage - Chairman**

Having served in the Softlogic Group Board as the Managing Director from inception, he was appointed as the Chairman of the Group in 2000. The Group which commenced with just twelve employees 23 years ago and with a small turnover now manages a multibillion turnover across various economic growth sectors. Along with Softlogic Holdings, six other firms, which are managed by Mr. Pathirage, are listed on the Colombo Stock Exchange. His role as the MD/Chairman of Asiri Group, has led the healthcare sector to be the leading private healthcare provider in Sri Lanka. He is also the Chairman of Softlogic Capital PLC, Softlogic Finance PLC, Asian Alliance Insurance PLC besides being the Chairman of many other Group Companies that operate in Leisure, Retail, Automobile and ICT industries. He also serves as the Deputy Chairman of the National Development Bank PLC Board and is the Chairman of NDB Capital Holdings PLC Board.

#### **Nalin Wijekoon - Director/ CEO**

Mr. Wijekoon was appointed as CEO of Softlogic Finance PLC in February 2013. Prior to him been appointed as CEO he served as the Deputy CEO of the Company. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, Fellow Member of Chartered Institute of Management Accountants, UK, and a Finalist of the Institute of Bankers (Sri Lanka). In the past, he has worked at Peoples' Bank as a Finance Officer from 1978 to 1990 before joining KMPG Ford Rhodes Thornton as Branch Manager, Kandy, in 1990, and DFCC as a Project Officer in 1992. He joined Vanik Incorporation Ltd as Asst. Vice President - Finance in 1994-2003. He has undergone numerous training programmes in Sri Lanka and overseas, including training at Harvard University, Boston, USA. He counts more than 35 years of experience in the Financial Sector.

#### **T M I Ahamed - Director**

Mr. Iftikar Ahamed heads the Financial Services Sector of the Softlogic Group and is the Managing Director of Softlogic Capital PLC, which is the Financial Services Holding Company of the Group. He counts over 30 years of experience in a wide range of métiers within the financial services industry. He has specialist knowledge and exposure in the Treasury area and extensive Banking experience both in Sri Lanka and overseas, having held senior management positions at Nations Trust Bank PLC and Deutsche Bank AG. He holds an MBA from University of Wales, UK.

#### **B H S Jayawardena - Director**

He is a Fellow of the Association of Chartered Certified Accountants, UK. He joined the Auditor General's Department in South Africa in 1983 as an Auditor and was later promoted to the rank of Senior Auditor. He has trained local officers in carrying out qualitative audits as against basic regulatory audit work performed previously. In 1986, he joined the Postal Services of Botswana as Head of Finance. He has travelled extensively in his work in relation to the Postal Department. He was responsible in strengthening the finance function of the

Department. In Sri Lanka he has been involved in two World Bank funded projects and also holds the position of Executive Director of Vanik Incorporation PLC.

#### **Chris Corea - Director**

Mr Chris Corea holds a BSc (Hons) degree from the University of Colombo. He obtained his MBA and MSc (Computer Science) degrees from the same University. He is also a member of the Chartered Institute of Management Accountants (UK).

He has extensive experience at the John Keells Group where he served as the head of the MIS Division and was responsible for Group IT Systems, Software Development and Network Infrastructure since 1984. He left the group in 2004 to launch Riscor Consultants - a software products company.

He is a past president of the University of Colombo, MBA Alumni Association and also served as a visiting lecturer on their MBA Programme for a period of 5 years.

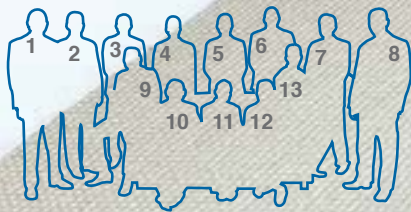
#### **Dushan Soza - Director**

Currently functioning Managing Director of WNS Global Services (Pvt) Ltd. Sri Lanka. He pioneered high-end BPO Services in the country by setting up Sri Lanka's premier 'Finance Centre of Excellence' and thereafter Legal Services being the first to do so out of Sri Lanka. He is considered a thought leader in the industry and his contribution has helped to fashion the BPO industry in the country. He has over 25 years of diverse work experience in UK, India, Philippines and Sri Lanka and has held many senior leadership positions. He was a founder board member of SLASSCOM and currently serves as an Advisor to the EDB on IT/ BPO. He is a much sought after speaker and has presented papers at many national and international industry forums. Dushan an engineer by profession and a graduate from the University of Reading, UK. In his early day he was a professional cricketer and a former Sri Lanka U19 cricket captain.

#### **Saliya Wickremasinghe - Director**

Serving as the Chief Financial Officer, Asian Alliance Insurance PLC, he counts 10 years experience in the Insurance Industry in a career spanning over 30 years, including exposure in local blue chip companies as well as overseas. He began his career at Aitken Spence & Co. Ltd. and later joined Bechtel Australia Pvt. Ltd., a construction and engineering company. Having gained international exposure he returned to Sri Lanka and re-joined Aitken Spence, where he held the post of Director Finance until December 2001. His last assignment was Head of Commercial at Slimline (Pvt) Ltd., a subsidiary of the MAS Group, prior to joining Asian Alliance in 2002. He has participated in the top management programme conducted by FALIA (Japan), AOTS(Japan) and LIMRA (China). He is a Fellow of the Chartered Institute of Management Accountants (FCMA) and a member of the Certified Practising Accountants (CPA), and holds a BSc degree from the University of Colombo.

# Management Team



1. Colin Samaratunge | 2. Rohana Dahanayake | 3. Priyankara Seneviratne |  
4. Kumara Kongahawatte | 5. Chamilantha Fernando | 6. Shehan Uduwara |  
7. Priyan Jayakody





8. Nalinda Ranaraja | 9. Lasantha Perera | 10. Sanjaya Vithanage | 11. Nirasha Irugalbandara |  
12. Sampath Hewapathirana | 13. Gayan Jayatissa |

# Management Team Profiles

## **Sanjaya Vithanage** - Deputy General Manager

Sanjaya heads the Operation Division presently. He holds over 16 years of managerial experience in diverse areas of leasing, hire purchase, factoring, bill discounting, margin trading and mobilization of funds. He joined Vanik Incorporation Ltd, as an Assistant Manager in 1997 and was seconded to Capital Reach Business Development (Pvt) Ltd (CRBDL), in 2005, as an Assistant General Manager. He has undergone training programmes pertaining to the leasing industry including the Amembal, Vinod Kothari - Leasing Training Programmes. He holds a B.Sc (Agri.) Degree from the University of Peradeniya and a Post-Graduate Diploma in Business Statistics from University of Ruhuna.

## **Nalinda Ranaraja** - Deputy General Manager

Nalinda was promoted as Deputy General Manager in December 2012 and presently is in charge of Total Recoveries at Softlogic Finance. He has over 20 years experience in recoveries, auditing and accounting. He is a Fellow Member of The Association of Accounting Technicians of Sri Lanka (FMAAT), Past Finalist of the International Association of Bookkeepers, and has completed the Foundation stage of the Certified Management Accountants of Sri Lanka (CMA). He started his career at Thornton, Panditharathne and Co., as an Audit Assistant and then rose to Senior Audit Examiner in the same firm. He then joined E.W. Balasooriya and Co., and Marigold Hotels (Pvt) Ltd and Vanik Incorporation Ltd. thereafter. He went on to join the Capital Reach Group and was eventually appointed Assistant General Manager in charge of Business Finance Recoveries.

## **Chamilantha Fernando** - Deputy General Manager

Chamilantha joined Softlogic Finance in 2010 and currently heads the fund mobilization area and supervises the overall operations of the Western region. He counts over 15 years experience in the financial services sector. He started his banking career in 1995 with HSBC, in the retail banking and credit card operations areas and later joined Nations Trust Bank in 2003 to head the cards marketing team at the time of the launch of American Express cards in the Sri Lankan market. Later he joined Standard Chartered Bank in 2007 as Head of Consumer Sales, where he headed the sales and marketing teams in Personal and Retail Banking Products - handling Credit Cards/ Personal Loans/Bancassurance and Wealth Management. He holds an MBA degree from Edith Cowen University, Australia, and a Bachelor's degree from University of Western Sydney – Australia, having majored in Finance and Marketing. He is an Associate Member of Institute of Bankers of Sri Lanka (AIB-SL), Member of Chartered Institute of Marketing – UK (MCIM) and also a member of the Sri Lanka Institute of Marketing (MSLIM).

## **Rohana Dahanayake** - Assistant General Manager

Rohana commenced his career as a research assistant at the Tea Research Institute and served at DFCC Bank as a Project Officer and later at Lankem Ceylon Ltd., as a Research and Development Manager. He worked at Vanik Incorporation Limited from 1996 to 2005 and was the Assistant Vice-President in charge of the Kandy branch. Dahanayake graduated with a Bsc (Hons) degree from the University of Peradeniya. He is also a holder of an advanced certificate in Information Technology from the Boxhill College, Victoria, Australia, and has a Post-Graduate Diploma in Business Administration from the University of Peradeniya. He currently overlooks Central and Uva Provinces' operations.

## **Colin Samaratunge** - Assistant General Manager

Colin possesses over 12 years' experience in the financial services sector and currently overlooks the overall business operations of North, North Western and North Central Provinces. His experience varies from leasing and hire purchase to factoring, bill discounting, margin trading, fund mobilization and recovery. He has even functioned as Assistant Lecturer at the University of Peradeniya for one year. He has served in various managerial positions at Vanik Incorporation Ltd., and the Capital Reach Group, including as the Branch Manager of Polonnaruwa, Kurunegala and Nuwaraeliya branches. He holds a BSc. (Agric.) Special Degree from University of Peradeniya and a Post-Graduate Diploma in Information Technology from the University of Kelaniya.

## **Sampath Hewapathirana** - Assistant General Manager

Sampath functions as the Head of Finance of Softlogic Finance PLC. He joined Vanik Incorporation Ltd, in January 1998 and was appointed as an Accountant of Vanik Money Brokers. He has handled Group Financial Accounts of Vanik Incorporated Ltd, and was seconded to Vanik Leasing as the Manager Finance and later appointed as Senior Manager at Capital Reach Leasing Ltd. He has over 14 years of managerial experience in Auditing, Treasury, Taxation and Accounting in financial services sector. He holds a BSc. Degree in Business Administration, University of Sri Jayawardenapura and is reading for the Final Stage of the Institute of Chartered Accountants of Sri Lanka.

## **Lasantha Perera** - Assistant General Manager

Lasantha is currently heading the Personal, Consumer Durable and Gold loan units of Softlogic Finance. He counts over 13 years of managerial experience in the micro finance sector. Previously, he has worked at SEEDS (Guarantee) Ltd; at Capital Reach Credit Ltd. as an Assistant Manager in the Consumer Credit Unit and was subsequently promoted to Senior Manager and then as Assistant General Manager. He holds a Degree in Business Administration from University of Sri Jayawardenapura. He has also obtained special training in Credit and Risk entrepreneur assessment from the

EDI University of Ahmedabad and intensive training in Legal; and is involved in Micro Finance and Livelihood Development at the International Law Organization.

#### **Kumara Kongahawatte - Assistant General Manager**

Currently, Kumara is functioning in the capacity of Assistant General Manager while heading the departments of Central Leasing Marketing and Business Loans. He has over 12 years of experience in the financial service sector, commencing his career at The Finance and Guarantee Limited in 2000. He joined Vanik Incorporation Ltd., in 2001; was seconded to Vanik Leasing Limited as an Assistant Manager and then as a Manager to Capital Reach Leasing Limited in 2005, where he continued to work till 2010, eventually seconded to Softlogic Finance. Subsequently, he was promoted as a Senior Manager and was appointed as the Head of Central Leasing Marketing Department in 2011. He holds a Bsc. Business Administration (Special) Degree from the University of Sri Jayewardenapura and also completed the Intermediate Level of the Institute of Chartered Accountants of Sri Lanka. He is also a Diploma holder in Credit Management of the Institute of Bankers of Sri Lanka. He has undergone numerous training programmes pertaining to the leasing industry in Sri Lanka.

#### **Shehan Uduwara - Senior Manager**

Shehan overlooks the consumer and group personal loan recoveries. He joined Softlogic group following an 8-year career spell at Nations Trust Bank. His experience in managerial capacity was focused in Credit Risk Management and adds strength to the ever-expanding financial sector of the Group. His training and experience is centered on providing administrative and strategic guidance and feedback to all areas connected to consumer loans and credit cards. He also possesses experience in the travel sector, having completed short stints at Aitken Spence PLC and Walkers Tours Ltd.

#### **Priyan Jayakody - Senior Manager**

Priyan leads the company's Internal Audit Division. He counts over 7 years of experience, beginning his career at Ernst & Young as an Audit Assistant before being promoted as Audit Supervisor and Qualified Assistant. A tenure as Accountant at Screenline Embellishers (Pvt) Ltd., followed before he joined Central Finance PLC as an Internal Auditor prior to joining Softlogic Finance. He brings to the profession an impressive academic record which includes a B.Com (Special) degree from the University of Sri Jayewardenapura and is currently reading for his MBA at The Postgraduate Institute of Management of University of Sri Jayewardenapura. He is also an Associate Member of the Institute of Chartered Accountants of Sri Lanka, Associate Member of the Institute of Certified Management Accountants of Sri Lanka and has completed a Certificate level in Banking and Finance held by Institute of Bankers of Sri Lanka.

#### **Gayan Jayatissa - Senior Manager**

Gayan heads and oversees the IT systems and operation of the company. He commenced his career as a systems operator and holds over 10 years of experience in IT, which covers three years of international exposure working at a multinational insurance institute and IT infrastructure management entity in Norway and leading local insurance and manufacturing entities. His work experience varies from systems administration, infrastructure management, information security to business continuity management. He is a Member of the ISC2 and ISACA Sri Lanka chapters and the British Computer Society (MBCS). He holds CISSP, CISM, ITILV3, CEH, ISMS Internal Auditor, RHCE, CCNA and MCITP professional certifications.

#### **Nirasha Irugalbandara - Manager**

Heading the company's marketing function, Nirasha counts over 10 years of experience in sales and marketing spanning diverse sectors. Beginning her career at HSBC, she ascended rapidly to lead the marketing department of Softlogic Communications for Nokia, before joining Softlogic Finance. A keen marketer, she has also been exposed to the dynamics of media and advertising, clocking successful stints at MBC Networks and Mel Ads (Pvt) Ltd. She holds a Professional Postgraduate Diploma from CIM (UK) and a Certificate in Banking and Finance and a MBA from Cardiff Metropolitan University UK.

#### **Priyankara Seneviratne - Manager**

Priyankara overlooks Human Resources and Staff Development. He commenced his career with the Ceylinco Group in 1997 and was attached to The Finance Company Ltd., as a Human Resource Executive till 1999. He joined Continental Trade Bureau, an Indian-based organization in Sri Lanka as the Assistant Manager - Administrative and Human Resource. He later joined Unichela (Pvt) Ltd, a subsidiary of MAS Holdings, in the capacity of Senior Human Resource Executive from 2000 to 2005, going on to join United Nations Development Programme (UNDP) from 2005 till 2013. He has obtained his Bachelor's Degree in Social Sciences from The Open University of Sri Lanka; Post-Graduate Diploma in Applied Sociology from the University of Colombo; Post Graduate Diploma in International Studies from the Bandaranaike Centre for International Studies (BCIS) and is currently reading for his Masters Degree in Sociology from the University of Colombo. He completed his National Diploma in Human Resource Management (NDHRM) from the Institute of Personnel Management - Sri Lanka and a Diploma in Marketing from the Sri Lanka Institute of Marketing (SLIM). He is a visiting lecturer at the Institute of Personnel Management - Sri Lanka (IPMSL) and currently holds the position of the Honorary Treasurer of the Institute of Personnel Management (IPM) - Sri Lanka, and serves the Institute's supreme council from year 2008 to-date.

# Branch Managers



**Amila Konara**  
Manager  
Nawala



**Udaya Sivasooriyar**  
Manager  
Negombo



**Samantha Ponnampereuma**  
Manager  
Kadawatha



**Nayomi Senevirathne**  
Manager  
Colombo Metro



**Senarath Bandara**  
Manager  
Chilaw



**Sarath Hettige**  
Manager  
Kurunegala



**Nishantha Rathnayake**  
Manager  
Polonnaruwa



**Ruwan Morayas**  
Assistant Manager  
Anuradhapura



**Anton Wimalraj**  
Assistant Manager  
Jaffna



Appavoo Selvaganesh  
Senior Manager  
Nuwara Eliya



Mahinda Dias  
Manager  
Kandy



Lakmal Illukella  
Senior Manager  
Badulla



Harsha Weerathunga  
Manager  
Dambulla



Udula Amukotuwa  
Senior Manager  
Galle



Sudath Siri Kumara  
Manager  
Matara



V.G. Pushpa Kumara  
Manager  
Embilipitiya



Sanjeewa Priyadarshana  
Assistant Manager  
Rathnapura



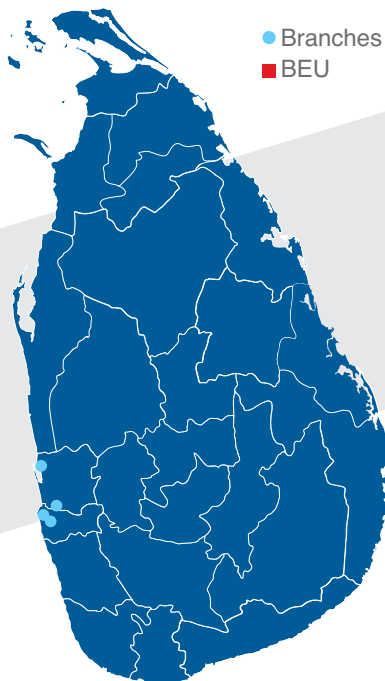
A photograph of a rural landscape. In the foreground, there are several large haystacks made of golden-brown straw, arranged in a row. Behind them is a dense line of green trees and bushes. The background shows a clear blue sky. The overall scene is bright and sunny, suggesting a rural agricultural setting.

“Agriculture, the main source of income for Sri Lankans in North Central and Central areas, Softlogic Finance is delighted to help them to improve their quality of life.”

# Operational Performance

## An outstanding Year under review

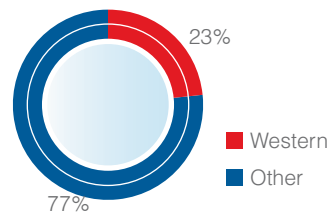
- Backed by the giant support of Softlogic, in year under review we further capitalised on our competencies and resources on rapidly expanded presence of the Company across the country.
- Widely spread network with 17 branches, 19 standalone pawning centers and 14 business extension units (BEU) are waiting to deliver superior services to our customers through a flexible and highly standardised working environment consisting of 467 dedicated and competent employees.
- The Network divided in to four regions namely, Western, Southern, North Central and Central is continuously in the process of expanding with a strategic vision.



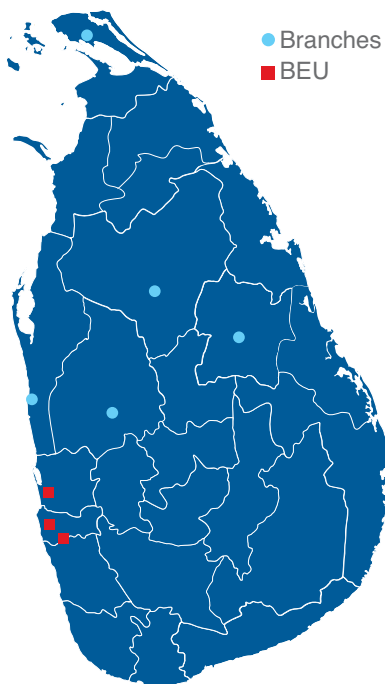
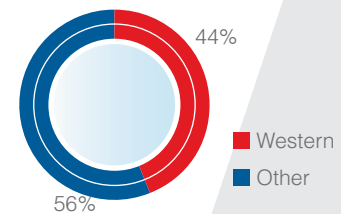
## Western Region

<b>4</b> Branches	<b>209</b> Employees
<b>Rs. 2,254 Mn</b> Lending Assets	<b>Rs.3,053 Mn</b> Deposit Base

Lending Assets Mix



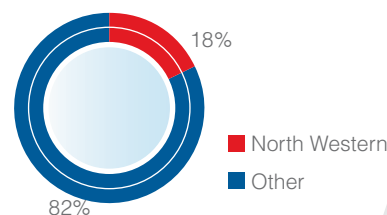
Deposit Base Mix



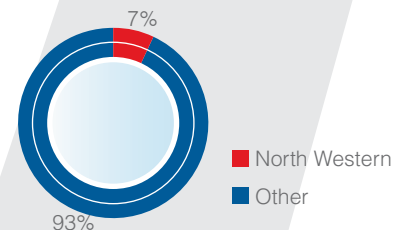
## North Western Region

<b>5</b> Branches	<b>57</b> Employees	<b>3</b> Business Extension Units
<b>Rs.1,795 Mn</b> Lending Assets	<b>Rs.512 Mn</b> Deposit Base	

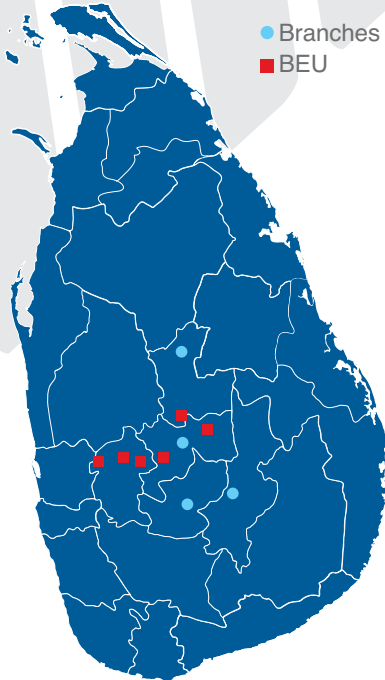
Lending Assets Mix



Deposit Base Mix



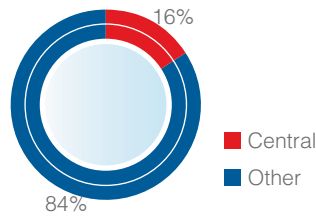




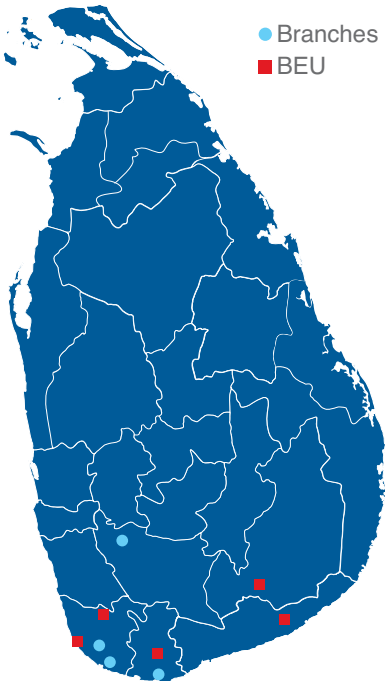
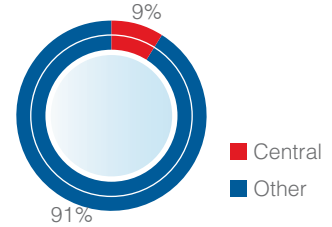
## Central Region

<b>4</b>	<b>51</b>	<b>6</b>
Branches	Employees	Business Extension Units
<b>Rs.1,577 Mn</b>	<b>Rs.615 Mn</b>	
Lending Assets	Deposit Base	

Lending Assets Mix



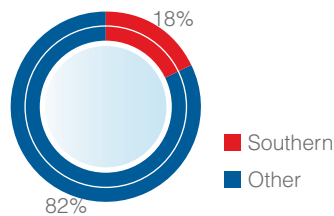
Deposit Base Mix



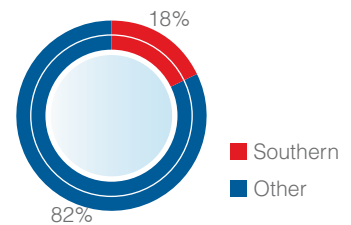
## Southern Region

<b>4</b>	<b>53</b>	<b>5</b>
Branches	Employees	Business Extension Units
<b>Rs.1,819 Mn</b>	<b>Rs.1,219 Mn</b>	
Lending Assets	Deposit Base	

Lending Assets Mix



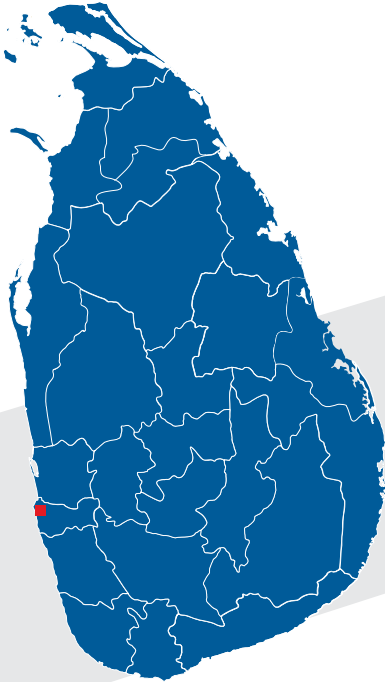
Deposit Base Mix



## Operational Performance contd.

- Colombo central unit is the heart of our business in fund mobilising and lending.

### Colombo Central Unit



**43**

Employees

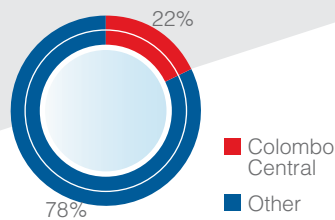
**Rs.2,205 Mn**

Lending Assets

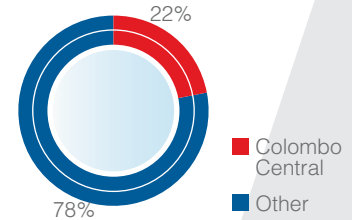
**Rs.1,557 Mn**

Deposit Base

Lending Assets Mix

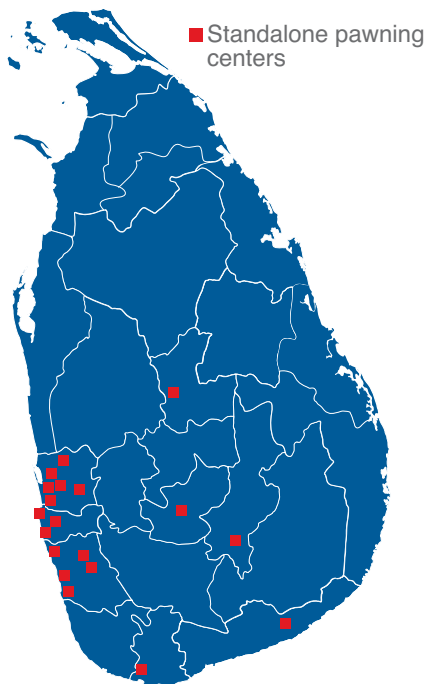


Deposit Base Mix



- 19 standalone pawning centers scattered across the country serve our customers in lending against gold delivering a speedy and friendly service.

### Standalone Pawning Centers



**54**

Employees

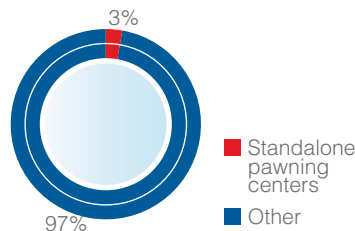
**19**

Pawning Centers

**Rs.295 Mn**

Lending Assets

Lending Assets Mix



# Management Discussion & Analysis



Softlogic Finance PLC is on a steady path of profitable growth and the Company notched up another impressive performance in the financial year 2012/13, succeeding in demonstrating steady growth despite the unfavourable economic conditions that prevailed through much of the year. Apart from the robust systems and processes that drive the Company's success, the backing that the Company receives from its dynamic holding company, the Softlogic Group, provides the invaluable platform to evolve into one of the top 5 companies in the country's non banking financial sector. Softlogic Finance PLC's product portfolio spans Leasing, Hire Purchase, Fixed Deposits, Savings Accounts, Business Finance, Personal Finance and Gold Loans.

“Every year brings new challenges, and 2012/13 was no exception. Yet, our 2012/13 performance demonstrates, once again, the power of our strategy and the resilience of our business model.”

## Operational Review

### Hire Purchase, Leasing and Business Loan Portfolios

The Hire Purchase, Leasing and Business Loan segment constitutes about 76% of our total product portfolio. Currently, there are 57 players within this segment in the non banking financial sector, which triggers severe competition and pricing pressure with the aim of attracting and retaining customers. In comparison, as a Company, we have opted to compete on the basis of superior customer care and flexible product offerings.

During the year, increase in import duties on vehicles and the subsequent devaluation of the rupee have had an adverse impact on our Hire Purchase, Leasing & Business Loans Portfolio, and that of the sector as a whole.

During the year, non banking sector growth in the Hire Purchase, Leasing & Business Loan segment was 22% compared to 46% growth achieved in the previous year. However, the point to be noted is that while vehicle registrations declined during the

## Management Discussion & Analysis contd.

period under review, we were successful in sustaining our disbursement levels on par with the previous year, since 75% of our business is focused on second-hand vehicles, which is the segment favoured by the SME segment. The duty increases on brand new vehicles did not impact our portfolio that much as the year also witnessed an upsurge in passenger transport and new buses. However, other sectors such as construction experienced a slowdown and events outside the Company's control such as floods caused a slowdown in customer cash flows. Despite these ground realities, our Non Performing Loans (NPL) ratio was 1.7% during the year, far better than the industry average of 5%.

Softlogic Finance PLC's Hire Purchase, Leasing & Business Loan business is centred on the SME sector. The Company has forged strong links with the SME sectors across demographic considerations over the last decade and these were strengthened further over the year under review. Our long term relationship with our SME customers has resulted in deriving key insights into maintaining and increasing our customer base by translating this knowledge into key deliverables to delight the customer. The fact that many of our branch staff hail from the surrounding areas implies that they are aware of cultural nuances that could make a difference between a disgruntled or a satisfied customer.

### Strategic Marketing

Strategic Marketing drives success for the Company and helps differentiate our offering in a market that is fiercely competitive. The Company conceptualized an exciting Avurudu customer promotion which promised a valuable gift on opening a fixed deposit at any of our branches. Moreover, during this period we also continued to leverage on group strengths, which have helped up increase our share of voice and accelerate brand building efforts. The Company executed strong public relations strategies through the period under review to keep stakeholders abreast of all the improvements being introduced at Softlogic Finance PLC.

### Deposit Mobilisation

The financial services industry consists of closer to 100 players including the commercial banks, specialised banks, registered finance companies and specialised leasing companies. The main source of financing for this entire pool is customer deposits.

The credit ceiling announced by the regulator in the first half of 2012 resulted in lending restrictions on the part of

commercial banks, which also impacted the non banking financial sector. As a result of this status quo, deposits constituted our main source of funds during the year, as investing in banks at prevailing high rates of interest did not attract customers who looked beyond banks for lucrative investment alternatives. Further, the industry was illiquid last year largely due to the government pressure on lowering interest rates. In these challenging marketing conditions, Softlogic Finance PLC managed to grow its deposit portfolio from Rs. 4.6 billion to Rs. 6.9 billion, a remarkable growth of 49%. Aggressive sales efforts were launched at the beginning of the year to enhance deposit mobilization, an effort spearheaded by the marketing team and ably supported by the branch network. All Softlogic Finance PLC's branches are now online and customers can also deposit and withdraw cash at any branch and experience 'over the counter service' similar to undertaking a transaction at any commercial bank. In addition systems and processes are in place where we could offer a speedy and a courteous service to all our branches as well as at their doorstep.

During the period under review, we partnered with our group health care companies to launch a 'Health Fixed Deposit', whereby customers are entitled to discounts and benefits at Asiri Group hospitals through 'Asiri Amazing Care' membership. We have also pioneered in the industry by launching 'Softlogic Finance Premium' which is a relationship based investment proposition where the qualifying customers will be entitled to a host of special exclusive benefits from Softlogic Group. They will be eligible for a personal accident cover of Rs. 1 million from Asian Alliance Insurance and 50% discount on motor insurance premium along with discounts from the Asiri hospitals chain and special discounts at other group outlets. Further, quarterly gift draws are held to reward the loyalty of our customers. Initially the product was launched in the western region and will subsequently be expanded to other regions as well.

The Deposits team undertook a focussed effort in acquiring new customer and have covered a multitude of customer segments; corporate, high networth customers, professionals and retail customers to continue to build the Softlogic Finance brand. Our one to one relationship building efforts have paid rich dividends in building a steadfast customer base that has resulted in our renewal rate exceeding 80% on our deposits.

## Group Personal Loans

During the period under review, we achieved total disbursement of 22% over the previous year. Softlogic Finance extends Personal Loans products in the form of cash loans and consumer loans to customers. The personal loans portfolio amounted to Rs. 1.61 billion as at 2012/13.

The Consumer loans portfolio amounted to Rs. 90 million as at 2012/13 and achieved 54% growth compared with 2011/12. The main reason for this strong performance has been following the right processes and selection of the right market segments, resulting in improved volumes. In the personal loans segment, we mainly cater to the government, semi government and private sector employees.

A slew of marketing campaigns were sustained through the period under review to raise awareness of the benefits of taking a Personal loan from Softlogic Finance PLC as compared to any other Personal loan.

The Company's Personal Loans are also gaining in popularity as the loans only take three days to process and feature minimum of paperwork to ensure speedy service. There has been a perceptible increase in purchasing power amongst our client segments and we are confident that with an improving economic scenario, this segment of our portfolio is poised to grow significantly.

## Gold Loans

The Gold Loan sector in Sri Lanka is largely ruled by banks, which have garnered an almost 93.2% market share of the existing gold loan or pawning market among registered institutions. The balance 6.8% of the market is shared by non banking financial institutions including finance companies. However, the market also counts approximately 2000 unauthorised pawning centres, which are conducting pawning services without regulatory approval, thereby affecting the market share of legitimate financial institutions.

During the year 2012/13, we operated 31 Gold Loan centres, 19 standalone centres and 11 with the Softlogic network and one in a Softlogic showroom. We have improved the loan process to provide faster and more efficient delivery to provide better customer convenience. Courteous service is our hallmark and we keep making significant improvements to our service levels. Our objective remains returning the gold articles

to the customer without taking recourse to auctioning. Our Gold Loan Centres are equipped with specially trained technical staff to accurately value gold jewellery. This financial year was a favourable one for our gold loan portfolio, demonstrating rapid growth that contributed to increased revenues by way of commission income. Our overall operational profitability and quality of service at our Gold Loan Centres reflected marked improvements to exceed customer expectations. We disbursed a total of Rs. 1.44 billion during the year, which marked a growth rate of 58.4% over the previous year's performance. Our Gold Loan portfolio for the year ended 31st March 2013 reached Rs. 436 million in comparison to Rs. 255 million in the previous year.

## Human Resources

During the past year training and development programmes were done for staff through internal and external facilitators. Some of the key trainings were 'Lending against pawn brokering' conducted by Central Bank of Sri Lanka and 'Advanced Business writing'. Moving forward, we plan to implement an online HR system in the 2013/14 financial year which will also include an e-recruitment system to further streamline HR functions whilst also offering our employees an efficient online interface. The HR department maintains a full roster of training activities for staff, especially in focus areas such as leasing and hire purchase to ensure that they are the fore-front of best practices in customer service. Internal and external training programmes along with outward bound training programmes are organized to promote leadership skills. The HR team is also instrumental in motivating volunteerism within the Company and engages employees in CSR projects undertaken by the Company. Annual blood donation camps witnessed the active participation of our staff across all our branches. Popular staff welfare activities provide an ideal work-life balance and during the year many functions comprising annual get-togethers, cultural and religious celebrations and sporting competitions provided the ideal platform for fellowship.

## Information Technology

During the year under review, we virtualised all existing servers and centralized management for all users. From a security perspective, this has improved our security levels significantly. We have also introduced firewalls and bandwidth monitors and policies and procedures in compliance with Central Bank regulations to ensure we are in full compliance with regulators' and industry standards. The IT environment is now fully controlled

## Management Discussion & Analysis contd.

and streamlined, ensuring tight privacy for customers and improves our risk controls by ensuring a secure platform, thereby ushering in accountability and controls. The integration of all computers at one location helps us to manage the Company's IT system with a click of a button. During the year, we strengthened the IT team with specialised resources to be able to handle this new IT environment. As we move forward, we plan to install a new business application that will cover all products offered by the Company are in the process of evaluating vendors. We expect the system to be operational within the next financial year.

### Treasury and Asset & Liability Management (ALM)

The Asset and Liability Committee (ALCO) is tasked with managing the Company's Liquidity and Interest Rate Risk (IRR). It is chaired by the CEO and comprises the Executive Director, Deputy CEO, Operations Head, Treasury Head, Risk Management Head, Finance Head and Business Unit Heads. The committee meets once a month and if the situation so warrants, then the committee meets more often. A comprehensive agenda is discussed at length that includes the following,

- ✓ Approval of minutes of previous ALCO and discussion of matters arising from previous meeting
- ✓ Overview of current economic situation and future projections
- ✓ Detail analysis of ALCO reports that include Liquidity, Interest Rate Risk and Capital Adequacy
- ✓ Status of current strategies that include Balance Sheet evolution, Variance analysis, Ratio analysis
- ✓ Peer-group analysis
- ✓ Budgets and growth assumptions
- ✓ Pricing consideration
- ✓ Compliance Reporting
- ✓ Strategic objectives and targets

Softlogic Finance has developed and implemented an ALM framework that has been approved by the Board of Directors, which defines the liquidity and IRR management methodology of the Company. The framework highlights the following,

- ✓ Liquidity management tools
  - I. Statutory liquidity ratios
  - II. Maturity Gap/Maximum cash outflow (MCO)
  - III. Funding plan
- ✓ Contingent funding sources
- ✓ IRR and sensitivity analysis
- ✓ Weighted average portfolio spreads

In addition the Company also adopts international best practices such as a net stable funding ratio, which is the ratio of assets beyond one year funded by long term liabilities and several other risk parameters that are over and above the Central Bank regulatory requirements, which have been introduced following our partnership with the Dutch development financial institution 'FMO'. The implementation of policy decisions taken by ALCO are handed down to the Treasury department for execution.

The chief risks facing the Company in relation to ALM are liquidity and interest rate risks. Liquidity risk is monitored through profiling the asset and liability maturities and ensuring that the Company possesses the cash required for same. The limit set on the three month maturity/MCO gap is equal to shareholders funds. Similarly the IRR limit has also been set as a percentage to shareholders funds and is monitored via a computation that involves a sensitivity i.e. 'assumed change in yield' computation, that varies with time, and been applied to the long or short positions of the balance sheet. This methodology is similar to one applied by Banks to determine market risk on Bond Portfolios according to BASEL II. This is a very dynamic approach that analyses the impact of a shift in the yield curve as well as the impact of such a shift on the existing balance sheet. The interest rate risk report is a dynamic report that takes into account variations based on market rates to see how such a scenario could impact profitability of our Company.

During the period under review, the market witnessed a very volatile interest environment that saw interest rates increase in the first half of the year and thereafter decrease during the second half due to monetary policy easing by CBSL. The Treasury was able to capitalise on these movements effectively and record substantial profits via capital gains from Treasury bond trading activities. The Company maintains a healthy liquidity ratio, which is maintained well above the statutory requirements specified by Central Bank. Assets held in liquid form which include Cash, Government Securities and Bank Deposits are in excess of Rs. 1.36 Billion which is almost double the regulatory requirement of statutory liquid assets the Company has to maintain. In addition we also have standby funding lines, such as unutilised permanent overdraft facilities and revolving credit lines that are in place in case of an unexpected liquidity crunch. The committee also undertakes cash flow forecasting six months ahead to make sure the Company possesses sufficient funds in line with the budgeted growth for the future.

### International Asset & Liability Competition

Softlogic Finance PLC also won the International Asset & Liability Management Competition in 2013. The



competition now in its sixth year is conducted for clients of FMO, DEG and Proparco who are all Development Finance Institutions of international repute with considerable exposure and strong relationships with a multitude of Banks, Corporates and Non-Bank Financial Institutions in Sri Lanka. The first phase was held online and had 25 international Banks and Financial Institutions across Latin America, Africa, Europe and Asia taking part with Team

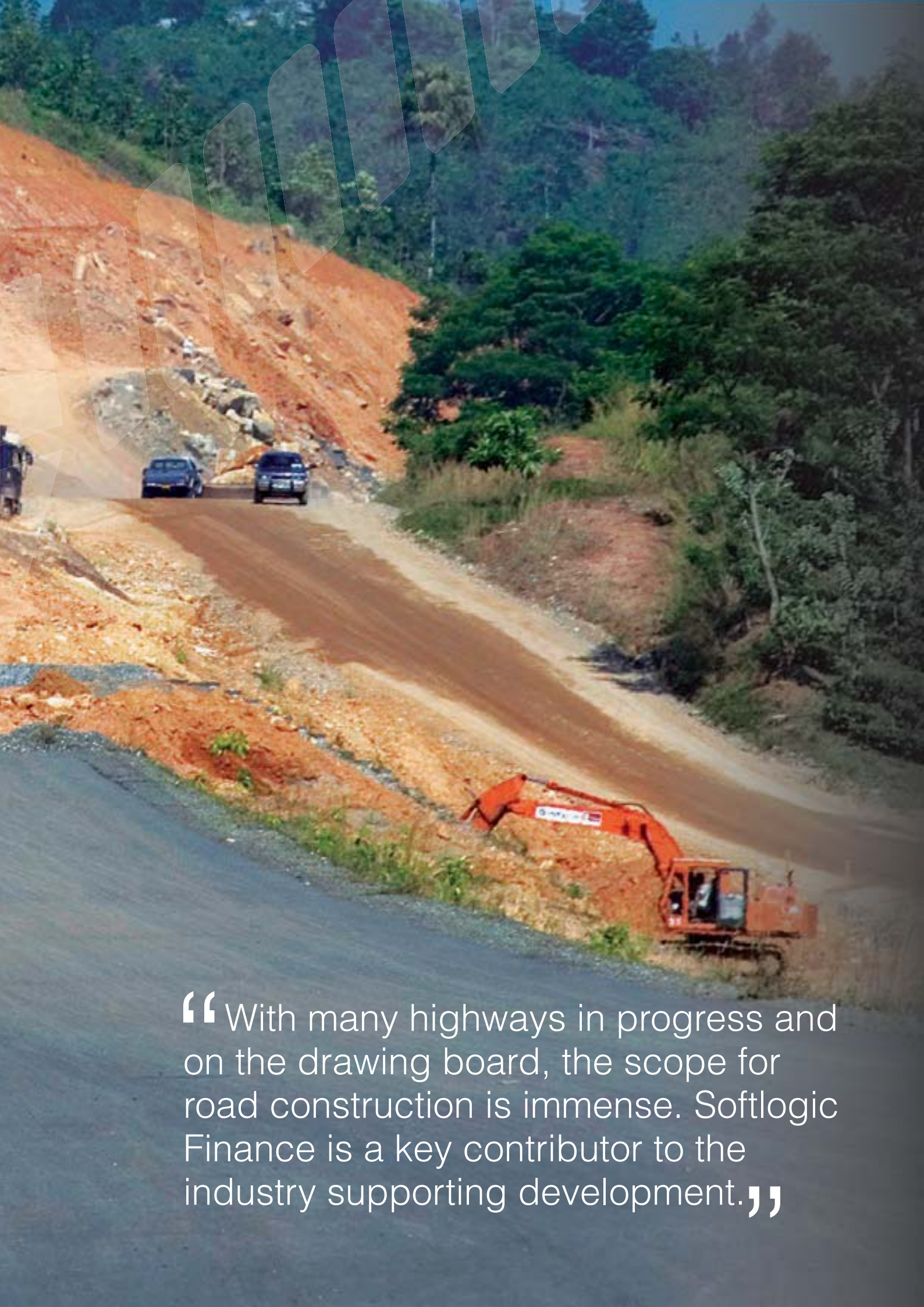
Softlogic performing best within the Asia/Europe Group, thus qualifying for Phase II of the 2013 ALM Competition that was held in Cologne, Germany. The final phase was an intense competition over two days with four reputed institutions vying for top honours. Eventually

Team Softlogic triumphed by a comfortable margin to take the coveted award and be recognised as the Best ALM practitioner. The ALM competition is a unique competitive learning experience that is made possible through the use of an ALM simulator where participants are offered the opportunity to utilise their skills in Asset & Liability Management in a realistic and highly competitive Banking environment. Furthermore, the competition creates opportunities for the exchange of experience, ideas and networking amongst banking and financial institutions professionals internationally.

This achievement is ample proof that Softlogic Finance has all the necessary skills as well as the required talent and commitment for implementation of world class ALM.







“ With many highways in progress and on the drawing board, the scope for road construction is immense. Softlogic Finance is a key contributor to the industry supporting development.”

# Financial Review

## Introduction

The performance of the Company in the year under review amply demonstrates the strong balance sheet and prudent risk management controls reposed in Softlogic Finance PLC and these facets are shaping the profitability of the Company as it rapidly evolves into one of the top entities in the country's non banking financial sector.

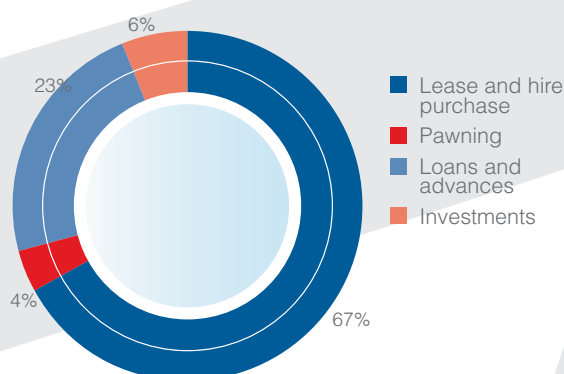
The Company has adopted the new accounting framework of SLFRS's by restating the financial position as at 01 April 2011 and the year 2011/12 thereafter and making this financial year as the first reporting financial year under newly introduced SLFRS's. As per restated financial statements for the year 2011/12, the Company's profits increased to Rs. 121 million as against Rs 105 million reported under the Sri Lanka Accounting Standards (SLASs) prevailed at that time. During the year under review, the Company recorded increased profit of Rs. 164 million, up from Rs. 121 million in 2011/12. Further, growth in assets by as much as 31% was witnessed during the year. Total assets as at 31st March 2013 stood at Rs. 13 billion, up from Rs. 10 billion in the preceding year. Higher interest rates in turbulent economic environment posed a challenging economic condition within which to operate. The highlight of our performance for the year is the revenue increase of 48% and lending portfolio improvement by 23%. Further, the US\$ 10 million loan from Dutch institutional investor, FMO, has strengthened our balance sheet. The funding line consists of two parts, with US\$ 6 million disbursed in December 2012, while the US\$ 4 million amount is in the nature of a convertible option subordinated loan. This infusion of capital empowers our loan disbursement capacity manifold.

## Interest Income

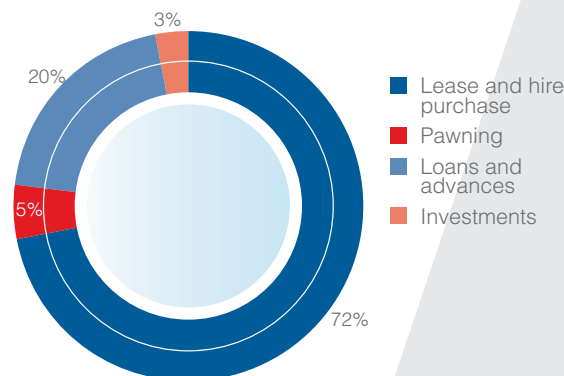
Despite the slowdown in economic growth and resultant lower credit demand the Company continued to maintain the rapid growth acquired in last financial year by securing strong results in interest income with a growth factor of 48%. Main contributing products were leasing and hire purchase as usual with an increase in 37% while interest income from loans and advances witnessed an increase of 75% from the previous year. Hike in import duty on vehicles and the upward trend in lending rates resulted in lower growth in leasing and hire purchase income. In contrast, interest income from loans and advances resulted higher growth during the year

2012/13 due to the increase in loan portfolio. Interest income from bank deposits and government securities increased significantly by 189% during the year 2012/13 with the increased level of liquid assets maintained by the Company which is well above Central Bank liquid assets requirement.

## Interest Income 2012/13



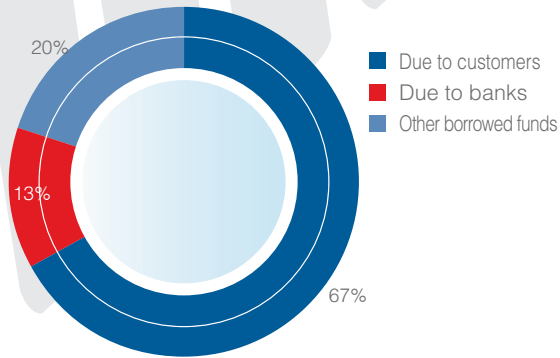
## Interest Income 2011/12



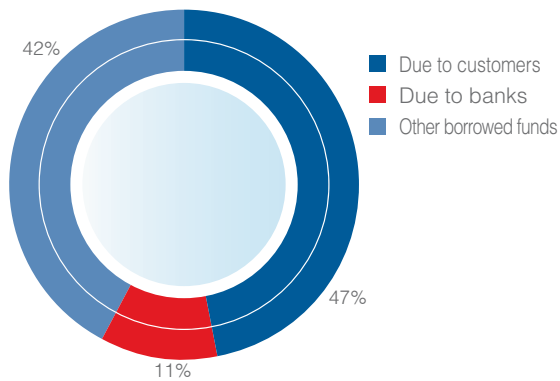
## Interest expenses

Interest expenses grew by 75% to Rs. 1,391 million as compared to Rs 793 million in 2011/12. This trend mainly resulted from the higher interest rate environment and the growth in the deposit base. Interest expenses mainly comprises of the Company's deposit base, bank and other borrowings. Interest expense on customer deposits increased by 147% from the previous year, while interest expense on other sources increased by 11%. This shows the Company's less concentration on borrowings as a source of funding and deposits was the targeted fund mobilisation tool.

### Interest Expenses 2012/13



### Interest Expenses 2011/12



### Net interest income

The Company was able to maintain a growth in net interest income of 19.6% irrespective of the significant escalation of interest cost in turbulent economic conditions.

### Other Operating Income

Other operating income increased by 128% from the previous year which was mainly contributed from the capital gains from the treasury bonds and dealing securities.

### Quality of the loan portfolio

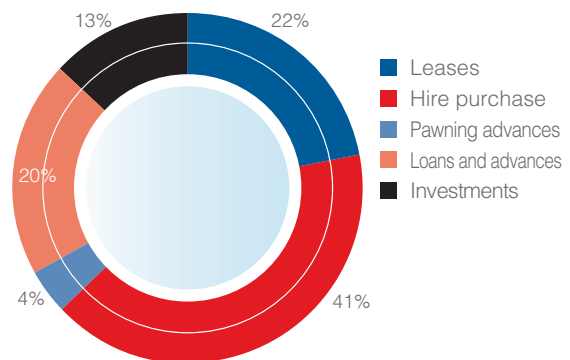
In accordance with the newly introduced accounting framework of SLFRS's, rule based provisioning requirement was replaced with the impairment concept which is purely based on the objective evidence. This impairment was carried out as a portfolio and as well as on specific basis. According to the new accounting standards, Company's impairment charges increased to Rs. 44 million as compared to Rs. 26 million. However

the Company has maintained a NPL ratio of 1.7% which was well below among the industry average and compared to the peers due to the prudent strategic management decisions involved in credit evaluation and recovery. Drop in market prices of gold, resulted in impairment losses within the industry, exposing peers to significant losses. However, the Company incurred minimum losses as lending portfolio concentration on pawning was at a lesser rate of 4% from the total lending portfolio.

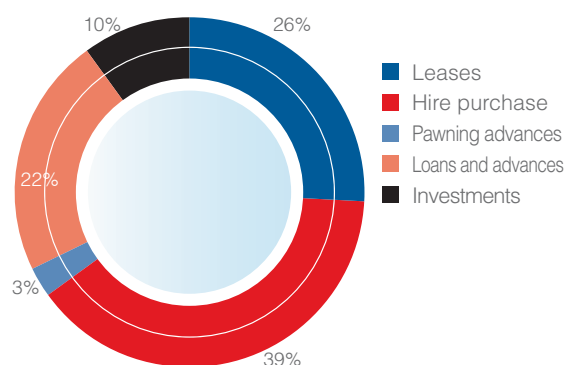
### Lending portfolio

Expansion in the lending portfolio slowed down in the industry due to the high interest regime that prevailed in the market as well as hike in import duty on vehicles. In comparison to the previous year, the finance lease and hire purchase portfolio has increased by 5% and 37% respectively, marking hire purchase as the leading product in our lending portfolio. The import duty hike on vehicles discouraged the demand for finance leases, which inturn created and attractive market for hire purchases.

### Lending portfolio 2012/13



### Lending portfolio 2011/12

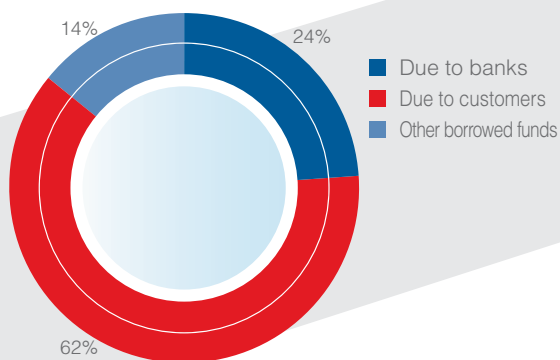


## Financial Review contd.

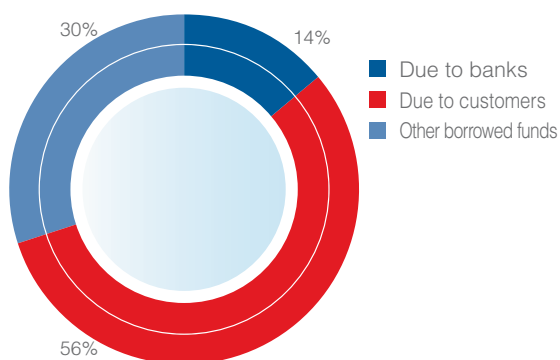
### Funding

The Company witnessed a continuous growth in the deposit base, backed by a strong brand name and the expanded branch network. Our deposit base reached Rs. 7 billion consuming 62 % of the funding line while demonstrating the confidence level of our customers in relation to our strong balance sheet as compared to previous year of 56%. Exposure to bank and other borrowings has reduced to 38% which comprised US \$ 10 million loan from FMO during latter part of the year.

#### Funding portfolio 2012/13



#### Funding portfolio 2011/12



### Shareholders' Funds, Earnings per Share and Capital Adequacy

An increase of Rs. 97 million was witnessed in shareholders' funds during the year. Earnings per share increased to Rs. 4.38 from Rs. 3.66 in the previous year, which marks an increase of 20% over the previous year. The Company's profitability and internal capital generation have strengthened the shareholders' funds.

Capital adequacy as a measure of financial strength and stability demonstrates well enhanced position for the Company with an increase of 10.95% of Tier I capital. During the year the Company has obtained a convertible subordinated loan facility from FMO which increases the company's Tier II capital base up to 15.76%. The Company was able to maintain the minimum thresholds set out by the Central bank of Sri Lanka, respectively 5% for Tier I and 10% for Tier II capital.

### Cost Management

Last year's staff strength of 550 went down to 467, still recording an 11% increase in personnel cost due to increments and continuous benefits offered to employees. Increase in operating costs remained at 31% downward growth compared to the last year growth of 134%, due to the best effort of management to enhance the productivity, which involved in aggressive branch network expansion.

### Capital Cost

Property, Plant & Equipment costs remained the same during the period, as this year was characterised by consolidation as opposed to the previous year which was all about aggressive expansion. There was no addition to the prevailing capital cost during the year except a marginal 2% increase.

### Liquidity

The Company's liquid assets increased from Rs. 855 million in the previous year to Rs. 1.36 Billion in spite of the credit ceiling placed to banks and the tight liquidity position that prevailed at RFC's during the year 2012/13. The Company's best strategies were able to manage the trade off between the liquid assets and yielding assets while ensuring the significant improvements in both liquidity and profitability.

# Corporate Governance

The Company's compliance with the parameters set out in the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL), the Securities and Exchange Commission (SEC), the Listing Rules of Colombo Stock Exchange (CSE) and the Central Bank Direction, No. 3 of 2008 (Corporate Governance) is tabulated below.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
<b>Board of Directors</b>				
The Board should direct, lead and control the Company	A.1	7.10.3 (c)	2 (1) (g) & 2 (2)	At present, the Board of Directors of the Company comprises of Five Non-Executive Directors and Two Executive Directors. The Board consists of members who have adequate knowledge and skills to direct, lead and control its operations. The Profiles of the Directors are presented on pages 12 to 13 of this Annual Report. The Company is controlled by a team of Senior Managers headed by the Chief Executive Officer (CEO). The Board plays an active role in setting the directions for the Company and the process of implementation of strategies. The Senior Managers are given the authority and responsibility to implement strategies. Annual budgets and corporate plans are the key tools in this process. The Board ensures that the Company's plans are directed towards the achievement of set objectives which are regularly monitored and updated through a well established monitoring process. Key Performance Indicators are used to assess the performance at each Board meeting.
<b>Board Meetings</b>				
Frequency of Board meetings	A.1.1		3 (1), (4) & (9)	Board meetings are held once in every month to review and evaluate the performance of the Company. Special meetings are held based on the requirement to discuss specific matters. The number of Board meetings held during the year and the individual attendance by each member of the Board thereat is presented on page 54 of this Annual Report.  The Company Secretary records the proceedings of the meetings and the decisions taken thereon in sufficient detail.

## Corporate Governance contd.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
<b>Board Responsibilities</b>				
Formulation and implementation of a sound strategy and effective systems	A.1.2		2 (1) (a), (b), 3 (2), 6 (1) & 6 (2)	Developing and implementing an annual business plan, annual budgets and managing day-to-day operations are fulfilled by the management as the Board has delegated its authority and responsibility to the management. These plans and the budgets are approved by the Board at the beginning of the year and the performance of the Company is reviewed by the Directors in line with the set targets and performance indicators. In setting targets for the future, the Board is responsible for approving the next three year budget at board meetings. Necessary adjustments are made to the plans and budgets and the strategies are altered accordingly. The changes by the Board are based on the Internal Strengths, Weaknesses, Opportunities and Threats prevailing in the macro-environment. In addition, Competitive actions are also considered in finalising any change.
Competence of the CEO and Senior Management in implementing Business Strategies	A.1.2		2 (1) (f), (h) & (k)	The Senior Management / Management Committee consist of competent members who have skills, knowledge and experience and qualifications to carry out their respective functions effectively. The CEO is responsible for the effective implementation of the policies approved by the Board. The Senior Management / Management Committee meets once in every week to discuss review policies & decisions of the Company. The profiles of the Senior Management and the Management Committee are presented on pages 14 to 17 of this Annual Report.
Effective succession planning for the CEO and Senior Management	A.1.2		2 (1) (j)	A proper succession plan is in place to ensure that there are adequate options available within the Company to replace the key personnel. Continuous training programmes are put in place to ensure that the staff is up to the required standard in filling a vacant position. The Company culture is designed in a way to identify and develop internal personnel to fill key positions whenever required.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
Effective Systems to secure Integrity of Information, Internal Controls and Risk Management	A.1.2		2 (1) (c ) & (e)	To secure integrity of information, internal controls, risk management policies and effective systems have been implemented by the Company. The effectiveness of such systems is continuously monitored by the management, internal and external auditors and independent consultants whenever necessary.
The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Finance Company is firmly under its authority			2 (5)	A pre-set agenda for meetings ensures the direction and control of the Finance Company is firmly under Board's control and authority. However the Board is in the process of implementing a formal schedule of matters specifically reserved to it for decision.
The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessment			2 (8)	The Company has adopted a scheme of self assessment to be undertaken by each director annually an filed with the Company secretary.
Compliance with Laws, Regulations and Ethical standards	A.1.2		2 (1) (l) 10 (2) (h) & (i)	<p>The Company has been taking steps to follow ethical standards in carrying out it's operations. The Company has taken relevant measures to comply with the laws and regulations applicable to ethical business practices wherever possible.</p> <p>There was no material non-compliance to prudential requirements, laws and internal controls as disclosed in the Annual Report of the Board of Directors on the Affairs of the Company on pages 65 to 68 Further, there were no supervisory concerns on lapses in risk management, non-compliance with the Act and rules and directions that have been pointed out by the Director-SNBFI and requested by the Monetary Board to be disclosed to the public</p>

## Corporate Governance contd.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
Consideration of all Stakeholders' Interest in Corporate Decisions	A.1.2		2 (1) (d) & 7 (10)	Stakeholders' interests are taken into consideration in evaluating a strategic decision. The Chairman ensures the effective communication with the shareholders and that their interests are taken into consideration in making decisions. The Board always makes an effort to minimize negative aspects towards any stakeholder in the corporate decision making process and a policy on communication with stakeholders is available for use.
Adoption of appropriate accounting policies and fostering compliance with financial regulations	A.1.2		10 (1) (a) & 10 (2) (a)	The Company's Accounting Policies are prepared based on the Sri Lanka Accounting Standards (SLFRSs & LKAS) and Industry best practices. Further, such policies are reviewed annually and updated accordingly to reflect the true and fair financial position of the Company. Financial statements of the Company are prepared and presented in compliance with the Sri Lanka Accounting Standards (SLFRSs & LKAS) and also comply with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No.42 of 2011 and the directions issued there under. The Independent Auditor's Report is given on page 76 of this Report.
Fulfilling other Board functions are vital, given the scale, nature and complexity of the business concerned	A.1.2			The Board consistently discharges its stewardship obligations on behalf of all Shareholders. Further, it ensures that recommendations given by external auditors are implemented properly to improve internal controls and business processes within the Company. The Board continuously monitors and develops the ethical guidelines to meet the highest level of public interest in its business activities.
Act in accordance with the laws and regulations relevant to the organization and place procedures to obtain independent advice.	A.1.3		2 (3)	The Board ensures that members across the Company are independently and collectively responsible to act according to the relevant laws and regulations. The Directors are authorized to obtain any independent professional advice that they require regarding laws and regulations at the expense of the Company and a detailed policy for the seeking such professional advice is available for use.



Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
Access to Company Secretary	A.1.4		3 (5), (6), (7) & (8)	All the Directors have access to the advice and service of the Company Secretary .The Secretary ensures that Board procedures are followed and are in compliance with the provisions of the Companies Act No.07 of 2007 and other applicable rules and regulations. The Secretary is responsible for maintaining minutes. The Secretary possesses the required qualifications as per the Companies Act and only the Board has the authority to change the Secretary.
Independent Judgment	A.1.5		4 (6)	Independent judgments of each Director on issues of strategy, performance, resources and standards of business conduct are discussed by the Board in order to evaluate matters effectively so that correct decisions can be made for the benefit of the Company and thus avoid conflicts of interests.
Dedication of adequate time and effort to matters of the Board and the Company	A.1.6		3 (3)	To ensure that the duties and responsibilities owed to the Company are satisfactorily discharged, the Directors attend monthly Board meetings and discuss prevailing matters. Time is allocated at each meeting to discuss the matters related to changes in business operations, risks and controls. Board papers are circulated amongst the members 7 days prior to each Board meeting in order to enable them to analyse and call for additional information and clarifications, if required. The Board members also conduct regular meetings and discussions with the Management and follow up on issues consequent to such meetings. The number of meetings attended to by each Director is presented on page 54 of this Annual Report.
Training for Directors	A.1.7			The Chairman is responsible to ensure that the Directors possess sound knowledge to carry out their duties in an effective manner. The Company facilitates the Directors to enhance their knowledge on the industry, general economic conditions, market developments and trends etc. The Company also provides necessary resources for the training of the Directors on a continuous basis at the Company's cost. Through this the Company expects to minimize the gap between the present status and the Company's vision, mission and goals.

## Corporate Governance contd.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
Division of responsibilities between the Chairman and CEO	A.2		7 (1) & (11)	<p>The role of the CEO and Chairman are not combined. The Chairman is a Non-Executive Director while the CEO serves as an Executive Director of the Company. This is to ensure a balance of power and authority such that no one possesses unfettered powers of decisions.</p> <p>CEO functions as the apex executive in-charge of the day-to-day management of the Finance Company's operations and business</p>
Chairman's Role	A.3 & A.3.1		7 (2), (4), (5), (6), (7), (8) & (9)	<p>The Chairman, who is a Non Executive Director, provides leadership and facilitates the effective functioning of the Board. The Chairman encourages the effective participation of the Directors towards the strategic decision making process in order to make collective decisions and ensure that the Directors utilize their maximum potential in favor of the Company. Therefore, the Chairman ensures that the Directors are informed adequately and in a timely manner about the issues arising at Board meetings.</p> <p>Different views of the Directors are evaluated to take strategically viable decisions and to ensure that stakeholder interest is not adversely affected. The Board has complete control over the affairs of the Company, by way of reviewing and analysing performance on a monthly basis. The Chairman presents the views of the Board to the public and the Chairman does not get involved in executive functions.</p> <p>The Agenda of the Board Meeting is a prearranged document and any additional issues are added to the agenda by the secretary with the approval of the Chairman</p>

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
The Board shall, if it considers that the finance company is likely to be, unable to meet its obligations, inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation			2 (6)	No such situation has arisen during the year 2012/2013.
<b>Financial Acumen</b>				
Availability of sufficient financial acumen and knowledge	A.4		4 (6)	The Directors hold the required qualifications and experience in the financial service sector as set out in their profiles given on page 13 of this Annual Report and provide the Company with the necessary financial guidance in conducting its business.
<b>Board Balance</b>				
Composition of the Board	A.5 & A.5.1	7.10.1	4 (1) & (3)	The Board of Directors of the Company comprises of Five Non-Executive Directors and Two Executive Directors and their views carry significant weight in the Board decisions.
Independence of the Directors	A.5.2, A.5.3 & A.5.5	7.10.2 & 7.10.3.(a) & (c)	4 (4) & (8)	At present, there are two Independent Non-executive Directors and they are free of any business or other relationship with the Company that could materially interfere with the exercise of their unfettered and independent judgment. Appointment of those two Directors as Independent Non-Executive Directors complied with the applicable statutory provisions. The Independency / Non-Independency, Executive / Non-Executive capacity of each Director is presented in page 65 of this Annual Report.
Submission of Annual declarations	A.5.4	7.10.2		Each Non-Executive Director submits a signed and dated declaration on an annual basis of his/her Independence/Non-Independence. At present, two of the Directors of the Company are Independent and the other five Directors are Non-Independent.

## Corporate Governance contd.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
Requirement to appoint a Senior Independent Director	A.5.6 & A.5.7		7 (2)	The Board has appointed an Independent Director as the Senior Director.
Board meetings only with Non-Executive Directors	A.5.8			As and when the necessity arises, the Board meets only with the Non Executive Directors to review the performance of the CEO.
Unresolved matters	A.5.9			The Director's concerns pertaining to unresolved matters are discussed and recorded in the Board minutes and discussed at the subsequent Board meeting.
In the event an alternate Director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the Independent non-executive director.			4 (5)	No such situation has arisen so far.
A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one half of the number of directors that constitute the quorum at such meeting are non-executive directors.			4 (7)	Complied.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.			4 (9), 2 (i)	Appointment of Directors takes place in terms of the Articles of Association of the Company and subject to the Central Bank approval.
All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.			4 (10)	Not Applicable.
<b>Supply of Information</b>				
Provision of timely information	A.6.1			The Senior Management provides accurate, timely, relevant and comprehensive financial and non financial information to the Board to facilitate the decision making process on a regular basis.
Chairman to ensure that all the Directors are properly briefed on issues arising at Board meetings	A.6.1		7 (6)	The Chairman takes necessary actions to update any Director who could not attend a meeting, prior to the next meeting.
The minutes, agenda and papers required for a Board meeting	A.6.2		3 (3)	The minutes, agenda and the Board Papers to be tabled at Board meetings are circulated among the Board members 7 days prior to each Board meeting.

## Corporate Governance contd.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
<b>Appointments to the Board</b>				
Assessment of Board Composition	A.7.2		4 (9)	The Board as a whole assesses its own composition to ascertain whether the combined knowledge and experience of the Board matches when the Company is faced with strategic demands. The findings of such assessments are taken into account when making new appointments to the Board.
Disclosure of profiles of the newly appointed Director	A.7.3	7.10.3. (d)		Complied.
Resignation of a Director			4 (11)	Resignations of Directors from the Board during the reporting period are presented in page 66 of this Annual Report. Resignation of the Director/ CEO was accordingly notified to the Central Bank of Sri Lanka and to the CSE for dissemination to the public.
Period of Service			4 (2)	No Director has exceeded the period of nine years of holding the office of Director other than a Director who holds the position of Executive Director/ CEO.
<b>Appraisal of Board performance</b>				
Board Appraisal	A.9			Board performance is assessed to ensure that the Board matches the strategic demands facing the Company. The findings of the appraisal will be taken into consideration in the appointment of new Directors. The Board carries out an annual review, headed by the Chairman and it covers the areas such as effectiveness of strategies taken, compliance with laws and effectiveness of the systems implemented. All the Directors actively participate in the review and improvements are implemented immediately.
Fitness and Propriety of Directors			5 (1) 5 (2)	None of the Directors of the Company are above the age of 70 years and they do not hold office as a Director or any other equivalent position in more than 20 Companies/Societies/Bodies Corporate.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
<b>Disclosure of Information in respect of Directors</b>				
Information in relation to each Director	A.10	7.10.3 (c)	2 (4), 7 (3) & 10.2 (d)	The information in relation to Directors is disclosed in the Annual Report. In terms of the Articles of Association of the Company, Directors abstain from voting on any Board resolution on a matter in which he or any of his relatives has substantial interest and are not counted for the quorum under the relevant agenda item at the Board meeting.
Appraisal of CEO	A.11			Financial and Non financial targets for the CEO are set at the beginning of the financial year and the performance of the CEO is reviewed based on achievement of such targets at the end of the year.
<b>Directors' Remuneration</b>				
The Level and Make up of Remuneration	B.2			The Remuneration Committee in deciding the remuneration of the Directors (including the compensation package of the CEO ) takes into consideration the level of remuneration paid by the other comparable companies, performance and risk factors
Executive Share Options	B.2.5			The Company does not have any executive share options at present.
Disclosure of Remuneration	B.3	7.10.5 (c)	10 (2) (e)	The remuneration paid to the Directors is disclosed on page 115 of this Annual Report.
<b>Relations with Shareholders</b>				
Constructive use of AGM and conduct of General Meetings	C.1			The AGM is held in a participative way with the presence of Softlogic Capital PLC as the major shareholder and the other shareholders. The Board is responsible for encouraging all the shareholders to be present at AGM's of the Company.
Consideration of proxy votes	C.1.1			Proxy votes together with the votes of the shareholders present at the AGM are considered for each resolution.
Separate Resolution for Separate issues	C.1.2			The Company proposes a separate resolution on each substantially separate issue and the adoption of the Annual Report and accounts is proposed as a separate resolution.

## Corporate Governance contd.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
Circulation of Notice of AGM and other documents	C.1.4			The Annual Report, Financial Statements, copies of proposed resolutions to be passed at the AGM and the notice are sent to shareholders with a notice period of at least 15 working days in compliance with the Companies Act.
Summary of procedure governing Voting at General Meetings	C.1.5			Instructions on appointing a Proxy with regard to representing the shareholder at the General Meeting to ensure the voting right is sent to each shareholder.
<b>Major Transactions</b>				
Disclosure of major transactions	C.2			Future strategies of the Company and their potential impact are disclosed on pages 6 and 10 of this Annual Report.
<b>Accountability and Audit</b>				
Financial Reporting	D.1		10.1 (a) & (b)	The Company places a great emphasis on complete disclosure of both financial and non financial information and has presented a balanced assessment of the Company's position quarterly and for the period ended 31st March 2013. In preparing the quarterly and annual Financial Statements, the Company has complied with the Companies Act No. 07 of 2007, the Finance Business Act No.42 of 2011 and the directions issued there under and the Financial Statements are presented in conformity with the Sri Lanka Accounting Standards. The Company has also complied with the requirements of the regulatory authorities such as the Central Bank of Sri Lanka, the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.
Interim accounts, price sensitive public reports, reports to regulators and information required by statute	D.1.1			Interim and Annual Financial Statements and other price sensitive information are disclosed to the CSE duly on a timely basis. All other regulatory reports are also submitted by the due dates.
Director's Report	D.1.2			Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are presented on page 68 of this Annual Report.



Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
Responsibilities of the Board and Auditors for the preparation of Financial Statements.	D.1.3			The statement of Directors' Responsibility for Financial Reporting and Independent Auditors' Report are presented on pages 73 and 76 respectively of this Annual Report.
Management Discussion and Analysis	D.1.4			A detailed Management Discussion and Analysis is presented on pages 25 to 29 of this Annual Report.
Declaration of Going Concern by Directors	D.1.5			This Information is provided in the Annual Report of the Directors on the affairs of the Company on page 68.
<b>Internal Control</b>				
Maintain a sound system of Internal Control	D.2		2 (1) (e) 10 (2) (b)	The ultimate responsibility of internal controls and mitigating risks rests with the Board of Directors. The Company's Internal Control systems and procedures are designed to eliminate possible risks and minimise any unforeseen risks while an effective disaster recovery plan is in place. A detailed Risk Management Report is presented on pages 62 to 64 of this Annual Report. The effectiveness of the finance company's internal control mechanism has been certified by the directors in the Directors' statement on internal control.
Review of the effectiveness of the group's system of internal control	D.2.1			The Management, with the assistance of the Internal and External Auditors reviews the effectiveness of the internal control procedures at the group level and takes corrective actions immediately.
The External auditors certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31,2010			10 (2) (c)	The external auditors are in the process of reviewing the report.

## Corporate Governance contd.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
Internal Audit Function	D.2.2			Internal Audit Function is carried out by the Internal Audit Division of the Company as well as Messrs SJMS Associates.
<b>Board Sub-Committees</b>				
Board Sub - Committees	D.3	7.10.5 & 7.10.6	8 (1)	The following Committees function as sub-committees of the Board. <ul style="list-style-type: none"> <li>• Audit Committee</li> <li>• Integrated Risk Management Committee</li> <li>• Remuneration Committee</li> </ul>
<b>Sub Committees</b>				
Audit Committee	D.3	7.10.6 (a), (b) & (c)	8 (2)	The Audit Committee consists of three members of the Board, out of which, two are Independent Non-Executive Directors. The Chairman of the Committee is an Independent Non-Executive Director who possesses qualifications and experience in accountancy. The composition and functions carried out by the Audit Committee are presented on pages 71 to 72 of this Annual Report.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
Integrated Risk Management Committee			8 (3)	<p>The Committee consists of one Non Executive Director, two Executive Directors (including CEO), Head of Risk, Head of Operations and key management personnel to make decisions on behalf of the Board in relation to the risks applicable to the Company and is responsible to submit a risk assessment report to the Board. The composition of the Risk Management Committee is presented on pages 62 to 64 of this Annual Report. As per the terms of reference of the Committee adopted by the Board of Directors, the following functions are being performed by the Risk Management Committee,</p> <ul style="list-style-type: none"> <li>(i) Assess all risks to the Company on a monthly basis through appropriate risk indicators and management information.</li> <li>(ii) Review the adequacy and effectiveness of all management level committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.</li> <li>(iii) Take prompt corrective action to mitigate the effects of specific risks in cases where such risks are at levels beyond the prudent levels decided by the committee on the basis of the Company's policies and regulatory and supervisory requirements.</li> <li>(iv) Meet at least quarterly to assess all aspects of risk management including updated business continuity plans and take prompt corrective action to mitigate such effects.</li> <li>(v) Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.</li> <li>(vi) Submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.</li> </ul>

## Corporate Governance contd.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
				(vii) The committee shall establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.
Remuneration Committee	B.1.1. B.1.2 & B.1.3	7.10.5		Details of remuneration committee are presented on page 68.
Independence and objectivity of the Auditors	D.3.2	7.10.6 (c)	8 (2) (d), 2 (1) (m)	The Independence of the internal and external auditors is monitored by the Board/ Audit Committee in order to ensure that the Company gets a good service and their work has not been impaired due to lack of independence. The Company's External Auditors during the period under review were Messrs. PricewaterhouseCoopers, Chartered Accountants. The Auditors do not have any relationship or interest in the Company or its subsidiaries. Further, the external auditor has not provided any non-audit service during the period which is substantial in nature.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
<b>Code of Business Conduct and Ethics</b>				
Adoption of a Code of Business Conduct	D.4			<p>The Code of Business Conduct includes provisions to,</p> <ul style="list-style-type: none"> <li>• Protect the Company's reputation when associating with people, organizations, products or transactions that could potentially damage the reputation.</li> <li>• Comply with legal and regulatory authorities in protecting stakeholder interest.</li> <li>• Each member must maintain the highest standards of integrity, honesty and personal conduct in all matters, which affect the Softlogic Group.</li> <li>• Staff is encouraged to report any suspicions of wrong doing to the Senior Management.</li> <li>• Seek business relationships which are mutually beneficial and lead to success through fair dealing and high standards of business integrity.</li> <li>• Seek competitive proposals from suitable suppliers and service providers.</li> <li>• Acknowledge responsibility for all employee related issues including health and safety.</li> <li>• Employees are encouraged to be a part of the good performance of the Company and while making them responsible towards work, encompassing self imposed disciplines.</li> <li>• Softlogic Finance's discipline policy is aiming at corrective actions rather than punitive and sets reasonable standards of performance and behavior to ensure consistency and fairness of treatment of all employees when the standards are not met.</li> <li>• Support local communities through charitable donations, and gifts in kind and encourage the involvement of staff voluntarily.</li> <li>• Responsible lending through a better understanding of customer needs.</li> <li>• Maintain a clear link between equality, diversity and business excellence.</li> </ul>

## Corporate Governance contd.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
Confidential Information	D.4.1			The Directors regard the confidentiality of customer information as highly important. Systems and controls within the Company ensure that the information is secured and integrity is maintained to avoid insider trading.
Affirmation from the Board regarding not violating the provisions of the code	D.4.2			There were no violations of the Company's Code of Ethics during the year.
Practice of good Corporate Governance	D.5	7.10	1	The Company is working towards ensuring compliance with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and the SEC, the Corporate Governance rules for listed Companies issued by the CSE and the Corporate Governance Direction and rules for Registered Finance companies issued under the Finance Business Act by the Central Bank of Sri Lanka.
Inclusion of a Corporate Governance Report in the Annual Report	D.5.1		2 (7)	The Corporate Governance Statement states to what extent the Company is compliant with the Corporate Governance guidelines.
The external auditor's certification of the compliance with the act and rules and direction issued by the monitory board in the annual corporate governance report published after January 1, 2011.			10 (2) (j)	The external auditors' certification has been obtained.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Reference to the Finance Companies (Corporate Governance) Direction No. 3 of 2008	Level of Compliance
<b>Shareholders Institutional Investors</b>				
Ensure institutional shareholders' voting intentions are translated into practice.	E.1			All shareholders are encouraged to participate and vote at the AGM. The names and the number of shares held by the 20 largest shareholders and percentage of such shares are presented on page 123 of this Annual Report along with other shareholder information.
Regular and structured dialog with shareholders	E.1.1			The primary mode of Communication between the Company and the Shareholders is through the Annual General Meeting. The Chairman ensures the views of shareholders are communicated to the Board as a whole.
<b>Related Party Transactions</b>				
Identifying & recording related party transactions			9 (2), (3), (4) & 10 (2) (f), (g)	The Company is in the process of strengthening the monitoring, mechanism in this regard during the year 2013/14 and the related party transactions during the year under review are set out in note 34 to the Financial Statements.
<b>Other Investors</b>				
Investing/ Divesting Decisions	F.1			The Annual Report is circulated to all shareholders in a timely manner and includes adequate information to enable the shareholders to make decisions relevant to their investment in the Company. The following reports aim at providing an overall assessment of the Company's activities and future prospects.  Chairman's Statement on pages 4 to 7. CEO's Review on pages 8 to 11. Management Discussion and Analysis on pages 25 to 29. Annual Financial Statements on pages 77 to 122.
Encourage individual shareholders to participate in general meetings and exercise voting rights	F.2			All shareholders are encouraged to participate and vote at the AGM.

## Corporate Governance contd.

The Board met 12 times in the year under review and the attendance at these meetings was as follows,

<b>Name</b>	<b>No.</b>
Mr A K Pathirage (Chairman)	12
Mr P M B Fernando (Resigned w.e.f. 31st January 2013)	10
Mr N H G Wijekoon (CEO)	12
Mr T M I Ahamed	12
Mr B H S Jayawardene	12
Mr C J E Corea	12
Mr D T C Soza	9
Mr S Wickremasinghe	10



# Corporate Social Responsibility

With a corporate vision of being providing the preferred non-banking solution in Sri Lanka, Softlogic Finance seeks to delight customers through custom made financial solutions. The Company strategy is to have an interactive and productive engagement with all our stakeholders. Our focus today has evolved to include social and environmental responsibilities towards society at large in our corporate culture.

## Financial Inclusiveness

Softlogic Finance presently operates 17 branches, and 31 pawning centers within its established network affording customer accessibility to some remote rural communities as well. In addition, the Company has extended 14 business extension units where it provides a door step service to customers located in western, southern, north central and central provinces.

We place emphasis on lending to micro-entrepreneurs and small businesses, which limits access to the conventional banking system due to lack of collateral and high transaction costs. The Company extends services to these less privileged segments of society and its approach is based on,

- ✓ relationship-based financing for individual entrepreneurs and small businesses; and
- ✓ group-based models, where several individuals come together to apply for loans and other services as a group.

These services are offered to borrowers who are engaged in agriculture, small scale trading, animal husbandry, fishing and other cottage industries such as wood working, manufacture of cement based products, sewing and a range of other economic activities.

## Securing the depositors' interests

The Company has initiated and followed best practices to safeguard the interest of the deposit holders which includes maintaining a strong equity position, a balanced liquidity position and strict compliance with statutory and regulatory requirements. The Company offers a variety of deposit options designed to cater to individual requirements. Special concern is given to "premium"



customers who have been with the Company for several years and senior citizens who are provided with higher rates of interest and other benefits like health insurance schemes.

## Social responsibility events conducted during the year

### Ape Dansala

The Recreation Club of Softlogic Finance conducted an "Ape Dansala" at the "Gangarama Wesak Kalapaya" during the period of wesak to quench the thirst of pilgrims for the third consecutive year. "Ape dansala" was also conducted to assist the pilgrims at the exposition of Kapilawasthu sacred relics at Gangarama Temple.



## Corporate Social Responsibility contd.

### Dengue Prevention- Awareness programme

The Company initiated the launch of an awareness programme in relation to dengue prevention, proving that Company has clearly understood the responsibility towards the wellbeing of society as a corporate citizen.



### Blood donation programme

A blood donation programme was organised by the Company to celebrate its first anniversary of several branches in the western region, giving employees the opportunity to get involved in meritorious activities. As a company we encourage a work life balance and our experience has shown that employees are extremely responsive to any efforts to involve them in projects targeted that benefit the community at large.



### Noguchi Children's Home

To mark the second anniversary of the Metro branch on 28 April 2013, the staff together with the top management spent an unforgettable day at Noguchi Children's home which is home to 26 children in Pepiliyayna area. We at Softlogic Finance always have understood our responsibility towards the future generations of our country.



### Employee Benefits

#### Training and Development

The Company embraces the concept of being a learning organisation with emphasis on training and development of employees from a technical as well as personal perspective. Training ensures that high standards are set, maintained and enhanced to keep up with changes in the environment and technology. The Company considers training and development an integral part of human capital development with weightage on continuous learning and perceives it as a necessity in a rapidly changing environment. Continuous professional development is an inbuilt component of the Company.

To ensure that training initiatives add value to the individual employee and the organisation as a whole, a structured approach is followed to ensure that maximum value is derived from training based on a progressive and continuous training programme for all employees. Training requirements and objectives are assessed at the performance evaluation stage and carried out on a pre-determined plan based on learning principles to ensure that the participants gain the desired outcome of the programme.

Training requirements of existing employees are continuously assessed and re-oriented considering the changes in risk management principles and compliance requirements.

New employees are provided with a series of induction programmes which cover the Company's core risk management principles and best practices imparting sound knowledge on compliance requirements.



### Welfare

Welfare of employees has been and continues to be a focus area of the Company. Reward and recognition practices are continued to encourage and foster effective employee engagement.

The Company established a Recreation Club with a view to further extending benefits to the staff. Promoting friendship among the members, participation of members in sports and recreational activities and special financial grants to the staff in the event of personal difficulties, are the main objectives of the club.

During the year the Recreation Club conducted a sports day for the staff giving them an opportunity to participate and show their talents. This was a great opportunity for them to get away from day to day work activities and network with other colleagues.

A Year-end annual get together was conducted by the recreation club at Taj Samudra Hotel was a successful event for staff members to meet up and enjoy.

### Employee Appraisal

The Human Resource policy of the Company has been developed with an objective of building dedicated individuals who possess knowledge, skills and attitude to contribute towards the progress of the organisation as a team.



The effectiveness and the efficiency of employees and organisational activities are monitored under the balance score card appraisal system of staff as a strategic performance management tool.

### Constructive communication

The Company continued to maintain the effective communication with its employees. The Companies intranet provides the facility to communicate the corporate strategies and company e mail is the main communication method of the Company. The flat structure of the organisational hierarchy provides closes supervision over staff.

### Environmental Concern

In line with global trends, the Company has also commenced a "Green Revolution" by reducing wastage with a re-usage concept where possible. This initiative was part of adopting environmentally friendly policies which enables the Company to be a responsible corporate citizen. The Company is focused on conserving resources, conserving energy, reducing pollution, and protecting the environment which leads to disciplined behavioural practices.

## Remarkable Events at Softlogic Finance



*Softlogic Finance PLC entered into an agreement with FMO (Dutch development Bank) for a funding facility of US\$ 10 Mn in November 2012 and successfully completed the deal with the receipt of senior loan component of US\$ 6 Mn in December and Subordinated term loan of US\$ 4 Mn in March with a significant boost in Tier II capital adequacy.*



*Softlogic Finance PLC was recognised as the best assets and liability management practitioner at the Assets and Liability management competition in its 6th year conducted for clients of FMO, DEG and Proparco who are all Development Finance Institutions of international repute with considerable exposure and strong relationships with a multitude of Banks, Corporates and Non-Bank Financial Institutions in across Latin America, Africa, Europe and Asia.*



*Opening of Anuradapura branch on 26 April 2012.*



Marking a breakthrough in training programmes, the first ever staff congress was successfully held at the auditorium of Sri Lanka Foundation on the 27th April 2013 focusing on service excellence and building the attitudes to value and respect to each other's jobs in achieving company success.



In appraisal of our employees' commitment and dedication, Badulla branch was awarded as the best branch for the year 2012/13.



“ Garments, one of Sri Lanka’s main export industry and Softlogic Finance is proud to be associated with this.”



# Integrated Risk Management

Integrated Risk Management (IRM) is an ongoing dynamic and evolving process that is intrinsic to the conduct of any financial institution. A comprehensive IRM framework greatly assists in the achievement of strategic corporate objectives. More significantly, it is important to approach it from a holistic perspective, so that risks can be managed effectively.

The activities of the company invariably attract an element of risk. IRM makes it possible to identify, assess, quantify, control and mitigate the risks within the institution and within the limits of its risk appetite and risk tolerance levels. The objective of IRM at Softlogic Finance is to measure and manage risk and capital across the range of services the company is engaged in. The promotion of a risk management culture has become an integral part of the way we do business and is now firmly enshrined in our corporate culture.

Our vision of Risk Management is to deliver superior shareholder value between risk and return.

The Risk Management department ensures that these risks are at acceptable levels and overlooks the Credit and Operations Risks in all the business activities that the organisation is engaged in. The organisation believes that risk management needs to be constantly updated and be on par with or above the best in the market in the dynamic environment that the company operates in. The proposed structure of the integrated risk management is as follows.



The Risk Management Department is divided into two main functional departments, which are the Credit Risk and the Operations Risk departments.

## Integrated Risk Management Committee

The Company has formed an IRM committee which consists of a non-executive director, two executive directors including CEO, Head of operations, Head of

Risk and any other management committee member required as per the agenda. The committee discusses credit, operations and strategic risk matters regularly. The minutes of the meetings along with the matters discussed and recommendations made are forwarded to the board for their perusal.

Detailed MIS reports are circulated and discussed at the meeting to manage risks faced by the organisation. The committee also studies regulatory and company policy parameters to ensure that they are fulfilled and, if not, that adequate measures are taken to fulfil the same in the future.

If any policy breaches or any significant risk which affects the organisation committed by an employee is detected, the committee will take appropriate action against the employee and take corrective measures to mitigate these risks.

A dedicated compliance officer has been appointed to overlook regulatory and other guidelines. Any compliance/breaches will be reported to the committee, which will take appropriate action depending on the type of breach committed.

## Main types of risks monitored and controlled by the Risk Team

Credit	Operational
• Recovery	• Process
• Default	• People
• Concentration	• Systems
	• External events
	• Compliance
	• Strategic
	• Reputational

All products and services offered by us are independently evaluated by the Risk Management Department (RMD) to ensure that appropriate measures have been taken to mitigate any risks that are envisaged. In order to achieve this as a team, the staff of RMD engages in continuous dialogue with the respective business areas which are responsible for assuming various risk exposures.

The RMD continuously monitors the portfolios to ensure that the quality of the portfolios is maintained and to ensure that any risks affecting any of the portfolios are identified, measured and corrective action taken immediately.

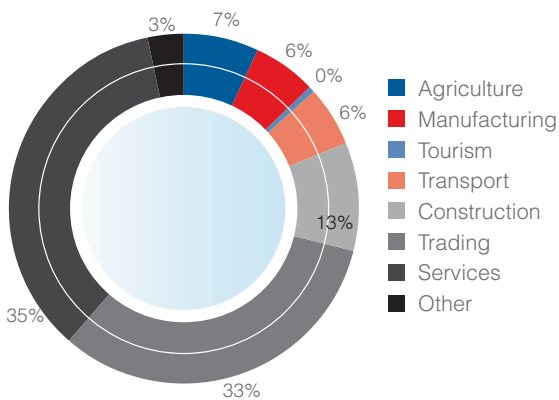


## Credit Risk

Credit risk is the potential financial loss that could arise as a result of the failure of a borrower to honour its contractual obligations. The Credit Risk department regularly monitors the health of the portfolio by looking at trends and macro economic conditions.

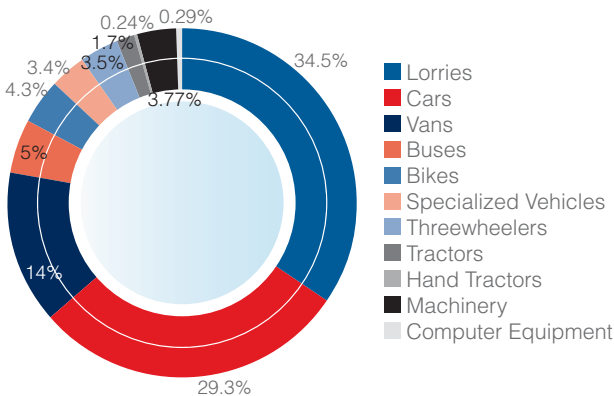
Credit risk is managed at two broad levels: Pre and Post disbursement. Pre disbursement is regulated by establishing an appropriate credit culture in the organisation and having approved delegated lending limits. Post disbursement involves monitoring and follow-up through regular MIS and economic indicators.

### Sectorial exposure



Company's credit policy approved by the board has defined prudential limits for each sector in the economy. These limits are regularly monitored and changed in line with the macro economic situation in the economy.

### Exposure by asset type



The Company's credit policy approved by the board has defined prudential limits for lending for different asset classes. These limits are regularly monitored and

changed in line with the macro economic situation in the economy. They are then placed in order to ensure that there is no concentration risk to a particular type of asset which will have a lesser re-sale value due to the changes in the macro economic situation in the economy.

### Non-performing Loans



The gross non performing loan ratio of the Company has increased to 1.71% during the financial year under consideration. The net NPL ratio which reflects the potential future provisioning has also slightly increased to 0.89%. These ratios are among the best in the industry and are the results of the stringent credit risk management some of which are described below.

### Credit culture of the organisation

The new recruits, especially the staff related to credit facilities are trained in the credit policies and processes of the organization in order to have a uniform credit culture. Periodic trainings are conducted to ensure that revisions to the policies are disseminated to the staff.

### Delegation of authority

The loans are approved by officers who have been empowered by the board in the form of delegation of authority (DA) and a thorough evaluation is done. The DA of the staff is regularly monitored through daily, weekly and monthly management reports. Major risks emerging in the portfolios are detected well in advance to take remedial measures without delay.

This process is complemented by the management committees which meet regularly to review various aspects of the lending activities of the company.

In addition, the Credit Risk Review function is deployed by the Risk Management unit to independently monitor

## Integrated Risk Management contd.

the credit processes, quality of portfolios and risk grading systems to ensure that high credit standards are maintained by Lending Officers at all times.

We have introduced a score card based lending evaluation which is being constantly updated to ensure that turnaround times are minimised and to ensure that there is uniformity in evaluations.

### Market Risk

#### Market Risk Monitoring

Market risk is the possibility of loss in 'on and off balance sheet' figures as a result of fluctuations in the value of financial instruments due to movements in market variables such as interest rates, exchange rates, equity and commodity prices. The Company has put into place a comprehensive Treasury Policy that has been approved by the Board and which is updated regularly to incorporate the latest developments in the market.

In terms of the Interest Rate Risk, the committee comes out with an Interest rate risk report which is a dynamic report that takes into account variations based on market rates to see how a scenario could impact profitability.

The Company has also adopted a zero risk policy with regard to exchange rate risks. The management has decided to hedge all foreign exchange exposures that include the FMO loan.

### Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Most of the processes in the organization have been documented and these are reviewed continuously to ensure that operations/activities are carried out seamlessly. The central operations team is involved in processing the bulk of the operations in an organisation.

We continuously monitor the processes and review the policies in order to achieve faster turnaround times and to reduce the incidents of operational losses.

We have also formulated a process to track near misses in the operations area. Near misses can be defined as lapses in processes or human error which has resulted in a situation which could have resulted in an operations loss. This data gathering will enable us to have an effective operations monitoring system.

### Capital Adequacy

Capital Adequacy Ratio (CAR) is a measure of the adequacy of a financial institution's capital against the risks it encounters. It is a key ratio used to protect investors and promote the stability and efficiency of organisations. In the year under review, the Company maintained a CAR of 15.76% which is above the statutory requirement of 10%.

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

The Directors of Softlogic Finance PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2013.

## General

Softlogic Finance PLC is a public limited liability Company which was incorporated on 24th August 1999 under the Companies Act, No. 17 of 1982 as "Vanik Leasing Limited".

On 14th July 2005 the name of the Company was changed to "Capital Reach Leasing Limited". The Company was re-registered under the Companies Act, No.7 of 2007 on 29th September 2008 under Registration No. PB 641.

The Ordinary Shares of the Company were listed on the Dirisavi Board of the Colombo Stock Exchange on 22nd January 2009.

The name of the Company was changed to Softlogic Finance PLC on 12th November 2010.

Softlogic Finance PLC is a Finance Company in terms of the Finance Business Act, No.42 of 2011 and a Registered Finance Leasing Establishment in terms of the Finance Leasing Act, No.56 of 2000.

## Principal activities of the Company and review of performance during the year

The principal activities of the Company during the year were granting lease and hire purchase facilities, group personal loans, business loans, gold loans, other credit facilities, vehicle hiring, acceptance of deposits, real estate sales and operation of savings accounts.

A review of the business of the Company and its performance during the year with comments on the financial results, future strategies and prospects are contained in the Chairman's review on pages 4 to 7.

This report, together with the Financial Statements, reflects the state of affairs of the Company.

## Financial Statements

The complete financial statements of the Company prepared in accordance with revised Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS) set by the Institute of Chartered Accountants of Sri Lanka and in compliance with the

requirements of the Companies Act, No. 07 of 2007 inclusive of specific disclosures, duly signed by two Directors on behalf of the Board and the Auditors are given on pages 77 to 122.

## Summarised Financial Results

	2012/2013	2011/2012
	Rs. 000	Rs.000
Total Operating Income	1,048,238	811,552
Profit before income tax	196,266	164,866
Income tax expense	(32,212)	(44,038)
Net Profit for the Year	164,054	120,827

## Auditors' Report

The report of the Auditors on the Financial Statements of the Company is given on page 76.

## Accounting Policies

The financial statements of the Company have been prepared in accordance with the revised Sri Lanka Accounting Standards and the policies adopted thereof are given on pages 81 to 93. Figures pertaining to the previous periods have been re-stated where necessary to conform to the presentation for the year under review.

## Directorate

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on page 13.

## Executive Directors

Mr N H G Wijekoon - Director/CEO  
Mr T M I Ahamed - Director

## Non Executive Directors

Mr A K Pathirage - Chairman  
Mr B H S Jayawardena - Director  
Mr C J E Corea - Director\*  
Mr D T C Soza - Director\*  
Mr S Wickremasinghe - Director

\* Independent Non Executive Directors as per the Listing Rules of the Colombo Stock Exchange.

Mr. A K Pathirage retires by rotation at the conclusion of the Annual General Meeting in terms of Articles 91 and 92 of the Articles of Association and being eligible is recommended by the Directors for re-election.

## Annual Report of the Board of Directors on the affairs of the Company contd.

Mr. P M B Fernando, who was the Director/CEO of the Company resigned both as Director and CEO with effect from 31st January 2013. Consequently, Mr. N H G Wijekoon, who served as Director and Deputy CEO was appointed to succeed as the CEO of the Company with effect from 1st February 2013.

Mr. Saliya Wickremasinghe was appointed as a non executive director to the board with effect from 25th June 2012.

### Interests Register

The Company maintains an Interest Register in terms of the Companies Act, No.7 of 2007 which is deemed to form part and parcel of this annual report and available for inspection upon request.

All related party transactions which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period are recorded in the Interests Register in due compliance with the applicable rules and regulations of the relevant Regulatory Authorities.

### Directors' Shareholding

The relevant interests of Directors in the shares of the Company as at 31st March 2013 and 31st March 2012 are as follows;

	Shareholding as at 31/03/2013	Shareholding as at 31/03/2012
Mr. A K Pathirage	168,000	168,000
Mr. P M B Fernando (Resigned on 31st January 2013)	N/A	8,040
Mr. N H G Wijekoon	9,666	9,666
Mr. T M I Ahamed	58,720	58,720
Mr. B H S Jayawardena	-	-
Mr. C J E Corea	-	-
Mr. D T C Soza	-	-
Mr. S Wickremasinghe	-	-

Messrs A K Pathirage and T M I Ahamed are Directors of Softlogic Capital PLC, which held 23,357,690 shares as at 31st March 2013 (23,284,821 shares as at 31st March 2012)

### Remuneration of Directors

The Directors' remuneration is disclosed under Note 34.1.3 to the Financial Statements on page 115.

### Related Parties' Transaction with the Company

Transactions of related parties (as defined in LKAS 24 – Related Parties Disclosure) with the Company are set out in Note 34 to the Financial Statements.

### Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company to reflect a true and fair view of the state of its affairs.

### Auditors

Messrs PricewaterhouseCoopers, Chartered Accountants served as the Auditors during the year under review and also provided non audit/tax compliance services. As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Company.

A total amount of Rs. 943,427 is paid by the Company to the Auditors for the year under review comprising Rs. 753,477 as audit fees and Rs. 189,950 for non audit/tax compliance services.

The Auditors have expressed their willingness to continue in office. The Audit Committee at a meeting held on 27th June 2013 recommended that they be re-appointed as Auditors. A resolution to re-appoint the Auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

### Stated Capital

The Stated Capital of the Company as at 31st March 2013 was Rs. 1,003,230,820 represented by 37,453,951 Ordinary Shares which remains unchanged.

### Major Shareholders, Distribution Schedule and other information

Information on the twenty largest shareholders of the Company, the distribution of shareholding, percentage of shares held by the public, market values per share as per the requirements of the Listing Rules of the Colombo Stock Exchange are given on page 123 under Investor Information.

## Reserves

The movements of reserves during the year are given under the Statement of Changes in Equity on page 79.

## Property, Plant & Equipment

Details and movements of Property, Plant and Equipment owned by the Company are given in Note 19 to the Financial Statements on page 102.

## Land Holdings

The Company does not own any freehold land.

## Investments

Details of quoted and unquoted investments made by the Company as at 31st March 2013 are given in Notes 13 and 14 to the Financial Statements on pages 97 to 98.

## Dividend

An interim dividend of Rs. 1/50 per share was paid during the year under review.

The Directors do not recommend a final dividend for the year under review.

## Donations

The Company did not make any donations during the year under review.

## Compliance

The Company has established a permanent and effective compliance function. A Compliance Officer appointed by the Board independently monitors adherence with all applicable laws, regulations and statutory requirements and reports to the Board and the Integrated Risk Management Committee. Monthly and quarterly compliance reports are submitted confirming compliance with laws and regulations as applicable to the Company.

The Compliance Officer also ensures that compliance reports are submitted to the Central Bank of Sri Lanka confirming Company's compliance with the directions, rules, determinations, notices and guidelines issued under the Finance Business Act No. 42 of 2011.

## Internal Controls

The Board has taken steps to ensure the implementation of an effective and comprehensive system of internal controls covering financial, operational and compliance controls. The Internal Auditors are responsible to review and report on the efficacy of the internal control system and other regulations and the Company's accounting and operational policies, which are subject to further review by the Audit Committee as elaborated in the report of the Audit Committee on page 71.

## Risk Management

An ongoing process is in place to identify and manage the risks that are associated with the business and operations of the Company. The Directors review this process through the Audit Committee and the Integrated Risk Management Committee.

The section on Risk Management on pages 62 to 64 sets out the processes currently practiced by the Company to identify and manage the risks.

## Contingent Liabilities

Except as disclosed in Note 31 to the Financial Statements on page 115 there were no material Contingent Liabilities as at the Balance Sheet date.

## Statutory Payments

The Directors confirm that, to the best of their knowledge, all taxes, duties and levies payable by the Company and 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.

## Events occurring after the Balance Sheet date

No material circumstances have arisen as at the date of the Auditors' Report, which would require adjustment to, or disclosure in the Financial Statements.

## Annual Report of the Board of Directors on the affairs of the Company contd.

### Going Concern

The board of directors has reviewed the Company's corporate/ business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements of the Company are prepared based on the going concern concept.

### Corporate Governance

The Board of Directors are responsible for the governance of the Company.

The Board, in the discharge of its responsibilities, had been guided by the Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, the Listing Rules of the Colombo Stock Exchange, Finance Companies (Corporate Governance) Direction No.03 of 2008, Finance Companies (Corporate Governance – Amendment) Direction No 04 of 2008 and Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction 03 of 2011.

The Board of Directors confirms that the Company is compliant with Section 7.10 of the Listing Rules of the CSE on Corporate Governance and the said Directions issued by the Monetary Board of the Central Bank of Sri Lanka save and except in respect of the matters referred to in the Annual Corporate Governance Report on pages 35 to 54.

An Audit Committee, a Remuneration Committee and an Integrated Risk Management Committee function as Board Sub Committees with Directors who possess the requisite qualifications and experience. In addition to Directors, certain key management personnel also serve on the Integrated Risk Management Committee .The composition of the said committees is as follows;

#### Audit Committee

Mr. C Corea (Chairman)  
Mr. D T C Soza  
Mr. B H S Jayawardena

#### Remuneration Committee

Mr. A K Pathirage (Chairman)  
Mr. D T C Soza  
Mr. C Corea

#### Integrated Risk Management Committee

Mr. T M I Ahamed (Chairman)  
Mr. N H G Wijekoon  
Mr. D T C Soza

### Annual General Meeting

The Annual General meeting will be held on 29 August 2013 at the Auditorium, the Central Hospital, No. 114, Norris Canal Road, Colombo 10 at 2.30 p.m.

The Notice of the Annual General Meeting appears on page 127.

### Acknowledgement of the content of the Report

As required by section 168(1)(k) of the Companies Act, this report is signed on behalf of the Board of the Company by two Directors and the Secretaries of the Company in pursuance of the authority granted by the Board by a Resolution passed on 27th June 2013 having acknowledged the contents of this annual report.

Signed for and on behalf of the Board of Directors by

(Sgd.)  
N H G Wijekoon  
Director/CEO

(Sgd.)  
T M I Ahamed  
Director

(Sgd.)  
P W Corporate Secretarial (Pvt) Ltd  
Secretaries

# Directors' Statement on Internal Controls

## Responsibility

According to the Section 10(2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008, the Board of Directors presents this statement on Internal Control over financial reporting.

The Board of Directors (the "Board") is responsible for the adequacy and effectiveness of the Softlogic Finance PLC (the "Company") system of internal controls over financial Reporting. 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 business environment or regulatory guidelines. The process is regularly reviewed by the Board and sub committees appointed by the Board.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's 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.

## Summary of the Process Adopted in Reviewing the Design and Operating Effectiveness of the Internal Control System

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

- ✓ Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of 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 Audit Unit of the Company checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on branches and other centers, 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 Audit Committee. Findings of the internal audits are submitted to the Audit Committee for review at their periodic meetings.
- ✓ The Audit Committee of the Company review internal control issues identified by the Internal Audit Unit, regulatory authorities and management, and evaluates the adequacy and effectiveness of the internal control system over financial reporting. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. Further details of the activities undertaken by the Audit Committee of the Company are set out in the Audit Committee Report on pages 71 to 72.

## Directors' Statement on Internal Controls contd.

- ✓ In assessing the internal control system, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn were observed and checked by the Internal Audit Unit for suitability of design and effectiveness on an ongoing basis.
- ✓ Comments made by the External Auditors in connection with further improvements to the internal control system had been adequately addressed in a written response from the Management. The improvements pointed by the External Auditors will be implemented during the ensuing year.

### Confirmation

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

### External Auditors Certification

The external auditors are in the process of reviewing the Directors' statement on internal controls over the financial reporting process to provide an assurance on the same.

By order of the Board,

(Sgd.)

**A K Pathirage**

Chairman

(Sgd.)

**N H G Wijekoon**

CEO/ Director

26 June 2013



# Report of the Audit Committee

## Composition

The Audit Committee comprised the following non-executive directors of the Company

Chris Corea (Chairman) - Independent Non-Executive Director

Dushan Soza - Independent Non-Executive Director

B H S Jayawardena - Non-Executive Director

## Role of the Audit Committee

The Audit Committee assists the Board of Directors in fulfilling effectively its responsibilities relating to financial and other related affairs of the company. The committee is empowered to oversight of :

- ✓ Preparation, presentation and adequacy of disclosures in the financial statements, in accordance with Sri Lanka Accounting Standards
- ✓ Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements
- ✓ Processes to ensure that the Company's internal controls and risk management procedures are adequate to meet the requirements of the Sri Lanka Accounting Standards
- ✓ Assessing the Company's ability to continue as a going concern in the foreseeable future
- ✓ Independence and performance of the Company's external auditors
- ✓ The rationale and basis for the significant estimates and judgments underlying the financial statements.

The Audit Committee Charter was followed to guide the workings of the audit committee to safeguard the interests of all stakeholders of the company.

## Financial Reporting

Acting with other board members the committee reviewed the Company's interim and Annual Financial Statements and other financial information prior to publication.

The Committee reviewed the operations with respect to risk assessment and monitored the effectiveness of risk management to provide reasonable assurance to the Board that the assets of the Company are safeguarded and that the financial position is maintained according to information made available.

The committee established a mechanism for the confidential receipt, retention and treatment of complaints (if any) alleging fraud or malpractice which may be received from internal/external sources pertaining to accounting, internal controls or other such matters.

## External Audits

The Committee assists the Board of Directors in engaging External Auditors for Audit and Non Audit services in compliance with the Statutes.

The Committee discusses the audit plan, key audit issues and their resolution, management response, proposed remuneration etc pertaining to the External Auditors. The reappointment of external auditor Messrs PricewaterhouseCoopers for the next financial year is recommended subject to the approval of the Shareholders at the AGM.

The Committee met with Messrs PriceWaterhouseCoopers, External Auditors to discuss the auditor's Management Letter pertaining to the previous year's Audit and the management response thereto.

It was mandatory for the Company with effect from 1st January 2012 to comply with the requirements of the SLFRS/LKAS which are based on the IAS (International Accounting Standards) and IFRS. Transition to the new accounting standards and its impact on the Company's financial statements were reviewed by the Audit Committee in consultation with the External Auditors.

## Internal Audits

During the year the audit committee reviewed the performance of the internal audit function, the findings of internal audits completed, corrective action taken by the management and their evaluation of the company's internal control system. The committee also reviewed and approved the adequacy and coverage of the risk based internal audit programme. It also assessed the resource requirement and independence of the

## Report of the Audit Committee contd.

department. Part of the internal Audit function is outsourced to Messrs S J M S Associates, Chartered Accountants.

### Meetings

The audit committee met twelve times during the year 2012/13. The attendance of the members at audit committee meetings is as follows.

Member	Status	No. of Meetings
Chris Corea (Chairman)	Independent Non-Executive Director	12
Dushan Soza	Independent Non-Executive Director	09
B H S Jayawardena	Non-Executive Director	11

On the invitation of the Committee the AGM Finance, Director Finance, Chief Executive Officer, Chief Operating Officer, other officers and external auditors may attend the meetings. PW Corporate Secretarial Services (Pvt) Ltd acted as Secretaries to the Audit Committee. The proceedings of the audit committee meetings are recorded in adequate detail and reported to the Board.

(Sgd.)

**Chris Corea**

Chairman

Audit Committee

26 June 2013

# Statement of Directors' Responsibilities

The Directors are required by the Companies Act, No. 7 of 2007 to prepare financial statements for each financial year, which give a true and fair view of the statement of affairs of the Company as at the end of the financial year and the income and expenditure of the Company for the financial year.

The Directors are also responsible to ensure that the financial statements comply with any regulations made under the Companies Act which specifies the form and content of financial statements and any other requirements which apply to the Company's financial statements under any other law.

The Directors consider that the financial statements presented in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the Sri Lanka Accounting Standards (SLFRS's/ LKAS's), Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Finance Business Act No. 42 of 2011 and the Directions issued thereunder.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records, which disclose the financial position of the Company with reasonable accuracy and enable them to ensure that the financial statements have been prepared and presented as aforesaid. They are also responsible for taking measures to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing the financial statements. The Directors, after making inquiries and review of the Company's Business Plan for the financial year 2013/2014 including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

By Order of the Board  
Softlogic Finance PLC

*(Sgd.)*  
**P W Corporate Secretarial (Pvt) Ltd**  
Secretaries

26 June 2013





“ Rapid infrastructure development in post war Sri Lanka has resulted in booming construction industry. Softlogic Finance honored to be a contributor in this industry. ”

# Independent auditor's report



## Report on the financial statements

- 1 We have audited the accompanying financial statements of Softlogic Finance PLC which comprise the statement of financial position as at 31 March 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 77 to 122.

## Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS). This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

## Scope of Audit and Basis of Opinion

- 3 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 plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the

accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

## Opinion

- 4 In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2013 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2013 and of its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS).

## Report on Other Legal and Regulatory Requirements

- 5 These financial statements also comply with the requirements of Section 151 (2) of the Companies Act, No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

(Sgd.)

**PricewaterhouseCoopers**

Chartered Accountants

Colombo

26 June 2013

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*T: +94 (11) 771 9838, 471 9838, F: +94 (11) 230 3197, www.pwc.com/lk*

**Partners Y. Kanagasabai FCA, D.T.S.H. Mudalige FCA, C.S. Manoharan FCA, N.R. Gunasekera FCA,  
S. Gajendran FCA, Ms. S. Hadgie FCA, Ms. S. Perera ACA**

PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

# Statement of comprehensive income

(all amounts in Sri Lanka Rupees)

	Notes	Year ended 31 March	
		2013	2012 (Restated)
Interest income	3	2,277,546,258	1,534,038,548
Interest expenses	4	(1,391,049,603)	(793,292,514)
<b>Net interest income</b>		<b>886,496,655</b>	<b>740,746,034</b>
Fee and commission income	5	69,343,672	47,682,514
Trading income	6	30,782,319	4,954,290
Other operating income	7	61,615,748	18,169,303
<b>Total operating income</b>		<b>1,048,238,394</b>	<b>811,552,141</b>
<b>Operating expenses</b>	8		
Personnel costs	8.1	(238,778,512)	(213,866,607)
Impairment for loans and receivables	8.2	(48,420,323)	(5,918,538)
Depreciation of property, plant and equipment		(43,915,894)	(26,185,668)
Amortisation of intangible assets		(2,045,645)	(1,443,454)
Other operating expenses	8.3	(481,898,254)	(369,209,607)
<b>Profit before income tax and Value Added Tax on financial services</b>		<b>233,179,766</b>	<b>194,928,267</b>
Value Added Tax on financial services		(36,912,779)	(30,062,219)
<b>Profit before income tax</b>		<b>196,266,987</b>	<b>164,866,048</b>
Income tax expense	9	(32,212,924)	(44,038,618)
<b>Profit for the year</b>		<b>164,054,063</b>	<b>120,827,430</b>
Basic earnings per share	10	4.38	3.66
Profit for the year		164,054,063	120,827,430
<b>Other comprehensive income :</b>			
Loss on remeasuring available for sale financial investments		(5,918,219)	(9,131,113)
Transferred to income statement on disposal of available for sale financial investments		(5,340,240)	1,106,709
Actuarial loss on post employment benefit obligations		(97,809)	(233,625)
<b>Other comprehensive income for the year, net of tax</b>		<b>(11,356,268)</b>	<b>(8,258,029)</b>
<b>Total comprehensive income for the year</b>		<b>152,697,795</b>	<b>112,569,401</b>

The Accounting policies and notes from pages 81 to 122 form an integral part of these Financial Statements.

Independent auditor's report - page 76.

# Statement of financial position

(all amounts in Sri Lanka Rupees)

	Notes	As at 31 March		As at 01 April
		2013	2012	2011
			(Restated)	(Restated)
<b>ASSETS</b>				
Cash and cash equivalents	12	1,472,505,964	1,103,947,507	144,128,457
Financial investments - Available for sale	13	114,962,661	70,485,704	37,368,600
Financial investments - Held for trading	14	78,705,000	Nil	Nil
Lease and hire purchase receivables	15	7,221,967,081	6,004,640,531	3,359,237,863
Loans and receivables	16	3,352,909,970	2,240,648,807	590,881,044
Other non financial assets	17	791,538,189	472,356,108	238,573,722
Intangible assets	18	8,351,476	7,414,202	3,062,060
Property, plant & equipment	19	177,862,940	176,248,028	36,524,950
<b>Total assets</b>		<b>13,218,803,281</b>	<b>10,075,740,887</b>	<b>4,409,776,696</b>
<b>LIABILITIES</b>				
Due to banks	20	2,653,411,875	1,153,069,459	323,910,127
Due to customers	21	6,956,951,047	4,681,850,126	1,584,806,994
Other borrowed funds	22	1,581,421,032	2,564,214,789	1,670,113,720
Other non financial liabilities	23	743,760,027	481,266,094	266,807,706
Retirement benefit obligations	24	13,512,666	11,886,551	8,394,864
Deferred tax liabilities	25	65,150,142	75,374,483	39,108,824
		<b>12,014,206,789</b>	<b>8,967,661,502</b>	<b>3,893,142,235</b>
<b>SHARE HOLDERS' FUNDS</b>				
Stated capital	26	1,003,230,820	1,003,230,820	468,174,370
Statutory reserve fund	27	42,839,262	12,657,138	7,375,479
Investment fund reserve	27	47,687,252	20,929,338	Nil
Retained earnings		130,122,021	79,286,493	41,084,612
Available for sale reserve	27	(19,282,863)	(8,024,404)	Nil
<b>Shareholders' funds</b>		<b>1,204,596,492</b>	<b>1,108,079,385</b>	<b>516,634,461</b>
<b>Total liabilities and share holders' funds</b>		<b>13,218,803,281</b>	<b>10,075,740,887</b>	<b>4,409,776,696</b>
Net assets per share		<b>32.16</b>	29.59	19.31

I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act, No. 07 of 2007.

(Sgd.)

**D S Hewapathirana**

Assistant General Manager - Finance

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved by the Board of Directors on 26 June 2013.

(Sgd.)

**A K Pathirage**

Chairman

(Sgd.)

**N H G Wijekoon**

CEO/Director

The Accounting policies and notes from pages 81 to 122 form an integral part of these Financial Statements. Independence auditor's report - page 76.



# Statement of changes in equity

(all amounts in Sri Lanka Rupees)

	Stated Capital	Retained Earnings	Available for Sale reserve	Statutory Reserve Fund	Investment Fund Reserve	Total
Balance as at 01 April 2011	468,174,370	41,084,612	Nil	7,375,479	Nil	516,634,461
Net profit for the year	Nil	120,827,430	Nil	Nil	Nil	120,827,430
Other comprehensive income for the year	Nil	(233,625)	(8,024,404)	Nil	Nil	(8,258,029)
Total comprehensive income	Nil	120,593,805	(8,024,404)	Nil	Nil	112,569,401
Rights issue of shares	535,056,450	Nil	Nil	Nil	Nil	535,056,450
Dividends paid	Nil	(56,180,927)	Nil	Nil	Nil	(56,180,927)
Transferred to reserve fund	Nil	(5,281,659)	Nil	5,281,659	Nil	Nil
Transferred to investment reserve fund	Nil	(20,929,338)	Nil	Nil	20,929,338	Nil
Balance as at 31 March 2012	1,003,230,820	79,286,493	(8,024,404)	12,657,138	20,929,338	1,108,079,385
Net profit for the year	Nil	164,054,063		Nil	Nil	164,054,063
Other comprehensive income for the year	Nil	(97,809)	(11,258,459)	Nil	Nil	(11,356,268)
Total comprehensive income for the year	Nil	163,956,254	(11,258,459)	Nil	Nil	152,697,795
Dividends paid	Nil	(56,180,687)	Nil	Nil	Nil	(56,180,687)
Reserve Fund	Nil	(56,940,038)	Nil	30,182,124	26,757,914	Nil
Balance as at 31 March 2013	1,003,230,820	130,122,021	(19,282,863)	42,839,262	47,687,252	1,204,596,492

The Accounting policies and notes from pages 81 to 122 form an integral part of these Financial Statements.

Independent audit's report - page 76.

# Statement of cash flows

(all amounts in Sri Lanka Rupees)

	Notes	Year ended 31 March	
		2013	2012 (Restated)
<b>Cash flows from operating activities</b>			
Net profit before taxation		196,266,987	164,866,048
<b>Adjustments for</b>			
Depreciation		43,915,894	26,185,668
Amortisation of intangible assets		2,045,645	1,443,454
Profit on disposal of property, plant and equipment		(744,970)	(183,024)
Profit from sale of vehicles		(1,726,522)	(4,589,409)
Gain from disposal of available for sale investments		(5,449,933)	(922,605)
Impairment charge bad and doubtful debts		48,420,323	5,918,538
Provision for defined benefit plans		4,840,806	3,328,061
Interest expenses		1,391,049,603	793,292,514
<b>Operating profit before working capital changes</b>		<b>1,678,617,833</b>	<b>989,339,245</b>
(Increase) in lease and hire purchase rental receivable		(1,265,746,873)	(2,651,321,206)
(Increase) in loans & receivables		(1,112,261,163)	(1,649,767,763)
(Increase) in financial investments - Held for trading		(78,705,000)	Nil
(Increase) in other non financial assets		(280,823,365)	(223,573,599)
Increase in amounts due to banks		1,313,333,804	816,148,725
Increase in amounts due to customers		2,275,100,921	3,097,043,132
(Decrease) / increase in other borrowed funds		(982,793,758)	894,101,069
Increase in other non financial liabilities		236,668,660	214,458,389
<b>Cash generated from operations</b>		<b>1,783,391,060</b>	<b>1,486,427,992</b>
Interest paid		(1,391,049,603)	(793,292,514)
Taxes paid		(22,514,185)	(7,772,960)
Defined benefit plan costs paid		(3,312,500)	(70,000)
Purchase of vehicles		(48,567,503)	(36,690,805)
Proceeds from sale of vehicles		11,935,309	31,071,428
<b>Net cash generated from operating activities</b>		<b>329,882,578</b>	<b>679,673,141</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(48,953,113)	(171,965,422)
Proceeds from disposal of property, plant and equipment		1,184,359	444,103
Purchase of available for sale investments		(102,895,293)	(62,986,400)
Proceeds from sale of available for sale investments		58,512,241	22,767,497
<b>Net cash used in investing activities</b>		<b>(92,151,806)</b>	<b>(211,740,221)</b>
<b>Cash flows from financing activities</b>			
Proceeds from rights issue of shares		Nil	535,056,450
Dividends paid		(56,180,927)	(56,180,927)
<b>Net cash (used in) / generated from financing activities</b>		<b>(56,180,927)</b>	<b>478,875,524</b>
Net Increase in cash and cash equivalents		181,549,845	946,808,443
Cash and cash equivalents at the beginning of the year		1,035,628,978	88,820,535
<b>Cash and cash equivalents at the end of the year</b>		<b>1,217,178,823</b>	<b>1,035,628,978</b>
<b>Reconciliation of cash and cash equivalents</b>			
Cash and bank balance		1,472,505,964	1,103,947,507
Bank overdrafts		(255,327,141)	(68,318,529)
		<b>1,217,178,823</b>	<b>1,035,628,978</b>

The Accounting policies and notes from pages 81 to 122 form an integral part of these Financial Statements.

Independence auditor's report - page 76.

# Significant accounting policies

## 1 Corporate information

### 1.1 General

Softlogic Finance PLC (formerly known as Capital Reach Leasing PLC) (the "Company") is a Quoted Public Limited Liability Company incorporated and domiciled in Sri Lanka and governed by Finance Business Act No: 42 of 2011. The registered office of the Company and principal place of the Company is located at No. 33, Park Street, Colombo 2. Ordinary shares of the Company were listed on the Colombo Stock Exchange on January 22, 2009.

### 1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were granting lease facilities, hire purchases, vehicle hiring, group personal loans, business loans, other credit facilities, pawning, margin trading, accepting fixed deposits, real estate sales and operation of savings accounts.

### 1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking is Softlogic Capital PLC (formerly known as Capital Reach Holdings Ltd). In the opinion of the directors, the Company's ultimate parent undertaking and controlling party is Softlogic Holdings PLC which is incorporated in Sri Lanka.

### 1.4 Date of Authorisation for Issue

The Financial statements of Softlogic Finance PLC for the year ended 31 March 2013 were authorised for issue in accordance with a resolution of the board of directors on 26 June 2013.

## 2 Basis of preparation and summary of significant accounting policies

The Company prepares its financial statements in accordance with Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka. Sri Lanka Accounting Standards (SLASs) were revised to incorporate International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board, which requires all entities to apply these standards effective for years beginning on or after 1 January, 2012.

The financial statements of the Company has been prepared in accordance with Sri Lanka Accounting Standards, which comprise Sri Lanka Financial Reporting Standards (SLFRSs), Sri Lanka Accounting Standards (LKASs), relevant interpretations of the Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which are collectively referred to as SLFRSs. Company has consistently applied the accounting policies in the preparation of its opening SLFRS statement of financial position at 1 April, 2011 and throughout all periods presented, as if these policies had always been in effect. Appendix 01 to these accounts discloses the impact of the transition to SLFRSs on the Company's reported financial position and financial performance, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended 31 March 2012 prepared under previous Sri Lanka Accounting Standards.

Significant accounting judgements in relation to the accounting policies have been discussed in detail under section 2.2.

### 2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, as modified by the measurement at fair value for available-for-sale financial assets, financial assets held at fair value through profit or loss. The financial statements are presented in Sri Lankan Rupees, which is the Company's presentational currency. The preparation and presentation of these Financial statements is in compliance with the Companies Act. No. 7 of 2007.

#### 2.1.1 Functional and presentation currency

The financial statements are presented in Sri Lanka Rupees, except when otherwise is indicated. No adjustments have been made for inflationary factors.

#### 2.1.2 Changes in accounting policies and disclosures

New accounting standards, amendments and interpretations issued but not effective for the financial year beginning 1 January, 2012 and not early adopted.

## Significant accounting policies contd.

- (i) SLFRS 13, 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across SLFRSs.
- (ii) SLFRS 12, 'Disclosures of Interests in Other Entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company and the Group is yet to assess SLFRS 12's full impact.
- (iii) SLFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces the areas of LKAS 39 which relate to classification and measurement of financial instruments. SLFRS 9 requires financial assets to be classified in to two measurement categories at initial recognition which are financial assets measured as at fair value and financial assets measured at amortised cost. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains majority of the IAS 39 requirements. The main change being the fair value option taken as financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income in the statement of comprehensive income, unless this creates an accounting mismatch. The Company and the Group is yet to assess SLFRS 9's full impact.

### 2.1.3 Statement of compliance

For all periods up to and including the year ended 31 March 2012, the Company prepared its financial statements in accordance with Sri Lanka Accounting Standards. These financial statements for the year ended 31 March 2013 are the first the Company has prepared in accordance with SLFRS. Refer to Appendix 1 for information on how the Company adopted SLFRS.

### 2.1.4 Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations.

### 2.1.5 Comparative information

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

## 2.2 Significant accounting judgements

The Company's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with SLFRS are best estimates undertaken in accordance with the applicable standard.

Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Company's results and financial situation due to their materiality.

### a. Impairment losses on loans and advances

The Company reviews its loan portfolios to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Company, economic conditions that correlate with defaults on assets in the Company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**b. Impairment of available-for-sale equity investments**

The Company determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Company evaluates among other factors, the volatility in share price. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Had all the declines in fair value below cost been considered significant or prolonged, the Company would have recognised an additional loss in its financial statements.

**c. Fair value of financial instruments**

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions.

**d. Held-to-maturity investments**

In accordance with LKAS 39 guidance, the Company classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Company evaluates its intention and ability to hold such investments to maturity. If the Company were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Company is required to reclassify the entire category as available-for-sale Fair Value through Profit and Loss. Accordingly, the investments would be measured at fair value instead of amortised cost.

**e. Differed tax assets**

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

**f. Income tax**

The Company is subject to income taxes and other taxes including VAT on financial services. Significant judgement was required to determine the total provision for current, deferred and other taxes.

**g. Useful life-time of the property, plant and equipment**

The Company review the residual values, useful lives and methods of depreciation of assets at each reporting date. Judgement of the management estimate these values, rates, methods and hence they are subject to uncertainty.

**h. Defined benefit plans**

The cost of defined benefit plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates etc. Refer Note No 2.3.13 to understand how these rates have been determined. All assumptions are reviewed at each reporting date.

## 2.3 Summary of significant accounting policies

### 2.3.1 Borrowing costs

Borrowing costs are recognised as an expense in the year in which they are incurred. However, borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for its intended use or sale, are capitalized as part of the respective assets. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

## Significant accounting policies contd.

### 2.3.2 Taxation

Current income tax assets and liabilities for the current and prior periods 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 substantially enacted by the reporting date.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the relevant tax legislations.

### 2.3.3 Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets 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 assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and the carrying amount of deferred income 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 income tax asset to be utilised.

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

### 2.3.4 VAT on financial services

VAT on financial services is calculated based on VAT Act No 14 of 2002 and subsequent amendments thereto.

### 2.3.5 Financial assets and liabilities

In accordance with LKAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned category.

#### 2.3.5.1 Financial assets

The Company allocates financial assets to the following LKAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

##### a. *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise of financial assets held for trading. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held for trading consist of equity instruments. They are recognised in the statement of financial position as 'Financial assets held for trading'.

Financial instruments included in this category are recognized initially at fair value; transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively. The instruments are derecognized when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising. Financial assets for which the fair value option is applied are recognized in the statement of financial position as 'Financial assets designated at fair value'. Fair value changes relating to financial assets designated at fair value through profit or loss are recognized in 'Net gains on financial instruments designated at fair value through profit or loss'.

**b. Loans and receivables**

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

- (a) those that the Company intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Company upon initial recognition designates as available-for-sale; or
- (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers or as investment securities. Interest on loans is included in the income statement and is reported as ‘Interest and similar income’. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as ‘Loan impairment charges’.

**c. Held-to-maturity financial assets**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, other than:

- (a) those that the Company upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Company designates as available for sale; and
- (c) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs

and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the statement of comprehensive income and reported as ‘Interest and similar income’. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as ‘Net gains/(losses) on investment securities’.

**d. Available-for-sale financial assets**

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised as a part of equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in equity is recognised in statement of comprehensive income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale arise recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income in ‘Dividend income’ when the Company's right to receive payment is established.

**2.3.5.2 Reclassification of Financial assets**

The Company may reclassify financial assets within the frame work of LKAS 39 at the election of management.

- 01) Reclassify FVTP&L financial assets other than those designated at FVTP&L) upon initial recognition, only in limited circumstances as per

## Significant accounting policies contd.

para 50B or 50D of LKAS 39 Out of the FVTP&L category and into the available for sale, loans and receivable or held to maturity.

- 02) As per para 50E of LKAS 39, a financial asset classified as available for sale may be reclassified out of the available for sale category to loans and receivable if the entity has the intention and ability to hold the financial asset for the foreseeable future.

### 2.3.5.3 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

### 2.3.5.4 Financial liabilities

The Company's holding in financial liabilities is at amortised cost. Financial liabilities are derecognised when extinguished.

#### a. Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied.

#### b. Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the reporting dates.

For more complex instruments, the Company uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry.

The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 29.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk.

Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.



The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

*c. Recognition of differed day one profit and loss*

The best evidence of fair value at initial recognition is the transaction price (that is, the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Company has entered into transactions, some of which will mature after significant period of time, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such financial instruments are initially recognised at the transaction price, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is not recognised immediately in the income statement.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without immediate reversal of deferred day one profits and losses.

**2.3.5.5 Derecognition of financial instruments**

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral furnished by the Company under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Company retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Company retains a portion of the risks.

**2.3.6 Property, plant and equipment**

Property, plant and equipment of the Company includes both owned assets and leased hold assets;

**Initial recognition- owned assets**

Property plant & equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on property plant and equipment. Initially property plant and equipments are measured at cost. Excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Where an item of property, plant & equipment comprises major components having different useful lives, they are accounted for as separate items of property,plant & equipment.

**Leased assets**

Property, plant & equipment on finance leases, which effectively transfer to the Company substantially all of the risk and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at the fair value of the leased property, plant & equipment, or if lower, at the present value of the minimum lease payments. Capitalised leased assets are disclosed as property,plant and equipment and depreciated consistently with that of owned assets. The corresponding principle amount payable to the lessor together with the interest payable over the period of the lease is shown as a liability. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

## Significant accounting policies contd.

### Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment is accounted for separately, including major inception & overhaul expenditure and capitalized only when it increases the future economic benefits embodied in the item of property, plant & equipment. All other expenditure is recognized in the income statement as an expense incurred.

### Depreciation

Depreciation is calculated on a straight line basis over the useful lives of the assets using the following rates.

These rates used are:

Office Equipment	20%
Furniture & Fittings	15%
Office Partitioning	15%
Motor Vehicles	25%

The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting date and adjusted prospectively, if appropriate.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

### Intangible assets

The Company's intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

### Useful Life of intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income in relevant expense category in consistent with the function of the intangible asset.

### Amortization

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives

Intangible assets wholly consist of computer software acquisition cost and is capitalized and amortised using the straight line method over the useful life of five years at the rate of 20%

### Impairment of non financial assets

The Company assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that an asset may be impaired. If such indication exists, or when an annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. When the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

### 2.3.7 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 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 debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*a. Financial assets carried at amortised cost- Lease and HP / Loans and advances*

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually 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, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

*b. Individually assessment of impairment*

In Initial stage of SLFRS implementation Company has considered all legal cases related lease and HP receivables and past due contractual payments of either principle or interest as individually assessed loans and receivables.

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). This encompasses re assessment of the enforceability of any collateral held and the timing

and amount of actual and anticipated receipts. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. 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 finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to statement of comprehensive income.

*c. Collective assessment of impairment*

Collective impairment is based on the statistical model of net flow rate method which takes in to consideration of all historical loss experience in similar credit risk and it is based on the customer credit risk patterns. Based on the asset type total portfolio has segmented into similar credit risk groups. Under this methodology the movements in the outstanding balances of customers in to arrears buckets over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which the Company is not able to identify on an individual loan basis, and that can be reliably estimated. In arriving at ultimate loss ratios Company has considered the past trend in collateral realization and management judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical data.

## Significant accounting policies contd.

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

### *d. Write off of loans and advances*

The Company write offs certain loans and advances when they are determined to be uncollectible.

### *e. 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 or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement is removed from other comprehensive income and recognised in arriving the net income for the period. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairments are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, 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 finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement the impairment loss is reversed in arriving net income for the period.

### **2.3.8 Lease rentals receivable and hire purchase rentals receivable**

Assets leased to customers under agreements, which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Lease rentals receivable in the Statement of financial position represents total minimum lease payment due, net of unearned income and provision for doubtful recoveries.

Assets sold to customers under fixed rate hire purchase agreements, which transfer all risks and rewards as well as the legal title at the end of such contractual period are classified as hire purchase rentals receivable. Such assets are accounted for similar manner as finance leases.

The accounting for lease income is on the basis of the financing method.

The excess of aggregate rental receivable over the cost of the leased assets constitutes the total income at the commencement of the contract. The unearned income is taken into account over the period of lease, commencing from the month in which the lease is executed, in proportion to the declining receivable balance of the lease.

Income arising from the residual interest on hire purchase agreements is credited to the Income Statement as it accrues in proportion to the declining receivable balance of the agreement.

However, accrual of income from leases and hire purchase agreements cease when the account is impaired specifically.

### **2.3.9 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks other short term highly liquid investments with original maturities of three months or less. For the purpose of

cash flow statement cash and cash equivalents includes, cash in hand and investments with original maturities of three months or less net of outstanding bank overdrafts.

### 2.3.10 Other non financial assets

#### a. Real estate stocks

Purchase values of properties acquired and at value of related asset extinguished for properties repossessed and any subsequent expenditure incurred on such development including the borrowing costs up to the completion of developments.

#### b. Vehicle stocks

Purchase cost on a specific identification basis

#### c. Repossessed vehicles

Based on the valuation obtained as at the date of repossession.

### 2.3.11 Interest bearing loans

After initial recognition, interest bearing loans are subsequently measured at amortised cost using, the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

### 2.3.12 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used the increase in the provision due to the passage of time is recognised as an interest expense.

### 2.3.13 Defined benefit plans - gratuity

All the employees of the Company are eligible for gratuity under the Gratuity Act No. 12 of 1983. The Company measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan with the advice of an actuary using the Projected Unit Credit Method. The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Accordingly, the employee benefit liability is based on the actuarial valuation carried out by Messrs Piyal S. Goonetilleke & Associates, actuaries.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the year in which they arise.

Past service costs are recognised immediately in income, unless the change to the pension plan are conditional on the employees remaining in service for a specified period of time ( the vesting period). In this case the past service costs are amortised on straight line basis over the vesting period.

The key assumptions used by the actuary include the following:

Rate of interest	11.5%
Rate of salary increase	10%
Retirement age	55 years

The gratuity liability is not externally funded.

### 2.3.14 Defined contribution plans-employees' provident fund & employees' trust fund

Employees are eligible for Employees' Provident Fund contribution and Employees Trust Fund contribution in line with respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

## Significant accounting policies contd.

### 2.3.15 Revenue recognition

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

#### Interest income

For all financial assets measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR. Interest income is included in 'gross income' in the income statement.

#### Fee and commission income

Company earns fee and commission income from services it provides to its customers. Mainly documentation and processing fee for the service provided in processing of loan facilities to customers.

#### Net trading income

Net trading income includes all gains and losses from changes in fair value and related dividends for financial assets held for trading other than interest income.

Accounting for income from hiring - rental income and operating leases

Income from hire rental and operating leases is recognized on a straight line basis over the term of hire and operating leases.

#### Real estate sales

Profit on real estate sales represents the excess of sales value over the cost of the properties sold and is recognised on an accrual basis.

### Accounting for overdue charges

Overdue charges of leasing/hire purchases/ loans have been accounted for on cash basis.

### Income on dividend

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

### Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

### 2.3.16 Expenses

- a. All expenditure incurred in the running of business and maintaining property, plant and equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year.

#### Interest expense

- b. Interest expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability or a shorter period, where appropriate, to the net carrying amount of the financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR.
- c. For the purpose of presentation, of the statement of comprehensive income, the directors are of the opinion that the nature of expenses method presents fairly the elements of the Company's performance and hence such presentation method is adopted.

### 2.3.17 Statement of cash flows

The statement of cash flows is prepared using the indirect method as stipulated in LKAS 7 Statement of Cash Flows. Cash and cash equivalents for the purpose of statement of cash flows comprise cash in hand, balances at banks,

short term deposits with a maturity of three months or less net of outstanding bank overdrafts, if any.

#### **2.3.18 Statutory reserve fund**

Reserve Fund is a statutory reserve created in compliance with the direction No. 1 of Central Bank Regulations of 2003. The amount transferred is not less than 20% of the net profit after taxation.

#### **2.3.19 Investment fund reserve**

Investment fund reserve created in compliance with the guidelines issued by Value added Tax Act No 14 of 2002, under the cover of the letter No. 02/17/800/0014/01. The amount transferred is equal to the summation of ,

- a. An amount equal to 8% of the value addition computed for financial VAT purposes
- b. An amount equal to 5% of profits computed for income tax

#### **2.4 Directors' responsibilities statement**

Directors acknowledge the responsibilities for the true and fair presentation of the financial statements in accordance with the books of accounts and the Sri Lanka Financial Reporting Standards and the requirements of the Companies Act No. 7 of 2007.

# Notes to the financial statements

(all amounts in Sri Lanka Rupees)

## 3 Interest income

	2013	2012
<b>Interest income from lease and hire purchase</b>		
Finance leasing	557,368,453	409,941,226
Hire purchases	973,332,855	701,518,321
<b>Interest income from loans and advances</b>		
Income on hire	489,260	824,781
Personal loans	403,367,120	255,694,618
Pawning	78,120,227	70,589,284
Revolving loans	86,584,276	35,191,975
Micro credit loans	13,744,749	Nil
Consumer loans	24,624,046	4,620,518
Margin trading	3,783,986	8,593,225
Other lending & investments	136,131,286	47,064,600
	<b>2,277,546,258</b>	<b>1,534,038,548</b>

## 4 Interest expenses

	2013	2012
<b>Due to customers</b>		
Interest on time deposits	918,333,547	370,805,467
Interest on certificate of deposits	1,300,206	184,614
Interest on savings deposits	6,988,532	3,407,734
<b>Due to banks</b>		
Interest on bank borrowings	180,834,027	84,825,798
Interest on finance lease	850,770	1,051,937
<b>Other borrowed funds</b>		
Interest on securitisation	178,406,014	216,297,345
Interest on commercial papers	100,957,237	107,393,716
Interest on promissory notes	3,379,270	9,325,903
	<b>1,391,049,603</b>	<b>793,292,514</b>

## 5 Fee and commission income

	2013	2012
Documentation & processing fees	42,260,253	34,224,176
Sundry income	27,083,419	13,458,338
	<b>69,343,672</b>	<b>47,682,514</b>

## 6 Trading income

	2013	2012
Dividend income	4,251,797	364,881
Gain from remeasuring investments held for trading	24,804,000	Nil
Profit from sale of vehicles	1,726,522	4,589,409
	<b>30,782,319</b>	<b>4,954,290</b>



## 7 Other operating income

	2013	2012
Profit on disposal of property, plant and equipment	744,970	183,024
Gain from disposal of available for sale investments	5,449,933	922,605
Management fees	7,500,000	12,857,251
Notional interest reversal on individually impaired receivables	2,741,945	3,868,148
Capital gain on treasury bonds	45,178,900	338,275
	<b>61,615,748</b>	<b>18,169,303</b>

## 8 Operating expenses

Operating expenses include the following;

	2013	2012
<b>8.1 Personnel costs</b>		
Defined contribution plan costs - EPF & ETF	24,850,596	20,783,105
Defined benefit plan costs	4,938,616	3,561,686
Directors' remuneration	12,861,760	14,147,566
Gratuity charge for the year	4,840,806	3,328,061
Other staff related expenses	191,286,734	172,046,189
	<b>238,778,512</b>	<b>213,866,607</b>
<b>8.2 Impairment for loans and receivables</b>		
	2013	2012
Lease and hire purchase	14,102,971	3,971,159
Loans and receivables	34,933,782	Nil
Other receivables	(616,430)	1,947,379
	<b>48,420,323</b>	<b>5,918,538</b>
<b>8.3 Other operating expenses</b>		
	2013	2012
Loss on disposal of repossessed vehicles	24,543,293	21,234,365
Other overhead expenses	455,973,155	346,077,569
Auditors' remuneration	753,477	445,000
Secretarial fees	628,329	1,452,673
	<b>481,898,254</b>	<b>369,209,607</b>

## Notes to the financial statements contd.

### 9 Income tax expenses

The major components of income tax expense for the years ended 31 March are as follows :

	2013	2012
<b>Current income tax</b>		
Current income tax charge	25,923,082	7,772,960
<b>Deferred income tax</b>		
Deferred taxation charge	6,289,842	36,265,658
<b>Income tax expense reported in the income statement</b>	<b>32,212,924</b>	<b>44,038,618</b>

9.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows :

	2013	2012
Accounting profit before income tax	196,266,987	164,866,048
At the statutory income tax rate of 28% (2012 : 28%)	54,954,756	46,162,494
Deductible expenses	(53,525,601)	(27,959,440)
Non deductible expenses	30,783,768	25,835,564
<b>At the effective income tax rate of 16.41% (2012 : 26.71% )</b>	<b>32,212,924</b>	<b>44,038,618</b>

### 10 Basic earnings per share

10.1 Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

10.2 The following reflects the income and share data used in the basic earnings per share computations.

	2013	2012
Net profit for the year	164,054,063	120,827,430
<b>Number of ordinary shares used as the denominator</b>		
Weighted average number of ordinary shares	37,453,951	32,995,147
<b>Basic earnings per share</b>	<b>4.38</b>	<b>3.66</b>

## 11 Dividends paid and proposed

	2013	2012
Declared and paid during the year ( Rs.1.50 per share)	56,180,927	56,180,927
Dividends on ordinary shares:	56,180,927	56,180,927
Proposed for approval at Annual General Meeting	Nil	56,180,927
Dividends on ordinary shares:	Nil	56,180,927

## 12 Cash and cash equivalents

	2013	2012	2011
Cash at bank and in hand	583,945,950	278,658,957	64,874,455
Other Deposits and Investment - original maturity less than 3 months	888,560,014	825,288,550	79,254,002
	1,472,505,964	1,103,947,507	144,128,457

## 13 Financial investments - available for sale

	2013	2012	2011
Securities available for sale			
Equity securities at fair value - Listed	64,932,061	70,455,104	37,338,000
Equity securities at cost - Unlisted	50,030,600	30,600	30,600
Allowance for impairment	Nil	Nil	Nil
	114,962,661	70,485,704	37,368,600

## 14 Financial investments- Held for trading

	2013	2012	2011
Equity securities at fair value - Listed	78,705,000	Nil	Nil
	78,705,000	Nil	Nil

## Notes to the financial statements contd.

### 14.1 Quoted shares investments

	No of Shares 31 March 2013	Cost of investment 31 March 2013 Rs.	Market value 31 March 2013 Rs.	No of shares 31 March 2012	Cost of investment 31 March 2012 Rs.	Market value 31 March 2012 Rs.
Sampath Bank PLC	61	14,189	13,719	60	14,189	10,788
Seylan Bank PLC (Non Voting)	200,000	10,816,110	7,100,000	200,000	10,816,110	5,800,000
John Keells Holdings PLC	26,666	6,458,310	6,586,502	26,666	6,458,310	5,493,196
Expo Lanka Holdings PLC	927,600	12,986,400	6,307,680	927,600	12,986,400	5,751,120
Access Engineering PLC	2,000,000	50,000,000	39,400,000	2,000,000	50,000,000	53,400,000
Asian Alliance Insurance PLC	69,052	5,735,180	5,524,160	Nil	Nil	Nil
National Development Bank	477,000	53,901,000	78,705,000	Nil	Nil	Nil
<b>Total</b>		<b>139,911,189</b>	<b>143,637,061</b>		<b>80,275,009</b>	<b>70,455,104</b>

### 15 Lease and hire purchase receivables

	2013	2012	2011
Gross Investment in Leases and hire purchases	10,257,184,909	8,274,923,692	4,799,302,422
(-) Rentals Received in Advance	(4,518,303)	(5,612,105)	(2,481,306)
(-) Unearned Income	(2,996,097,309)	(2,241,429,867)	(1,414,445,076)
Total gross investment in lease and hire purchases	7,256,569,297	6,027,881,720	3,382,376,040
(-) Allowance for Impairment			
Allowance for Specific Impairment	(21,215,978)	(14,362,530)	(15,683,670)
Allowance for Collective Impairment	(13,386,238)	(8,878,659)	(7,454,507)
<b>Net Leases and hire purchase receivables (Note 15.1)</b>	<b>7,221,967,081</b>	<b>6,004,640,531</b>	<b>3,359,237,863</b>

#### Lease and hire purchase rentals receivable within one year

Lease and hire purchase rentals receivable within one year	4,229,069,753	3,042,449,356	1,698,417,749
(-) Unearned Income	(1,432,629,058)	(1,042,664,131)	(643,727,534)
Total Rentals Receivable within one year	2,796,440,695	1,999,785,225	1,054,690,215

#### Lease and hire purchase rentals receivable within one to five years

Lease and hire purchase rentals receivable within 1-5 years	6,023,596,853	5,226,862,231	3,100,884,673
(-) Unearned Income	(1,563,468,251)	(1,198,765,736)	(770,717,542)
Gross rentals receivable within one to five years	4,460,128,602	4,028,096,495	2,330,167,131

## 15.1 Net lease and hire purchase receivables

	2013	2012	2011
Gross investment in leases and hire purchases			
- Leases	<b>3,530,181,602</b>	3,359,460,416	1,507,821,985
- Hire purchase contracts	<b>6,727,003,307</b>	4,915,463,276	3,291,480,437
(-) Unearned income			
- Leases	<b>(1,022,144,216)</b>	(957,509,288)	(452,274,629)
- Hire purchase contracts	<b>(1,973,953,093)</b>	(1,283,920,579)	(962,170,447)
(-) Rentals received in advance			
- Leases	<b>(4,518,303)</b>	(5,612,105)	(2,481,305)
- Leases net before impairment allowance	<b>2,503,519,083</b>	2,396,339,023	1,053,066,051
- HP net before impairment allowance	<b>4,753,050,214</b>	3,631,542,697	2,329,309,990
<b>(-) Allowance for impairment</b>			
Allowance for specific impairment			
- Leases	<b>2,319,330</b>	1,458,832	1,254,480
- Hire purchase contracts	<b>18,896,648</b>	12,903,698	14,429,190
Allowance for collective impairment			
- Leases	<b>2,183,275</b>	2,737,836	4,463,661
- Hire purchase contracts	<b>11,202,963</b>	6,140,823	2,990,846
Net investment in leases and hire purchases			
- Leases	<b>2,499,016,478</b>	2,392,142,355	1,047,347,910
- Hire purchase contracts	<b>4,722,950,603</b>	3,612,498,176	2,311,889,954
	<b>7,221,967,081</b>	6,004,640,531	3,359,237,864

## 15.2 Movement in Impairment allowance for leases and hire purchase receivables

	2013	2012	2011
Balance as at the beginning of the year	<b>23,241,189</b>	23,138,178	Nil
Impairment charge for the year	<b>14,102,971</b>	3,971,159	23,138,178
Reversal of notional interest for the year	<b>(2,741,944)</b>	(3,868,148)	Nil
Balance as at end of the year	<b>34,602,216</b>	23,241,189	23,138,178
<b>Movement in specific impairment allowance for leases and hire purchase receivables</b>			
Balance as at the beginning of the year	<b>14,362,530</b>	15,683,670	Nil
Net impairment charge for the year	<b>6,853,448</b>	(1,321,140)	15,683,670
Balance as at end of the year	<b>21,215,978</b>	14,362,530	15,683,670
<b>Movement in Collective Impairment Allowance for Leases and hire purchase Receivables</b>			
Balance as at the beginning of the year	<b>8,878,659</b>	7,454,507	Nil
Net impairment charge for the year	<b>4,507,579</b>	1,424,151	7,454,507
Balance as at end of the year	<b>13,386,238</b>	8,878,658	7,454,507

## Notes to the financial statements contd.

### 16 Loans and Receivables

	2013	2012	2011
Loans and receivable	4,119,455,656	2,808,990,592	732,418,441
(-) Unearned income	(731,611,904)	(568,341,785)	(141,537,397)
Gross loans and receivables	3,387,843,752	2,240,648,807	590,881,044
(-) Allowance for specific impairment	(31,736,935)	Nil	Nil
(-) Allowance for collective impairment	(3,196,847)	Nil	Nil
Net loans and receivable	3,352,909,970	2,240,648,807	590,881,044

#### 16.1 Product wise analysis of Net Loans and Receivables

	2013	2012	2011
Short term loans receivable	14,704,565	49,961,369	2,679,566
Revolving loans receivable	350,642,938	344,013,230	35,635,191
Consumer loans receivable	109,762,777		
(-) Unearned income	(19,080,642)	90,682,135	58,884,430
Personal loans receivable	2,293,614,598		
(-) Unearned income	(682,118,267)	1,611,496,331	1,319,282,395
Pawning receivable	436,511,829	255,139,267	124,322,109
Margin trading receivable	3,588,175	81,161,047	Nil
Micro credit loans receivable	282,248,385		
(-) Unearned income	(30,412,495)	251,835,890	Nil
Investments in commercial papers more than 3 months	28,277,533	Nil	Nil
Placements with banks and financial institutions	Nil	54,500,000	50,000,000
Investments in government securities	600,104,356	77,707,069	132,602,850
Allowance for impairment (Note 16.2 )	(34,933,782)	Nil	Nil
	3,352,909,970	2,240,648,807	590,881,044

#### 16.2 Product wise analysis - allowance for impairment for loans and advances

	2013	2012	2011
Short term loans receivable	Nil	Nil	Nil
Revolving loans receivable	2,275,120	Nil	Nil
Consumer loans receivable	3,453,152	Nil	Nil
Personal loans receivable	27,145,781	Nil	Nil
Pawning receivable	2,059,729	Nil	Nil
Margin trading receivable	Nil	Nil	Nil
Micro credit loans receivable	Nil	Nil	Nil
	34,933,782	Nil	Nil

### 16.3 Movement in impairment allowance for loans and receivable

	2013	2012	2011
Balance as at the beginning of the year	Nil	Nil	Nil
Net impairment charge for the year	34,933,782	Nil	Nil
Balance as at end of the year	34,933,782	Nil	Nil

### 16.4 Movement in specific impairment allowance for loans and receivables

	2013	2012	2011
Balance as at the beginning of the year	Nil	Nil	Nil
Net impairment charge for the year	31,736,935	Nil	Nil
Balance as at end of the year	31,736,935	Nil	Nil

### 16.5 Movement in collective impairment allowance for loans and receivables

	2013	2012	2011
Balance as at the beginning of the year	Nil	Nil	Nil
Net impairment charge for the year	3,196,847	Nil	Nil
Balance as at end of the year	3,196,847	Nil	Nil

## 17 Other non financial assets

	2013	2012	2011
Prepayments and other receivable (17.1)	648,445,420	422,889,225	217,071,418
Vehicle stock (17.3)	105,234,672	10,208,787	4,855,172
Real estate stock	37,858,097	39,258,096	16,647,132
	791,538,189	472,356,108	238,573,722

### 17.1 Prepayments and other receivable

Advance, deposits and prepayments	75,735,190	77,555,516	37,937,375
Receivable from inland revenue	171,086,772	176,883,181	98,143,263
Other receivable (17.2)	402,954,407	170,397,907	80,990,780
Impairment for other receivable	(1,330,949)	(1,947,379)	Nil
	648,445,420	422,889,225	217,071,418

### 17.2 Other receivable

Interest receivable on lease and hire purchase	182,075,205	95,584,237	47,235,739
Interest receivable on loans and advances	65,542,787	30,479,323	11,750,191
Insurance debtors	90,671,848	22,696,452	Nil
Others	64,664,567	21,637,895	22,004,850
	402,954,407	170,397,907	80,990,780

### 17.3 Vehicle stock

Trading vehicle stock	48,567,503	10,208,787	4,855,172
Repossessed vehicle stock	56,667,169	Nil	Nil
	105,234,672	10,208,787	4,855,172

## Notes to the financial statements contd.

### 18 Intangible assets

	Computer software
<b>Year ending 31 March 2011</b>	
Opening net book amount	949,392
Additions	2,551,373
Amortisation charge	(438,705)
<b>Closing net book amount</b>	<b>3,062,060</b>
<b>Year ending 31 March 2012</b>	
Opening net book amount	3,062,060
Additions	5,795,596
Amortisation charge	(1,443,454)
<b>Closing net book amount</b>	<b>7,414,202</b>
<b>Year ending 31 March 2013</b>	
Opening net book amount	7,414,202
Additions	2,982,919
Amortisation charge	(2,045,645)
<b>Closing net book amount</b>	<b>8,351,476</b>

Intangible assets includes fully amortised assets of Rs.7,568,950 as at 31 March 2013 which are still in use.

### 19 Property, plant and equipment

#### 19.1 Owned assets

#### 19.1 Gross Carrying Amount

	Balance as at 01 April 2012	Additions 1 April 2012 to 31 March 2013	Disposal 1 April 2012 to 31 March 2013	Balance as at 31 March 2013
<b>Owned assets</b>				
Office equipment	95,877,737	32,799,652	Nil	<b>128,677,389</b>
Furniture and fittings	55,819,414	3,122,357	(48,565)	<b>58,893,206</b>
Motor vehicles	8,914,538	Nil	(1,392,384)	<b>7,522,154</b>
Office partitioning	44,622,609	10,048,185	Nil	<b>54,670,794</b>
Motor vehicles - given out on hire agreements	2,351,070	Nil	Nil	<b>2,351,070</b>
	<b>207,585,368</b>	<b>45,970,194</b>	<b>(1,440,949)</b>	<b>252,114,613</b>
<b>Assets on finance leases</b>				
Furniture and fittings	3,590,487	Nil	Nil	<b>3,590,487</b>
Motor vehicles - given out on hire agreements	3,631,213	Nil	Nil	<b>3,631,213</b>
Motor vehicles	10,221,275	Nil	Nil	<b>10,221,275</b>
Office equipment	707,000	Nil	Nil	<b>707,000</b>
	<b>18,149,975</b>	<b>Nil</b>	<b>Nil</b>	<b>18,149,975</b>
<b>Total value of depreciable assets</b>	<b>225,735,343</b>	<b>45,970,194</b>	<b>(1,440,949)</b>	<b>270,264,588</b>



## 19.2 Depreciation

	Balance as at 1 April 2012	Charge for the Year	Disposal for the Year	Balance as at 31 March 2013
<b>Owned assets</b>				
Office equipment	20,310,509	22,430,661	Nil	<b>42,741,170</b>
Furniture & fittings	8,662,031	8,579,245	(17,605)	<b>17,223,671</b>
Motor vehicles	4,955,717	1,672,174	(983,956)	<b>5,643,935</b>
Office partitioning	3,538,268	7,957,689	Nil	<b>11,495,957</b>
Motor vehicles - given out on hire agreements	1,353,432	267,455	Nil	<b>1,620,887</b>
	<b>38,819,956</b>	<b>40,907,224</b>	<b>(1,001,561)</b>	<b>78,725,620</b>
<b>Assets on finance leases</b>				
Furniture and fittings	3,231,437	359,049	Nil	<b>3,590,486</b>
Motor vehicles - given out on hire agreements	3,629,040	Nil	Nil	<b>3,629,040</b>
Motor vehicles	3,194,148	2,555,354	Nil	<b>5,749,502</b>
Office equipment	612,733	94,267	Nil	<b>707,000</b>
	<b>10,667,359</b>	<b>3,008,669</b>	<b>Nil</b>	<b>13,676,028</b>
<b>Total depreciation</b>	<b>49,487,315</b>	<b>43,915,894</b>	<b>(1,001,561)</b>	<b>92,401,648</b>

## 19.3 Net Book Values

	As at 31 March	
	2013	2012
<b>Owned assets</b>		
Cost	<b>252,114,613</b>	207,585,368
Accumulated depreciation	<b>(78,725,620)</b>	(38,819,956)
<b>Net book value</b>	<b>173,388,993</b>	168,765,412
<b>Assets on finance leases</b>		
Cost	<b>18,149,975</b>	18,149,975
Accumulated depreciation	<b>(13,676,028)</b>	(10,667,359)
<b>Net book value</b>	<b>4,473,947</b>	7,482,616
<b>Total carrying amount of property, plant and equipment</b>	<b>177,862,940</b>	176,248,028

Property plant and equipments includes fully depreciated assets which are still in use of Rs. 8,048,432 as at 31 March 2013.

## 20 Due to banks

	Payable within one year	Payable after one year	2013	2012	2011
Bank overdrafts	255,327,141	Nil	<b>255,327,141</b>	68,318,529	55,307,922
Bank loans	1,219,791,014	1,171,956,072	<b>2,391,747,086</b>	1,076,562,660	258,764,479
Finance lease creditors	1,850,621	4,487,027	<b>6,337,648</b>	8,188,270	9,837,726
	<b>1,476,968,776</b>	<b>1,176,443,099</b>	<b>2,653,411,875</b>	1,153,069,459	323,910,127

## 21 Due to customers

	Payable within one year	Payable after one year	2013	2012	2011
Time deposits	5,713,037,132	1,144,588,048	<b>6,857,625,180</b>	4,613,210,866	1,567,900,685
Savings deposits	24,605,575	72,430,292	<b>97,035,867</b>	59,434,647	16,906,309
Certificate of deposits	2,290,000	Nil	<b>2,290,000</b>	9,204,613	Nil
	<b>5,739,932,707</b>	<b>1,217,018,340</b>	<b>6,956,951,047</b>	4,681,850,126	1,584,806,994

## Notes to the financial statements contd.

### 22 Other borrowed funds

	Payable within one year	Payable after one year	2013	2012	2011
Securitisation	540,163,502	288,228,624	<b>828,392,125</b>	1,556,849,562	1,282,050,993
Commercial papers	753,028,907	Nil	<b>753,028,907</b>	690,615,327	315,512,950
Other borrowings	Nil	Nil	<b>Nil</b>	316,749,900	72,549,777
	1,293,192,409	288,228,624	<b>1,581,421,032</b>	2,564,214,789	1,670,113,720

#### 22.1 Securitisation and other bank facilities

Bank	Type of the loan	Amortised cost	Interest rates	Securities pledged
DFCC Bank	Term Loan	6,816,738	AWPLR+3%	8,802,083
DFCC Bank	Term Loan	22,821,254	AWPLR+3%	29,791,627
HNB	Term Loan	32,000	AWPLR+4%	64,000
Commercial Bank of Ceylon	Term Loan	149,752,948	AWPLR+2.5%	196,560,000
Commercial Bank of Ceylon	Term Loan	47,290,405	AWPLR+2.5%	60,937,500
Seylan Bank	Term Loan	9,860,073	AWPLR+3.14%	19,793,457
National Savings Bank	Term Loan	39,791,465	AWPLR+3.25%	Nil
Nations Trust Bank	Short term loan	450,000,000	9%	638,700,000
People's Bank	Term Loan	27,888,527	AWPLR+3.25%	36,335,000
Bank of Ceylon	Term Loan	31,249,994	AWPLR+3%	46,874,991
Sanasa Development Bank	Term Loan	110,544,857	AWPLR+3%	145,382,747
Sanasa Development Bank	Term Loan	86,856,674	AWPLR+3%	112,387,369
Pan Asia Bank	Term Loan	150,000,000	AWPLR+3%	Nil
Central Bank	Tsunami Loan	714,284	3.00%	Nil
FMO Loan	Term Loan 1	750,163,843	LIBOR+5%	Nil
FMO Loan	Term Loan 2	507,960,000	LIBOR+7%	Nil
Securitisation X	Securitisation	2,500,000	13.82%	3,750,000
Securitisation XI	Securitisation	47,754,934	12.66%	71,940,000
Securitisation XII	Securitisation	66,627,492	12.31%	100,301,542
Securitisation XIII	Securitisation	101,101,944	11.80%	152,396,310
Securitisation XIV	Securitisation	200,469,689	15.23%	303,900,000
Securitisation XV	Securitisation	31,670,719	13.08%	47,528,038
Securitisation XVI	Securitisation	90,591,258	12.30%	136,092,529
Securitisation XVII	Securitisation	168,926,091	13.17%	255,750,000
Securitisation XVIII	Securitisation	118,750,000	16.59%	178,125,000
DFCC	Finance Lease	6,337,648	13.18%	Nil

All these facilities have been pledged on company's lease and hire purchase receivable loan book.

#### 22.2 Finance lease creditors

	As at 31 March 2013	Not later than 1 year	Later than 1 year and not later than 5 years
Gross liability	<b>7,428,822</b>	2,701,391	4,727,431
Finance charge allocated to future periods	<b>(1,091,174)</b>	(850,770)	(240,404)
Net liability	<b>6,337,648</b>	1,850,621	4,487,027

### 22.3 Securitisation (at amortised cost)

	2013	2012	2011
Trust 6	Nil	Nil	13,290,832
Trust 7	Nil	Nil	27,658,645
Trust 8	Nil	27,013,318	63,935,652
Trust 9	Nil	4,445,970	104,046,992
Trust 10	2,500,000	56,049,442	166,182,614
Trust 11	47,754,934	130,774,268	249,849,382
Trust 12	66,627,491	165,032,816	276,493,584
Trust 13	101,101,944	227,632,243	380,593,292
Trust 14	200,469,688	303,684,801	Nil
Trust 15	31,670,719	187,736,161	Nil
Trust 16	90,591,258	174,671,466	Nil
Trust 17	168,926,091	279,809,077	Nil
Trust 18	118,750,000	Nil	Nil
	<b>828,392,125</b>	<b>1,556,849,562</b>	<b>1,282,050,993</b>

### 23 Other non financial liabilities

	2013	2012	2011
Trade payables	211,874,100	107,445,302	95,295,890
Income tax liabilities	19,923,082	Nil	Nil
Other payables	511,962,845	373,820,792	171,511,816
	<b>743,760,027</b>	<b>481,266,094</b>	<b>266,807,706</b>

### 24 Retirement benefit obligation

	2013	2012
At beginning of year	11,886,551	8,394,865
Current service cost	2,825,576	1,777,407
Interest cost	2,015,230	1,550,654
Actuarial losses	97,809	233,625
Contributions paid	(3,312,500)	(70,000)
At end of the year	<b>13,512,666</b>	<b>11,886,551</b>

The amounts recognised in the statement of comprehensive income are as follows

Current service cost	2,825,576	1,777,407
Interest cost	2,015,230	1,550,654

Recognised in income statement

This obligation which is not externally funded is based on an actuarial valuation of the defined benefit plan based on the projected unit credit method, which is the benchmark method specified in Sri Lanka Accounting Standards (LKAS) No.19 "Employee Benefits", carried out by a professional actuaries as of 31 March 2013. The principal assumptions used for this purpose are as follows:

	2013	2012
Discount rate per annum	11.5%	12%
Annual salary increments rate	10%	12%
Retirement age	55	55

## Notes to the financial statements contd.

### 25 Deferred Taxation

Deferred income taxes are calculated in full on all temporary differences under the liability method using a principal tax rate of 28%. The movement on the deferred income tax account is as follows:

#### Deferred tax liability

	2013	2012
At beginning of the year	75,374,483	39,108,824
Income statement release	6,289,842	36,265,659
Impact on reclassification	(16,514,183)	Nil
At the end of the year	65,150,142	75,374,483

### 26 Stated capital

	2013		2012	
	Number	Rs.	Number	Rs.
Issued and fully paid ordinary shares	37,453,951	1,003,230,820	37,453,951	1,003,230,820
No. of shares at the beginning of the year	37,453,951		26,752,822	
Shares issued during the year (Right issue)	Nil		10,701,129	
No of shares at the ending of the year	37,453,951		37,453,951	

### 27 Reserves

	Statutory reserve fund	Investment fund reserve	Available for sale reserve	Total
As at 01 April 2011	7,375,479	Nil	Nil	7,375,479
Transfers during the year	5,281,659	20,929,338	Nil	26,210,997
Net loss on available for sale assets	Nil	Nil	(8,024,404)	(8,024,404)
As at 01 April 2012	12,657,138	20,929,338	(8,024,404)	25,562,072
Transfers during the year	30,182,124	26,757,914	Nil	56,940,038
Net loss on available for sale assets	Nil	Nil	(11,258,459)	(11,258,459)
As at 31 March 2013	42,839,262	47,687,252	(19,282,863)	71,243,651

#### Statutory reserve fund

Reserve fund is a statutory reserve created in compliance with the direction No. 1 of Central Bank Regulations of 2003. The amount transferred is not less than 20% of the net profit after taxation.

#### Investment fund reserve

Investment fund reserve created in compliance with the guidelines issued by Value Added Tax Act No 14 of 2002, under the cover of the letter No. 02/17/800/0014/01. The amount transferred is equal to the summation of

- a. An amount equal to 8% of the value addition computed for financial VAT purposes
- b. An amount equal to 5% of profits computed for income tax

## 28 Financial risk management

### Objectives and policies

The Company has formed an Integrated Risk Management Committee (IRM) with the ultimate objective of to deliver superior shareholder value between risk and return. This Committee consists of a non executive director, two executive directors including CEO, Head of risk, Head of operations. Integrated risk management committee oversees market risk, operational risk and credit risk. ALCO committee monitors the market risk in broader aspects including the liquidity risk. Company is exposed to liquidity risk mainly due to interest rate fluctuations in the market. Credit committee involves in monitoring of credit risk by analysing the credit risk using several measurement criteria like 20 largest exposures, 10 largest 3-6 months arrears, 10 largest non performing advances and sectorial exposure. For some of these measures Company has stipulated risk tolerance level and continuously monitor the credit exposure in order to ensure superior credit quality.

The Company's principal financial liabilities comprise borrowings, public deposits, trade & other payables, and bank overdrafts. The main purpose of these financial liabilities is to raise finances for the Company's operations. The Company has various financial assets such as lease & hire purchase rental receivables, other investments, loans, investments in government securities and bank & cash balances, which arise directly from its operations.

The board of directors reviews and agrees policies for managing each of these risks which are summarized below.

### Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity price will affect the Company's profit, equity or value of its holding of financial instruments. The objective of market risk management is to manage and control the market risk exposure within acceptable parameters, while optimizing return.'

### Market risk - Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's debt obligations with floating interest rates.

The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

<i>Fixed interest rate instruments:</i>	<b>31 March 2013</b>	<b>31 March 2012</b>	<b>1 April 2011</b>
Financial assets	<b>10,574,877,051</b>	8,245,289,338	3,950,118,907
Financial liabilities	<b>9,342,829,566</b>	7,806,191,919	3,267,201,296

### Floating interest rate instruments:

Financial assets	<b>Nil</b>	Nil	Nil
Financial liabilities	<b>1,593,627,247</b>	524,623,926	256,321,611

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's financial assets and liabilities with floating interest rates.

The following table demonstrates the sensitivity of the income statement to reasonably possible changes in interest rates by 25 basis points, with all other variables held constant. The sensitivity of the income statement is the effect of the assumed changes in interest rates for one year, based on the floating rate financial assets and financial liabilities held at 31 March. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases shown.

## Notes to the financial statements contd.

### 28 Financial risk management (Contd)

	Changes in basis points	Effect on profit Rs.
2013		
Floating interest rate instruments	+25 b.p	1,867,181
2012		
Floating interest rate instruments	+25 b.p	298,990
2011		
Floating interest rate instruments	+25 b.p	294,271

#### Market risk - Equity price risk

The Company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's board of directors reviews and approves all equity investment decisions.

The following table demonstrates the sensitivity of the cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increase shown.

	Change in equity price	Effect on profit Rs.	Effect on equity Rs.
31 March 2013			
Quoted shares – (Colombo Stock Exchange)	10%	(7,870,500)	(6,493,206)
31 March 2012			
Quoted shares – (Colombo Stock Exchange)	10%	Nil	(7,045,510)
1 April 2011			
Quoted shares – (Colombo Stock Exchange)	10%	Nil	(3,733,800)

The Company also has unquoted investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the income statement will be impacted.

Credit risk mainly comprises of default risk and concentration risk and this is one of the major risk element in the industry due to the nature of the business.

#### Credit risk - Default risk

Default risks the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It arises from lending, trade finance, treasury and other activities undertaken by the Company. The Company has in place standards, policies and procedures for the control and monitoring of all such risks.

### Credit risk - Concentration risk

The Company seeks to manage its credit risks exposure through diversification of its lending, investing and financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific businesses. It also obtains security when appropriate. The types of collateral obtained include cash, mortgages over properties and pledge over equity instruments.

The Company seeks to limit its credit risk with respect to bank balances by only dealing with reputable banks.

The table below shows the maximum exposure to credit risk for the components of statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Gross maximum exposure		
	31 March	31 March	1 April
	2013	2012	2011
	Rs.	Rs.	Rs.
Bank balances	258,565,898	247,678,360	10,751,389
Lease and hire purchase rental receivables	7,221,967,081	6,004,640,531	3,359,237,863
Loans and advances	2,787,739,396	2,162,941,738	458,278,194

### Concentration of credit risk

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances as the reporting date is shown below.

Concentration by sector	2013	2012
Agriculture	959,862,793	603,129,830
Manufacturing	833,420,386	617,359,754
Tourism	48,103,090	40,500,551
Transport	766,900,685	603,129,830
Construction	1,380,421,233	1,164,664,500
Trading	4,458,469,214	3,676,793,285
Services	4,860,050,643	3,985,377,905
Other	436,511,829	255,139,268
	13,743,739,872	10,946,094,923

Concentration by location	2013	2012
Western	6,912,247,975	5,573,054,959
Uva	475,387,725	434,255,278
North Western	1,089,159,859	934,931,699
Southern	1,709,473,145	1,506,752,026
Central	1,761,315,404	1,153,449,285
North Central	903,049,200	675,811,656
Sabaragamuwa	798,456,675	664,948,279
North	94,649,889	2,891,741
	13,743,739,872	10,946,094,923

## Notes to the financial statements contd.

### 28 Financial risk management (Contd)

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation and is to maintain a balance between continuity of funding and flexibility through the use of borrowings, public deposits and bank overdrafts.

The table below summarises the maturity profiles of the Company's financial liabilities based on contractual undiscounted payments.

Analysis of financial assets and liabilities by remaining contractual maturities.

	Less than 3 months Rs.	More than 3 and less than 12 months Rs.	More than 1 year and less than 3 years Rs.	> 3 years Rs.	Total Rs.
<b>Financial assets</b>					
Cash and cash equivalents	583,945,950	888,560,014	Nil	Nil	1,472,505,964
Financial investments -					
Available for sale	114,962,661	Nil	Nil	Nil	114,962,661
Financial investments -					
Held for trading	78,705,000	Nil	Nil	Nil	78,705,000
Lease and hire purchase	710,946,948	1,863,450,676	3,505,301,775	1,142,267,682	7,221,967,081
Loans and receivables	779,183,479	1,678,113,345	796,333,972	99,279,174	3,352,909,970
<b>Total financial assets</b>	<b>2,267,744,038</b>	<b>4,430,124,035</b>	<b>4,301,635,747</b>	<b>1,241,546,856</b>	<b>12,241,050,676</b>

	Less than 3 months Rs.	More than 3 and less than 12 months Rs.	More than 1 year and less than 3 years Rs.	> 3 years Rs.	Total Rs.
<b>At 31 March 2013</b>					
Bank overdrafts	255,327,142	Nil	Nil	Nil	255,327,142
Due to customers	2,460,874,242	3,279,058,465	1,031,308,633	185,709,707	6,956,951,047
Due to banks	518,403,939	361,994,475	1,059,842,152	457,844,167	2,398,084,733
Other borrowed funds	582,968,383	709,431,700	289,020,949	Nil	1,581,421,032
<b>Total financial liabilities</b>	<b>3,817,573,706</b>	<b>4,350,484,640</b>	<b>2,380,171,734</b>	<b>643,553,874</b>	<b>11,191,783,954</b>
	(1,549,829,668)	79,639,395	1,921,464,013	597,992,982	1,049,266,722

Analysis of commitment and contingencies by remaining contractual maturities

Guarantees issued to  
banks

and other institutions	2,200,000	5,213,629	Nil	Nil	Nil
	2,200,000	5,213,629	Nil	Nil	Nil

#### Capital management

Capital comprises of equity attributable to the equity holders of the parent. The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ending 31 March 2013 and 31 March 2012.



The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes within net debt, interest bearing loans and borrowings, loan from venture partner, trade and other payables, less cash and cash equivalents.

	31 March 2013 Rs.	31 March 2012 Rs.	1 April 2011 Rs.
Due to banks	2,653,411,875	1,153,069,459	323,910,127
Due to customers	6,956,951,047	4,681,850,126	1,584,806,994
Other borrowed funds	1,581,421,032	2,564,214,789	1,670,113,720
Less cash and cash equivalents	(1,472,505,964)	(1,103,947,507)	(144,128,457)
<b>Net debt</b>	<b>9,719,277,990</b>	<b>7,295,186,867</b>	<b>3,434,702,383</b>
Total capital	1,204,596,492	1,108,079,385	516,634,461
Capital and net debt	10,923,874,482	8,403,266,252	3,951,336,844
Gearing ratio	89%	87%	87%

## 29 Fair value estimation

The table below analyses financial instruments carried at fair value by valuation methods. The different levels have been defined as follows;

The following table presents the Company's assets and liabilities that are measured at fair value.

As at 31 March 2013	Level 1	Level 2	Level 3	Total balance
<b>Assets</b>				
Financial investments - Held for trading	78,705,000	Nil	Nil	78,705,000
Financial investments - Available for sale	64,932,061	Nil	50,030,600	114,962,661
	<b>143,637,061</b>	<b>Nil</b>	<b>50,030,600</b>	<b>193,667,661</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	Nil	Nil	Nil	Nil
	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>As at 31 March 2012</b>				
<b>Assets</b>				
Financial investments - Held for trading	Nil	Nil	Nil	Nil
Financial investments - Available for sale	70,455,104	Nil	30,600	70,485,704
	<b>70,455,104</b>	<b>Nil</b>	<b>30,600</b>	<b>70,485,704</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	Nil	Nil	Nil	Nil
	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

## Notes to the financial statements contd.

### 29 Fair value estimation (Contd)

As at 31 March 2011	Level 1	Level 2	Level 3	Total balance
<b>Assets</b>				
Financial investments - Held for trading	11,886,551	Nil	Nil	11,886,551
Financial investments - Available for sale	37,338,000	Nil	30,600	37,368,600
	<b>49,224,551</b>	<b>Nil</b>	<b>30,600</b>	<b>49,255,151</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	Nil	Nil	Nil	Nil
	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity instruments classified as trading securities or available for sale.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

### 30 Financial instruments by category

#### (a) Financial instruments

	Loans and receivables	Fair value through profit or loss	Available for sale	Held to maturity Investments	Total
<b>31 March 2013</b>					
<b>Assets as per the statement of financial position</b>					
Financial investments - Available for sale	Nil	Nil	114,962,661	Nil	114,962,661
Financial investments - Held for trading	Nil	78,705,000	Nil	Nil	78,705,000
Lease and hire purchase	7,221,967,081	Nil	Nil	Nil	7,221,967,081
Loans and receivables	3,352,909,970	Nil	Nil	Nil	3,352,909,970
Cash and bank balances	1,472,505,964	Nil	Nil	Nil	1,472,505,964
cash equivalents (Note 19)	12,047,383,015	78,705,000	114,962,661	Nil	12,241,050,676

	Liabilities at fair value through profit or loss	Other financial liabilities	Total
<b>31 March 2013</b>			
<b>Liabilities as per the statement of financial position</b>			
Due to banks	Nil	2,653,411,875	2,653,411,875
Due to customers	Nil	6,956,951,047	6,956,951,047
Other borrowed funds	Nil	1,581,421,032	1,581,421,032
	Nil	11,191,783,954	11,191,783,954

	Loans and receivables	Fair value through profit or loss	Available for sale	Held to maturity Investments	Total
<b>31 March 2012</b>					
<b>Assets as per the statement of financial position</b>					
Financial investments - Available for sale	Nil	Nil	70,485,704	Nil	70,485,704
Financial investments - Held for trading	Nil	Nil	Nil	Nil	Nil
Lease and hire purchase	6,004,640,531	Nil	Nil	Nil	6,004,640,531
Loans and receivables	2,240,648,807	Nil	Nil	Nil	2,240,648,807
Cash and cash equivalents	1,103,947,507	Nil	Nil	Nil	Nil
	9,349,236,845	Nil	70,485,704	Nil	8,315,775,042

	Liabilities at fair value through profit or loss	Other financial liabilities	Total
<b>31 March 2012</b>			
<b>Liabilities as per the statement of financial position</b>			
Due to Banks	Nil	1,153,069,459	1,153,069,459
Due to customers	Nil	4,681,850,126	4,681,850,126
Other borrowed funds	Nil	2,564,214,789	2,564,214,789
	Nil	8,399,134,374	8,399,134,374

## Notes to the financial statements contd.

### 30 Financial instruments by category (Contd)

	Loans and receivables	Fair value through profit or loss	Available for sale	Held to maturity Investments	Total
<b>31 March 2011</b>					
<b>Assets as per the statement of financial position</b>					
Financial investments -					
Available for sale	Nil	Nil	37,368,600	Nil	37,368,600
Financial investments - Held for trading	Nil	Nil	Nil	Nil	Nil
Lease and hire purchase	3,359,237,863	Nil	Nil	Nil	3,359,237,863
Loans and receivables	590,881,044	Nil	Nil	Nil	590,881,044
Cash and cash equivalents	144,128,457	Nil	Nil	Nil	144,128,457
	4,094,247,364	Nil	37,368,600		4,131,615,964

	Liabilities at fair value through profit or loss	Other financial liabilities	Total
<b>31 March 2011</b>			
<b>Liabilities as per the statement of financial position</b>			
Liabilities as per the statement of financial position		Nil	323,910,127
Due to customers		Nil	1,584,806,994
Other borrowed funds		Nil	1,670,113,720
		Nil	3,578,830,841

#### (b) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
<b>31 March 2013</b>				
Cash and cash equivalents	1,472,505,964	Nil	Nil	1,472,505,964
Financial investments - Available for sale	114,962,661	Nil	Nil	114,962,661
Lease and hire purchase (net)	2,858,896,066	4,337,465,999	25,605,016	7,221,967,081
Loans and receivables (net)	3,109,288,829	787,879,319	101,500,808	3,352,909,970
Total financial assets	7,555,653,520	5,125,345,319	127,105,824	12,162,345,676

### 31 Commitments and contingencies

	2013	2012
Guarantees issued and in force	7,413,629	7,177,626
	7,413,629	7,177,626

Commitments include guarantees issued to banks and other financial institutions on behalf of customers.

### 32 Events after the balance sheet date

No circumstances have arisen since the balance sheet date, which would require adjustments to or disclosure in the financial statements.

### 33 Transfer of financial assets ( Lease and HP receivable)

Under the securitisation arrangement, Company retains the contractual right to receive the cash from lease receivable, but assume a contractual obligation to pay the cash flows to investors of the trust certificates. Said securitisation will lead to a transfer of lease receivables to investors However will not qualified for a derecognition. Risks of defaults of the lease receivable and the right to receive the cash flows from the lease receivables are vested with the Company.

#### Carrying Value of assets and associated liabilities

	2013	2012
Lease, hire purchase and loans rental receivable	1,906,712,193	3,157,731,999
Securitisation payable	828,392,125	1,556,849,562

- 33.1 The following assets have been pledged as security for liabilities respectively for securitisation and bank term loan facilities.

#### Nature of assets

	2013	2012
Lease, hire purchase and loans rental receivable	1,906,712,193	3,157,731,999
Government securities	638,700,000	354,394,568
	2,545,412,193	3,512,126,567

### 34 Related party transactions

Details of significant related party disclosures are as follows:

#### 34.1 Transactions with Key Managerial Personnel (KMPs)

- 34.1.1 Key managerial personnel includes members of the board of directors of the Company and of it's Holding Company.

- 34.1.2 The following table provides the total amount of transactions which have been entered in to with key managerial personnel and their close family members

	2013	2012
Deposits	3,217,558	2,230,000

- 34.1.3 Remuneration to key managerial personnel amounted to Rs. 12,861,760 for the year ended 31 March 2013 (2012 - Rs. 14,147,566)

## Notes to the financial statements contd.

### 34 Related party transactions (Contd)

#### 34.2 Transactions with Group Companies

The Company enters into transactions with group companies and the following tables shows the outstanding balances and corresponding transactions during the year.

	Relationship		Loans and advances	Borrowings/ deposits	Income earned	Amounts owed by group companies	Expenses incurred	Plant & equip. purchased
Softlogic Credit Ltd	Group Company	2013 Mar	Nil	Nil	10,003,021	Nil	923,345	Nil
		2012 Mar	47,599,830	Nil	17,088,292	Nil	4,388,080	9,144,439
Softlogic Capital PLC	Parent Company	2013 Mar	Nil	Nil	Nil	Nil	27,428,573	Nil
		2012 Mar	Nil	80,000,000	Nil	Nil	13,840,474	Nil
Softlogic Corporate Services (Pvt) Ltd (Formerly Known as Capital Reach Business Development (Pvt) Ltd)	Group Company	2013 Mar	2,559,362	Nil	675,091	Nil	2,815,728	Nil
		2012 Mar	4,700,000	Nil	2,153,144	Nil	4,010,660	250,750
Uniwalkers Ltd	Affiliated Company	2013 Mar	34,898,596	9,001,454	23,850,194	Nil	6,758,347	3,822,885
		2012 Mar	153,155,194	16,897,755	12,719,175	Nil	618,256	12,714,012
Softlogic Communications (Pvt) Ltd	Affiliated Company	2013 Mar	30,684,809	Nil	5,137,824	Nil	17,318	58,644
		2012 Mar	156,974	Nil	1,807,193	Nil	Nil	Nil
Softlogic Trading (Pvt) Ltd	Affiliated Company	2013 Mar	Nil	Nil	Nil	Nil	Nil	Nil
		2012 Mar	Nil	Nil	Nil	Nil	Nil	7,147,200
Softlogic Computers (Pvt) Ltd	Affiliated Company	2013 Mar	Nil	Nil	Nil	Nil	699,675	1,036,530
		2012 Mar	Nil	Nil	Nil	Nil	Nil	2,765,000
Softlogic Information Technologies (Private) Limited	Affiliated Company	2013 Mar	34,877,316	Nil	4,575,494	Nil	4,663,504	14,567,026
		2012 Mar	Nil	Nil	Nil	Nil	Nil	16,194,950
Asian Alliance Insurance PLC	Group Company	2013 Mar	3,015,646	169,820,598	684,422	Nil	27,660,779	Nil
		2012 Mar	Nil	220,000,000	Nil	Nil	3,652,640	Nil

Guarantees obtained	net accommodations as a % of capital funds	Nature & terms of the transaction	The rationale for entering into the transaction
Nil	0.0%	N/A	To manage working capital requirement of Softlogic Credit Ltd
Nil	4.1%	Loans granted & outstanding - Interest rate @ 11.49% p. a. / Period : 3 months	
25,000,000	0.0%	N/A	
25,000,000	0.0%	Loans obtained from Softlogic Capital PLC& outstanding - Interest rate @ 15.00% p. a. / Period : one month	To manage the working capital requirement of the Company
Nil	0.2%	Loans granted & outstanding - interest rate @ 18% p.a / period :24 months	
Nil	0.4%	Loans granted & outstanding - interest rate @ 18% p.a / period :24 months	
Nil	3.0%	"Loans granted & outstanding - Interest rate @ 20% p. a. / Period : 60 months / Security : promissory notes,Fixed deposit accepted - Interest rate @ 15.82% p.a / Period : 12 months ,Savings deposit accepted - Interest rate @ 9.93% p.a	Working capital requirement of Uniwalkers ( Pvt ) Ltd
Nil	13.2%	Loans granted & outstanding - Interest rate @ 15.50% p. a. / Period : 6 months / Security : promissory notes	Working capital requirement of Uniwalkers ( Pvt ) Ltd
Nil	2.7%	Loans granted & outstanding - interest rate @ 18% & 20 p.a / period :60 months	Normal business activity of the Company
Nil	0.0%	Loans granted & outstanding - interest rate @ 18% p.a / period :60 months	
Nil	0.0%	N/A	
Nil	0.0%	N/A	
Nil	0.0%	N/A	
Nil	0.0%	N/A	
Nil	3.0%	Loans granted & outstanding - interest rate @ 20% p.a / period :60 months	
Nil	0.0%	N/A	
Nil	0.3%	Loans granted & outstanding - interest rate @ 30% & 32% p.a / period :36 months,Investment in commercial papers,@ the rate of 17% for 12 months	Normal business activity of the Company
Nil	0.0%	Fixed deposit accepted - Interest rate @ 14.50% p.a / Period : 3 months	

## Notes to the financial statements contd.

### 35 Business segment information

The Company's segmental reporting is based on the following operating segments: Leasing, Hire purchase other loans and advances.

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, and in certain respects, are measured differently from operating profits or losses in the financial statements. However, income taxes are managed on a group basis and are not allocated to operating segments.

	Leasing		Hire Purchases		Other Loans and Advances		Unallocated		Total	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
<b>Revenue</b>										
Interest	557,368,453	409,941,226	973,332,855	701,518,321	610,713,664	375,514,401	Nil	Nil	2,141,414,972	1,486,973,948
Investment Income	Nil	Nil	Nil	Nil	Nil	Nil	136,131,286	47,064,600	136,131,286	47,064,600
Fee based income and others	8,021,348	8,576,818	17,361,307	8,612,092	16,877,598	17,035,265	89,227,553	35,659,327	131,487,806	69,883,502
Profit/(Loss) from Dealing Securities	Nil	Nil	Nil	Nil	Nil	Nil	30,253,933	922,605	30,253,933	922,605
<b>Total Revenue</b>	<b>565,389,801</b>	<b>418,518,044</b>	<b>990,694,162</b>	<b>710,130,413</b>	<b>627,591,262</b>	<b>392,549,666</b>	<b>255,612,772</b>	<b>83,646,532</b>	<b>2,439,287,997</b>	<b>1,604,844,655</b>
<b>Profit/(Loss) before tax</b>	<b>45,491,698</b>	<b>42,994,452</b>	<b>79,712,014</b>	<b>72,951,855</b>	<b>50,496,475</b>	<b>40,326,714</b>	<b>20,566,800</b>	<b>8,593,027</b>	<b>196,266,987</b>	<b>164,866,048</b>
Taxation									(32,212,924)	(44,038,618)
<b>Profit after tax</b>									<b>164,054,063</b>	<b>120,827,430</b>
<b>Segment Assets</b>	<b>2,499,016,478</b>	<b>2,401,856,213</b>	<b>4,722,950,603</b>	<b>3,602,784,319</b>	<b>3,998,668,956</b>	<b>2,240,648,808</b>	<b>1,998,167,244</b>	<b>1,830,451,548</b>	<b>13,218,803,281</b>	<b>10,075,740,887</b>
<b>Segment Liabilities</b>	<b>2,231,708,075</b>	<b>2,137,712,128</b>	<b>4,332,139,204</b>	<b>3,206,568,191</b>	<b>3,634,280,252</b>	<b>1,994,233,504</b>	<b>1,816,079,258</b>	<b>1,629,147,678</b>	<b>12,014,206,789</b>	<b>8,967,661,502</b>



## Appendix - i

(all amounts in Sri Lanka Rupees)

Reconciliation of comprehensive income statement for the year ended 31 March 2012

	Under SLAS	Effect of transition to SLFRSs	Under SLFRSs
Interest income	1,530,575,566	3,462,982	1,534,038,548
Interest expenses	(789,931,673)	(3,360,841)	(793,292,514)
<b>Net interest income</b>	740,643,893	102,141	740,746,034
Fee and commission income	47,682,514	Nil	47,682,514
Trading income	4,954,290	Nil	4,954,290
Other operating income	6,276,752	11,892,552	18,169,304
<b>Total operating income</b>	799,557,449	11,994,693	811,552,142
Personnel costs	(214,100,232)	233,625	(213,866,607)
Impairment for loans and receivables	(8,884,481)	2,965,943	(5,918,538)
Depreciation of property plant and equipment	(26,185,668)	Nil	(26,185,668)
Amortisation of intangible assets	(1,443,454)	Nil	(1,443,454)
Other operating expenses	(369,209,607)	Nil	(369,209,607)
Profit before tax and VAT on financial services	179,734,007	15,194,261	194,928,268
VAT on financial services	(30,062,219)	Nil	(30,062,219)
Income tax expenses	(44,038,618)	Nil	(44,038,618)
<b>Profit for the year</b>	<b>105,633,170</b>	<b>15,194,261</b>	<b>120,827,430</b>

## Notes to the financial statements contd.

### Appendix - i (contd.)

(all amounts in Sri Lanka Rupees)

#### Reconciliation of shareholders' equity

	Notes	Under SLAS	Effect of transition to SLFRSs 1 April 2011	SLFRSs	Under SLAS	Effect of transition to SLFRSs 31 March 2012	SLFRSs
<b>ASSETS</b>							
Cash and cash equivalents	a	64,874,455	79,254,002	144,128,457	278,658,957	825,288,550	1,103,947,507
Investment In Government Securities	a,b	156,572,402	(156,572,402)	Nil	727,208,119	(727,208,119)	Nil
Placements with Banks & Financial Institutions	a,b	50,000,000	(50,000,000)	Nil	204,500,000	(204,500,000)	Nil
Investments in Dealing Securities	c	37,368,600	(37,368,600)	Nil	70,485,704	(70,485,704)	Nil
Financial Investments - Available-for-sale	c	Nil	37,368,600	37,368,600	Nil	70,485,704	70,485,704
Financial assets -Loans & Advances	b	Nil	590,881,044	590,881,044	Nil	2,240,648,806	2,240,648,806
Investment in Government Treasury Bonds	b	55,284,450	(55,284,450)	Nil	Nil	Nil	Nil
Investment in Commercial Papers	a,b	Nil	Nil	Nil	25,787,500	(25,787,500)	Nil
Prepayments & Other Receivable	d	233,602,684	(233,602,684)	Nil	445,620,745	(445,620,745)	Nil
Loans & Advances	a,b,e	283,956,085	(283,956,085)	Nil	1,771,804,079	(1,771,804,079)	Nil
Financial Assets - Lease & Hire Purchase Rentals Receivable	b,e	3,371,328,433	(12,090,570)	3,359,237,863	6,006,771,372	(2,130,841)	6,004,640,531
Pawning Advances	b,e	124,322,109	(124,322,109)	Nil	255,139,268	(255,139,268)	Nil
Margin Trading		Nil	Nil	Nil	81,161,047	(81,161,047)	Nil
Other non financial assets		Nil	238,573,722	238,573,722	Nil	472,356,109	472,356,109
Vehicle Stock - Trading		4,855,172	(4,855,172)	Nil	10,208,786	(10,208,786)	Nil
Real Estate Stock		16,647,132	(16,647,132)	Nil	39,258,097	(39,258,097)	Nil
Intangible assets		3,062,060	Nil	3,062,060	7,414,202		7,414,202
Property, Plant & Equipment		36,524,950	Nil	36,524,950	176,248,028	Nil	176,248,028
		4,438,398,532	(28,621,836)	4,409,776,696	10,100,265,904	(24,525,017)	10,075,740,887
Bank Overdrafts	f	55,307,922	(55,307,922)	Nil	68,318,529	(68,318,529)	Nil
Time Deposits	f	1,567,900,684	(1,567,900,684)	Nil	4,613,210,866	(4,613,210,866)	Nil
Savings Deposits	f	16,906,309	(16,906,309)	Nil	59,434,647	(59,434,647)	Nil
Certificate of Deposits	f	Nil	Nil	Nil	9,204,613	(9,204,613)	Nil
Due to customers		Nil	1,584,806,994	1,584,806,994	Nil	4,681,850,126	4,681,850,126
Borrowings	d	1,952,786,077	(1,952,786,077)	Nil	3,665,875,282	(3,665,875,282)	Nil
Due to banks	d	Nil	323,910,127	323,910,127	Nil	1,153,069,459	1,153,069,459
Other borrowed funds	d	Nil	1,670,113,720	1,670,113,720	Nil	2,564,214,789	2,564,214,789
Trade & Other Payables	f	266,807,706	(266,807,706)	Nil	481,266,094	(481,266,094)	Nil
Other non financial liabilities		Nil	266,807,706	266,807,706	Nil	481,266,094	481,266,094
Provision for Retirement Gratuity		Nil	8,394,864	8,394,864	Nil	11,886,551	11,886,551
Deferred Tax Liabilities		Nil	39,108,824	39,108,824	Nil	75,374,483	75,374,483
Deferred Liabilities		47,503,689	(47,503,689)	Nil	87,261,034	(87,261,034)	Nil
		3,907,212,387	(14,070,152)	3,893,142,235	8,984,571,065	(16,909,563)	8,967,661,502

	Notes	Under SLAS	Effect of transition to SLFRSs 1 April 2011	SLFRSs	Under SLAS	Effect of transition to SLFRSs 31 March 2012	SLFRSs
<b>EQUITY</b>							
<b>Capital and reserves attributable to equity shareholders of the Company</b>							
Stated Capital		468,174,370	Nil	468,174,370	1,003,230,820	Nil	1,003,230,820
Available-for-sale reserve		Nil	Nil	Nil	Nil	(8,024,404)	(8,024,404)
Statutory Reserve Fund		7,375,479	Nil	7,375,479	12,657,137	Nil	12,657,137
Investment Fund Reserve		Nil	Nil	Nil	20,929,338	Nil	20,929,338
Retained Profit	h	55,636,296	(14,551,684)	41,084,612	78,877,544	408,949	79,286,493
		531,186,145	(14,551,684)	516,634,461	1,115,694,839	(7,615,454)	1,108,079,385
<b>Total equity and liabilities</b>		<b>4,438,398,532</b>	<b>(221,813,195)</b>	<b>4,409,776,696</b>	<b>10,100,265,904</b>	<b>(24,525,017)</b>	<b>10,075,740,887</b>

(all amounts in Sri Lanka Rupees)

## Notes to the reconciliation of SLAS and SLFRS

### a) Investments with short maturities

For better presentation of the financial statements, investments with short maturities for example three months or less from date of acquisition of investments are classified as cash equivalents.

### b) Reclassification of financial assets as “Loans & Advances”

These assets are reclassified as “Financial Assets - Loans & Advances”

### c) Available-for-sale financial assets

Under Sri Lanka Accounting Standards (SLASs), the Company accounted for investments in equity shares as “Investments in Dealing Securities”. Based on SLASs these investments are recorded at fair value based on the market observable data except for “Investments in CRIB”, resulting fair value movements are recorded in the Income Statement.

Under SLFRS, the Company has designated these investments as available-for-sale investments. SLFRS requires available-for-sale investments to be measured at fair value and movements in fair value to be recognized as a separate component of equity (Available-for-sale reserve). These investments are reclassified as available-for-sale investments at fair value on the date of transition, any gains or losses already recognized in profit or loss have not been reversed.

### d) Transaction costs

Under SLASs, the Company accounted for transaction costs as advance and amortized over the period of borrowings. These costs includes incremental costs such as securitisation fees, professional fees, duties and processing charges. The transaction costs are recognised in the Income Statement by amortizing over the period of loan using straight line method.

Under SLFRs, financial liability is measured at its fair value plus transaction costs that are directly attributable to the issue of the financial liability, provided financial liability is not recognized as fair value through profit or loss. Therefore unamortized transition costs are reclassified from “Advances and prepayments” to “Unamortized finance costs” and presented in financial statements as deduction from the Financial liability (i.e. borrowings”).

Under SLFRs, the transaction costs are recognised in the Income Statement based on Effective Interest Rate (EIR).

## Notes to the financial statements contd.

### e) Impairment of receivables

Provision for doubtful debts is replaced with the impairment testing for receivables.

For individually impaired receivables interest recognition is suspended when the impairment condition recognised. In case of collective impairment, interest is continued to recognised and higher provision is made to reflect such interest recognised.

### f) Reclassification of financial assets as "Loans & Advances"

These liabilities are reclassified as "Other Financial Liabilities" under other financial liabilities Company has identified following 3 categories for better presentation. Due to banks, due to customers and other borrowed funds.

### g) Deferred liabilities

For better presentation of the financial statements, deferred liabilities are reclassified as "Provision for Retirement Gratuity" and "Deferred Tax Liabilities".

### h) Retained Profit

	2012	2011
As reported under SLASs	78,877,544	55,636,296
Cumulative impact on previous period adjustments	(14,551,686)	Nil
Application EIR on transaction cost	(3,360,840)	(2,461,116)
Receivable impairment - Reversal of Interest in suspense	3,462,981	3,002,879
Receivable impairment - (Additional)/ reversal of provision	2,965,943	(15,093,447)
Transferred to available-for-sale reserve	8,024,405	Nil
Notional interest on individually impaired receivables	3,868,146	Nil
Cumulative impact on retained earnings	408,949	(14,551,684)
<b>Retained earnings as reported under SLFRSs</b>	<b>79,286,493</b>	<b>41,084,612</b>

i) Actuarial (gain)/ loss on post employment benefit obligations, considered under Income statement as per SLASs has been adjusted to consider under other comprehensive income statement as per SLFRS.

# Investor Information

## 1 Shareholding information

List of Twenty Major Shareholders of the Company as at 31 March 2013

Name		No. of Shares	(%)
SOFTLOGIC CAPITAL PLC	14,504,355	23,357,690	62.36
PAN ASIA BANKING CORPORATION PLC / SOFTLOGIC CAPITAL PLC	8,853,335		
VANIK INCORPORATION PLC		5,376,068	14.35
L.B. FINANCE PLC		1,540,000	4.11
ROYAL CERAMICS LANKA PLC		1,042,200	2.78
WALDOCK MACKENZIE LIMITED / MR.L.P. HAPANGAMA		628,620	1.68
ASSOCIATED ELECTRICAL CORPORATION LTD		427,500	1.14
SEYLAN BANK PLC / W.D.N.H.PERERA		334,521	0.89
WALDOCK MACKENZIE LTD/ HI-LINE TRADING (PVT) LTD		315,620	0.84
WALDOCK MACKENZIE LTD/ MR.S.N.P.PALIHENA AND MRS. A.S PALIHENA		300,000	0.8
SOFTLOGIC HOLDINGS PLC		282,818	0.76
PATHIRAGE ASOKA KARIYAWASAM		168,000	0.45
COMMERCIAL BANK OF CEYLON PLC/D S L INVESTMENTS (PVT) LTD		107,000	0.29
UDESHI ANANT HARGOVIND		103,320	0.28
BANK OF CEYLON NO. 1 ACCOUNT		102,201	0.27
PAN ASIA BANKING CORPORATION PLC/INVEST COPIA CAPITAL (PVT) LTD		99,900	0.27
MAHIBALAN MURUGESU		94,600	0.25
HEWAPATIRANA DHAMMIKA SAMPATH		94,210	0.25
DE SARAM WEERATHUNGA ARACHCHIGE SAMPATH PALITHA		77,603	0.21
ABISHEK SITHATHAMBALAM		72,332	0.19
WALDOCK MACKENZIE LTD/MRS. G. SOYSA		66,000	0.18
		34,590,203	92.35
Others		2,863,748	7.65
<b>Total</b>		<b>37,453,951</b>	<b>100</b>

## 1.2 Distribution of Shareholdings as at 31 March 2013

From	To	No. of Shares	(%)
	1 - 1,000	766	0.78
	1,001 - 10,000	264	2.56
	10,001 - 100,000	77	5.65
	100,001 - 1,000,000	10	7.40
	Over 1,000,000	6	83.61
		1,123	100.00

## Investor Information contd.

### 1.3 Analysis of Shareholders as at 31 March 2013

Category	No. of Shareholders	No. of Shares	%
Local Individuals	1,037	2,797,488	7.47
Local Institutions	77	34,567,918	92.29
Foreign Individuals	9	88,545	0.24
Foreign Institutions	0	0	0.00
<b>Total</b>	<b>1,123</b>	<b>37,453,951</b>	<b>100.00</b>

### 1.4 Public Holding

The percentage of shares held by the public as at 31 March 2013 is 22.65%

### 1.5 Directors' Shareholding as at 31 March 2013

Names of Directors	No. of Shares	%
Asoka Kariyawasam Pathirage (Chairman)	168,000	0.45
Nalin Hemantha Gamini Wijekoon	9,666	0.03
Tuan Mihilar Ifthikar Ahamed	58,720	0.16
Baddegama Hevege Sirinimal Jayawardene	Nil	Nil
Chrysanthus John Emmanuel Corea	Nil	Nil
Dushan Travice Columban Soza	Nil	Nil
Saliya Wickremasinghe	Nil	Nil

## 2. SHARE PRICES FOR THE YEAR

Market price per share	31.03.2013
Highest during the Year	Rs.28.90
Lowest during the Year	Rs.20.50
As at end of the Year	Rs.25.50

# Summary for Last 7 Years

(Rs. '000)	2012/13*	2011/12*	2010/11	2009/10	2008/09	2007/08	2006/07
<b>OPERATING RESULTS</b>							
Gross Income	2,277,546	1,534,039	650,610	346,881	309,382	206,663	112,487
Profit Before Tax	233,180	194,928	84,787	26,162	17,761	21,853	17,225
Taxation	69,126	74,101	16,251	2,558	3,862	7,666	6,960
Profit After Tax	164,053	120,827	68,536	23,605	13,899	14,187	10,265
<i>As at 31 March</i>							
<b>ASSETS</b>							
Investments	193,668	70,486	299,225	105,031	13,232	42,077	33,102
Loans & Advances	2,916,398	1,985,510	283,956	30,793	28,294	46,035	30,510
Lease & Hire Purchase Rentals Receivables	7,221,967	6,004,641	3,371,328	1,526,854	1,002,663	833,206	502,048
Pawning Advances	436,512	255,139	124,322	-	-	-	-
Vehicle Stocks	105,235	10,209	4,855	10,288	10,259	-	-
Real Estate Stocks	37,858	39,258	16,647	15,848	15,365	-	-
Property & Equipment	177,863	176,248	39,587	17,413	23,332	28,260	28,951
Other Assets	2,129,302	1,534,250	298,478	161,481	74,129	75,417	32,453
	<b>13,218,803</b>	<b>10,075,741</b>	<b>4,438,398</b>	<b>1,867,708</b>	<b>1,167,274</b>	<b>1,024,995</b>	<b>627,064</b>
<b>LIABILITY</b>							
Public Deposits	6,956,951	4,681,850	1,584,807	821,816	406,768	225,480	31,573
Borrowings	4,234,833	3,717,284	2,008,094	633,222	453,121	497,749	345,637
Other Liability	822,422	568,527	314,311	195,149	93,404	101,684	63,959
	<b>12,014,206</b>	<b>8,967,661</b>	<b>3,907,212</b>	<b>1,650,187</b>	<b>953,293</b>	<b>824,913</b>	<b>441,169</b>
<b>SHAREHOLDERS' FUNDS</b>							
Share Capital/Stated Capital	1,003,231	1,003,231	468,174	200,646	200,646	200,646	200,646
Reserves	201,366	104,849	63,012	16,875	13,335	(564)	(14,751)
	<b>1,204,597</b>	<b>1,108,080</b>	<b>531,186</b>	<b>217,521</b>	<b>213,981</b>	<b>200,082</b>	<b>185,895</b>
<b>SHARE INFORMATION</b>							
Earnings Per Share (Rs.)	4.38	3.66	3.07	1.18	0.69	0.71	0.51
Net Assets Per Share (Rs.)	32.16	29.59	19.86	10.84	10.66	9.97	9.26
Debt Equity Ratio (times)	9.97	8.09	7.36	7.59	4.46	4.12	2.37
<b>OTHER INFORMATION</b>							
No. of Employees	467	550	291	103	48	33	19
Supporting Network	17	16	9	8	8	8	8

\*Financial Years 2012/13 and 2011/12 have been prepared based on SLFRSs.

# Distribution Network

## Branches

### Nawala

No.305B, Nawala Road  
Tel: 011-2807080

### Negombo

No. 121 & 123, St. Josephs Street  
Tel: 031-2224714

### Kadawatha

No. 139/7/D, Kandy Road  
Tel: 011-2923011

### Metro Branch

No. 315,R.A.De Mel Mawatha ,  
Colombo 03  
Tel: 011-2577455

### Chilaw

No. 28 B, Kurunegala Road  
Tel: 032-2221415

### Kurunegala

No. 13, Rajapihilla Road  
Tel: 037-2232875

### Polonnaruwa

No. 125, Batticaloe Road  
Tel: 027-2226727

### Anuradhapura

No. 561/11, Maithreepala Senanayaka  
Mawatha, New Town  
Tel: 025-2226279

### Jaffna

No.55,57 & 59, Kasthuriar Road  
Tel: 021-2219444

### Nuwara Eliya

No. 36, 1st Floor, Unit 6, Park Road  
Tel: 052-2223382

### Kandy

No. 165, Kotugodella Veediya  
Tel: 081- 2224913

### Badulla

No 30, Anagarika Dharmapala  
Mawatha  
Tel: 055-5635072

### Dambulla

No.719, Anuradhapura Road  
Tel: 066-2284737

### Galle

No. 64, Colombo Road, Kaluwella  
Tel: 091-2226501

### Matara

No. 8C, F. N. Building, 2nd Floor,  
Station Road  
Tel: 041-2220195

### Embilipitiya

No.176, Rathnapura Road, Pallegama  
Tel: 047-2230590

### Ratnapura

No.1/200, Ground Floor, Main Street  
Tel: 045-2230677

## Standalone pawning centers

### Pamankada

No.491,Havelock Road,Colombo 06.  
Tel- 011 2367901

### Ja-Ela

No.38,Old Negambo  
Road,Mainstreet,Ja-Ela.  
Tel- 011 2232155

### Grandpass

No.408,Grandpass Road,Colombo14.  
Tel- 011 2337040

### Dematagoda

No.93,Kolonnawa  
Road,Dematagoda,Colombo 09.  
Tel- 011 2679089

### Modara

No.305,Muthuwella  
Mawatha,Mutuwella.  
Tel- 011 2540711

### Kandana

No.264/A,Station Road,Kandana.  
Tel- 011 2232290

### Borella

No.1167,Maradana  
Road,Borella,Colombo 08.  
Tel- 011 2698016

### Horana

No.55,Panadura Road,Horana.  
Tel- 034 2267671

### Kaluthara

No.242,Galle Road,Kaluthara South  
Tel- 034 2224714

### Kochchikade

No.71/A,Chilaw Road,Kochchikade.  
Tel- 031 2274233

### Kelaniya

No.720,Waragoda Road,Kelaniya  
Tel- 011 2916626

### Minuwangoda

No.39/A,Negombo  
Road,Minuwangoda.  
Tel- 011 2281285

### Matale

No.253,Main Street,Matale.

### Ambalangoda

No.24/J2,New Road,Ambalangoda.  
Tel- 047 2225442

### Kottawa

No.128/A,Highlevel Road,Kottawa.  
Tel- 011 2178464 / 54

### Weligama

No.325/A,Old Matara Road,Weligama

### Hatton

No.101,New Building,Main  
Street,Hatton.  
Tel- 0512222289

### Bandarawela

No.173,Main Street,Bandarawela

### Thissamaharama

No.28,Main Street,Thissamaharama



# Notice of Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Softlogic Finance PLC will be held at the Auditorium of the Central Hospital, No. 114, Norris Canal Road, Colombo 10 on Thursday the 29 day of August 2013 at 2.30 p.m. for the following purposes;

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Financial Statements for the year ended 31st March 2013 together with the Report of the Auditors thereon.
2. To re-elect Mr A K Pathirage, who retires by rotation in terms of Articles 91 and 92 of the Articles of Association, as a Director of the Company.
3. To re-appoint Messrs PricewaterhouseCoopers, Chartered Accountants, the retiring Auditors and to authorise the Directors to determine their remuneration.
4. To authorize the Directors to determine donations for the year ending 31st March 2014 and up to the date of the next Annual General Meeting.

By Order of the Board  
SOFTLOGIC FINANCE PLC  
**P W Corporate Secretarial (Pvt) Ltd**  
Director/Secretaries

27 June 2013  
Colombo

## Notes:

1. A shareholder is entitled to appoint a Proxy to attend and vote at the meeting on his/her behalf.
2. A Proxy need not be a shareholder of the Company.
3. The Form of Proxy is enclosed for this purpose.
4. The completed Form of Proxy must be deposited at the Registered Office of the Company at Level 2, No.33, Park Street, Colombo 2 by 2.30 p.m. on 27 August 2013.



# Form of Proxy

I/We\* ..... NIC No. .... of .....  
 ..... being a shareholder/s\* of SOFTLOGIC FINANCE  
 PLC hereby appoint ..... NIC No. .... of  
 .....

Mr Asoka Kariyawasam Pathirage	of Colombo or failing him*
Mr Nalin Hemantha Gamini Wijekoon	of Colombo or failing him*
Mr Tuan Mihlar Iftikar Ahamed	of Colombo or failing him*
Mr Baddegama Hevege Sirinimal Jayawardena	of Colombo or failing him*
Mr Chrysanthus John Emmanuel Corea	of Colombo or failing him*
Mr Dushan Travice Columban Soza	of Colombo or failing him*
Mr Saliya Wickremasinghe	of Colombo*

as my/our\* proxy to represent me/us\*, to vote as indicated hereunder for me/us\* and to speak for me/us\* and on my/our\* behalf at the Annual General Meeting of the Company to be held on 29 August 2013 at 2.30 p.m. and at every poll which may be taken in consequence of the aforesaid Meeting and at any adjournment thereof:

	For	Against
1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Financial Statements for the year ended 31st March 2013 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr A K Pathirage, who retires by rotation in terms of Articles 91 and 92 of the Articles of Association, as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint Messrs PricewaterhouseCoopers, Chartered Accountants, the retiring Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
4. To authorize the Directors to determine donations for the year ending 31st March 2014 and up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our\* hands this ..... day of ..... Two Thousand and Thirteen.

.....  
 Signature of Shareholder/s

**Note:**

- \*Please delete the inappropriate words.
- Instructions as to completion appear on the reverse.

### **INSTRUCTIONS AS TO COMPLETION**

1. The instrument appointing a Proxy shall be in writing under the hand of the appointer or of his/her Attorney duly authorised in writing or if such appointer is a company/corporation, either under its Common Seal, or under the hand of an Officer/s or Attorney duly authorised in terms of the Articles of Association /Statute.
2. In the case of a proxy signed by an Attorney, the original Power of Attorney must be deposited at the Secretaries' Office (i.e. P W Corporate Secretarial (Pvt) Ltd, No. 3/17, Kynsey Road, Colombo 08 – Telephone :011-4640360/3) for registration.
3. In perfecting the Form of Proxy please ensure that all details are legible.
4. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy please insert the relevant details in the space provided.
5. Please indicate with an 'X' in the space provided how your proxy is to vote on the resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit.
6. To be valid, this Form of Proxy must be deposited at the Registered Office, Level 2, No.33, Park Street, Colombo 2, by 2.30 p.m. on 27 August 2013.

# Corporate Information

## Name of the Company

Softlogic Finance PLC

## Holding Company

Softlogic Capital PLC

## Legal Form

Incorporated under the Companies Act No 17 of 1982

Date of Incorporation 24th August 1999.

Re-registered under the Companies Act No. 7 of 2007 on 29th September 2008.

Registered under the Finance Companies Act No. 78 of 1988.

Registered under the Finance Leasing Act No. 56 Of 2000.

Approved Credit Agency under the Mortgage Act No 6 of 1949 and Inland Trust Receipts Act No 14 of 1990.

Quoted in the Colombo Stock Exchange on January 22, 2009.

Registered under the Securities & Exchange Commission of Sri Lanka

Act No. 36 of 1987 as Margin Provider

## Company Registration Number

PB641PQ

## Tax Payer Identification Number (TIN)

134008350

## Accounting Year End

31st March

## Registered Office

Level 2, No. 33, Park Street

Colombo 2

## Principal Place of Business

Level 2, No. 33, Park Street, Colombo 2

Tel : 94-11- 2307284 - 8

Facsimile : 94 11 2307289

E-mail : leasing@softlogicfinance.lk

Website : www.softlogicfinance.lk

## Board of Directors

Mr. Ashok Pathirage (Chairman)

Mr. Nalin Wijekoon (CEO)

Mr. B.H.S.Jayawardene

Mr. Tuan Iftikar Ahamed

Mr. Chris Corea

Mr. Dushan Soza

Mr. Saliya Wickremasinghe

## Management Committee

Mr. Nalin Wijekoon - Director/CEO

Mr. Tuan Iftikar Ahamed - Director

Mr. Sanjaya Vithanage - DGM

Mr. Chamilantha Fernando - DGM

Mr. Nalinda Ranaraja - DGM

Mr. Rohana Dahanayake - AGM

Mr. Sampath Hewapathirana - AGM

Mr. Colin Samarathunga - AGM

Mr. Lasantha Perera - AGM

Mr. Gayan Jayatissa - SM

Mr. Shehan Uduwara - SM

Ms. Nirasha Irugalbandara - M

Mr. Priyankara Seneviratne - M

## Secretaries

P W Corporate Secretarial (Pvt) Ltd

## Auditors

Messrs. PricewaterhouseCoopers

Chartered Accountants

## Legal Advisors to the Company

Nithya Partners

## Bankers

HSBC

DFCC Vardhana Bank

Sampath Bank

Bank of Ceylon

Commercial Bank

Seylan Bank

Hatton National Bank

Pan Asia Banking Corporation

People's Bank

Nations Trust Bank

Deutsche Bank

