



GOING PLACES

Going
Places...

*We don't follow footsteps, We make our own
The Softlogic Way*

FROM ONE **SIGNIFICANT MILESTONE** TO ANOTHER,
SOFTLOGIC FINANCE PLC, IS PLEASED TO PRESENT,

“GOING PLACES”.

The triumph last year was a result of our leadership and management and the outcome is evident in our bottom line with surging profits recorded throughout the year.

Emphasis on customer excellence has always been at the forefront of our priorities and it is something that we pride ourselves in by constantly questioning the status quo and raising our own standards.

Making our mark with significant milestones wherever we have ventured with innovative financial solutions, combined with an extensive and expanding branch reach, we are pleased to claim that Softlogic Finance is *'Going Places'*.

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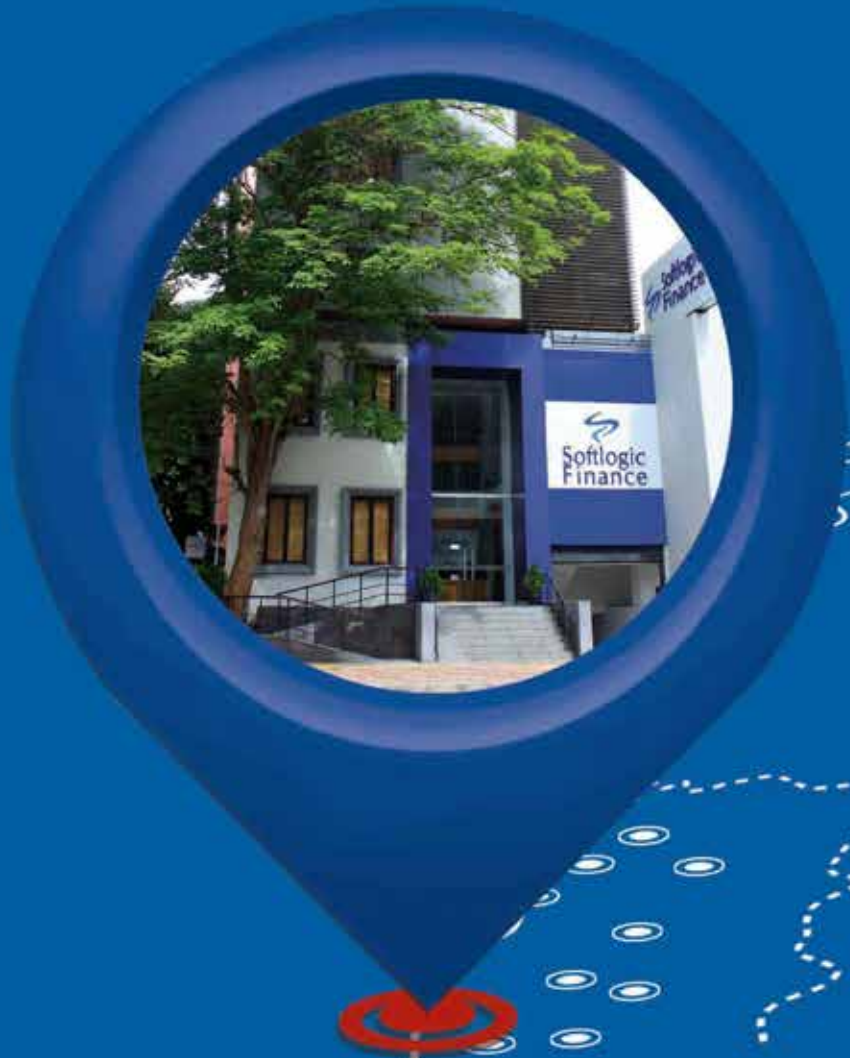
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INNOVATION



WE CONSTANTLY
CHALLENGE
CONVENTIONAL
WISDOM AND
DEVELOP NEW
SOLUTIONS TO
MEET CUSTOMER
REQUIREMENTS.

ABOUT US



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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 needs.

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 the responsibility to protect them. We are a good corporate citizen and support worthy causes and CSR projects.

OUR REPORTING PHILOSOPHY

Reporting Context

As a company committed to delivering responsible and transparent financial services to its customers, our objective is to present actionable information to all our stakeholders, so as to enable them with the ability to make informed decisions about our company. We have adopted the Integrated Reporting methodology propagated by the Integrated Reporting Council in order to showcase our value creation story to our stakeholders in a multi-faceted and cohesive manner.

Our focus is on delivering sustainable value creation that can withstand the vagaries of the industry that we engage in. This calls for acute awareness and insight into our value creation process, our responsibilities to our stakeholders and the economic, social and environmental impacts that our business has. To this end, we have reported on the key inputs to our value creation process, which we have identified as our value drivers. These have been presented as input capitals in the form of Financial, Customer, Business Partner, Human and Intellectual Capital. Further, we have laid out our value generating activities and the immediate outputs that result from our value creation process. Special emphasis has been given to economic, social and environmental impacts that our business has, as it is our belief that the value we create should be felt across all these three spectrums.

Further, we recognise the responsibility that we owe during this value creation process, to our diverse set of stakeholders. Accordingly, we have comprehensively discussed corporate governance and integrated risk management processes that ensure adequate checks, balances and safeguards, to cover the myriad interests of our stakeholders.

Reporting Scope

Driven by our responsibility to our stakeholders along with the desire to address their needs, we have adopted the Integrated Reporting method to focus on the long-term sustainability of our value creation process.

Consequently, we have presented financial and non-financial information that can facilitate the assessment of the financial and operational performance of our business. We have also provided key comparative performance indicators from the previous financial year and the future outlook for all our value creating activities. This continuous enhancement of transparency is further achieved by identifying factors affecting our key stakeholders and the sustainability initiatives we have undertaken based on stakeholder identification, and the engagement processes carried out by the company

Reporting Boundaries

This Annual Report covers all activities of Softlogic Finance PLC island-wide, during the financial year 2015/2016 ending on 31st March 2016. No restatements of any financial or non-financial information have been done with regard to the previous year, unless otherwise specifically stated.

The reported financial statements as at and up to 31st March 2016 have been prepared in compliance with the applicable Sri Lanka Accounting Standards. All relevant disclosures have been made as per applicable laws and regulations. Disclosures on corporate governance have been made as per the Code of Best Practice on Corporate Governance (Direction No. 03 of 2008) issued for finance companies by the Central Bank of Sri Lanka and also in line with the 2013 version of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. Further, disclosures have also been made as per the Listing Rules of the Colombo Stock Exchange.

External Assurance

External Assurance for the Financial Statements and its accompanying notes have been obtained by Messrs. PriceWaterhouseCoopers and their independent opinion is stated in the Independent Auditor's Report on Page: 142

OUR JOURNEY

2010 / 2011

"Successful in achieving a yearly profit growth of 190%"

Asset Base	4.4 Bn
Deposit Base	1.6 Bn
Branches	9
Employees	291
PAT	69 Mn
Net Asset Value Per Share	Rs.19.86
EPS	Rs.3.07

2012 / 2013

"Successful in obtaining US\$ 10 million FMO Loan – being the 3rd Finance company at the time to secure a foreign loan"

Asset Base	13.2 Bn
Deposit Base	7.0 Bn
Branches	17
Employees	467
PAT	164 Mn
Net Asset Value Per Share	Rs.32.16
EPS	Rs.4.38

2011 / 2012

"Softlogic Finance launches Personal Loan and Gold Loan products"

Asset Base	10 Bn
Deposit Base	4.7 Bn
Branches	16
Employees	550
PAT	121 Mn
Net Asset Value Per Share	Rs.29.59
EPS	Rs.3.66

2013 / 2014

"Softlogic Finance concluded the first ever medium-term Cross Currency Swap for US\$4.8 million with foreign counterpart TCX"

Asset Base	18.3 Bn
Deposit Base	9.3 Bn
Branches	17
Employees	502
PAT	166 Mn
Net Asset Value Per Share	Rs.34.96
EPS	Rs.4.42

2015 / 2016

"With the opening of 12 new branches during the year, Softlogic Finance was able to expand its branch reach to 30 and increase its Net Profit after Tax by a staggering 70%"

Asset Base	21 Bn
Deposit Base	14 Bn
Branches	30
Employees	491
PAT	369 Mn
Net Asset Value Per Share	Rs.43.04
EPS	Rs.7.04

2014 / 2015

"Issuing Rs.1.4 billion listed, secured Debentures being the first ever AAA rated debenture issuance in the country"

Asset Base	20 Bn
Deposit Base	12 Bn
Branches	18
Employees	521
PAT	216 Mn
Net Asset Value Per Share	Rs.38.36
EPS	Rs.5.44

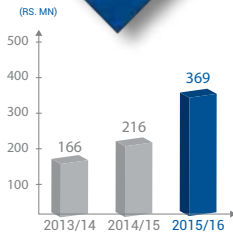
FINANCIAL HIGHLIGHTS



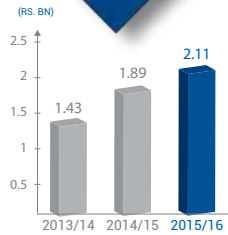
OVERVIEW OF FINANCIAL PERFORMANCE

	2015/16	2014/15	% Change
Financial Results (Rs. Mn)			
Total Gross Income	4,135	3,973	4%
Interest Income	3,612	3,546	2%
Interest Expenses	2,021	2,081	-3%
Net Interest Income	1,591	1,464	9%
Total Operating Income	2,114	1,892	12%
Total Operating Expenses	1,190	1,098	8%
Impairment Charges	405	522	-22%
Operating Profit Before VAT & NBT on Financial Services	519	271	91%
Taxation (VAT & NBT on Financial Services & Income Tax)	150	54	175%
Profit After Tax (PAT)	369	216	70%
Financial Position as at 31st March 2016 (Rs. Mn)			
Total Assets	20,792	20,014	4%
Loans and Receivables	16,857	15,699	7%
Customer Deposits	14,056	12,364	14%
Total Borrowed Funds	4,077	5,582	-27%
Shareholders' Funds	2,542	1,950	30%

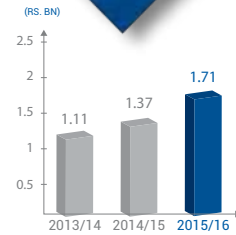
PROFIT AFTER TAX



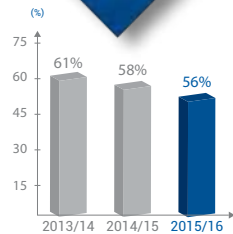
TOTAL OPERATING INCOME



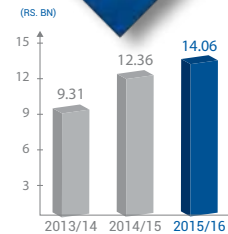
NET OPERATING INCOME - AFTER IMPAIRMENT



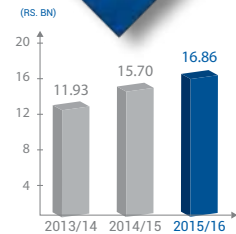
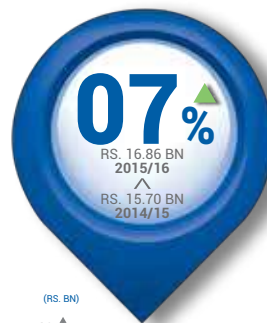
COST TO INCOME RATIO



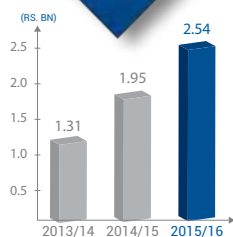
DEPOSIT BASE



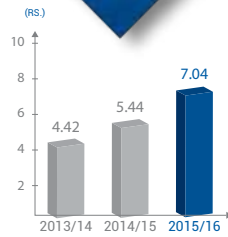
NET LENDING PORTFOLIO



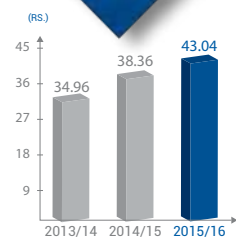
TOTAL SHAREHOLDERS' FUNDS



EARNINGS PER SHARE



NET ASSETS PER SHARE



ANNUAL HIGHLIGHTS

September 2015

- Matara Metro Branch Opening
- Softlogic Finance PLC was recognised with its third consecutive National Business Excellence Award (NBEA) in the 'Non Banking & Financial Services' category for excellence in business and its contribution to the economic progress of the country..



April 2015

- Awurudu campaign was conducted for the Fixed Deposit product where the customer was entitled to a gift with each investment.
- Pamankada Branch Opening



June 2015

- We extended our reach in the Northern Province by opening a new branch in Chunnakam and relocating our Jaffna branch to a new location.

May 2015

- Branch openings in Senkadagala and Hatton



August 2015

- Was the main sponsor of the 43rd anniversary celebration of the "Mahanuwara Sinhala Weladha Sangamaya" which is the leading business chamber in Kandy. This event was graced by the President of Sri Lanka.

July 2015

- Fully fledged 360° Fixed Deposit Campaign was carried out to achieve Rs. 1.5Bn investments in three months where the Company achieved its highest net increase in Fixed Deposits.

October 2015

- Softlogic Finance recreation club organised a day outing to Villa Ocean View Wadduwa for all Staff members and their beloved family to socialise while taking a break from daily routine work.
- Borella Branch opening.



January 2016

- Matale Branch opening.



December 2015

- An Internal Photography competition was held and the 12 best photographs taken by our staff members were featured in the 2016 Softlogic Finance desk calendar and greeting cards, which were sent to all our external stakeholders as gratitude from Softlogic Finance.

February 2016

- Extension of the Clean Zone CSR campaign - in addition to the areas surrounding our branches, we identified a host of public spaces, like Ruwanweliseya and Gangaramaya temple, to extend our CSR initiative.



March 2016

- Wattala Branch opening.
- Pettah Branch opening.
- Kochchikade Branch opening.
- We opened our 30th branch on the 30th of March 2016, thereby reaching an important milestone in our mission to provide easier access and enhanced convenience to our customers.
- Softlogic Finance was recognised with a Bronze award at the Effie Awards 2016 for the marketing communications developed for our SME loan product. It was the only award given in this category.

November 2015

- We relaunched our SME Business loan "Athahitha", and did a 360° marketing campaign where we introduced the "Athahitha" Product to the target segment by building awareness by undertaking a variety of promotional methods.





Chairman's Statement



Rs.
369
million.

At the end of the financial year, **Softlogic Finance** recorded its **strongest performance** of **Rs. 369 million** with a substantial growth in profitability of **70 percent.**

THE CHAIRMAN'S STATEMENT

A period of transition

It was a challenging year for the Sri Lankan economy amidst fiscal policy changes. While the year recorded a real GDP growth of 4.8 as against the 4.9 in 2014, for the first time since March 1995 inflation reached negative numbers primarily due to low commodity prices. This gradually recovered to 2.8 percent at the end of 2015 compared to the 2.1 percent in 2014. With the view to reduce the budget deficit and government debt to GDP, the fiscal policy was geared towards enhancing revenue through streamlined and broadened tax schemes and better management of public expenditure.


The Central Bank tightened its accommodative monetary policy towards the end of 2015 to avoid demand pressure on inflation, stemming from high credit and money expansion. The upwards trend of interest rates towards the end of the year called for more focused attention on financial institutes' lending portfolios, in view of the tendency for the non-performing loan ratio to increase as a result. Furthermore, a loan-to-value ratio (LTV) was introduced on loans and advances granted for the purchase of motor vehicles to restrict excessive credit flows to the sector and to save on foreign currency reserves. This tightening of policy had a considerable negative impact on the motor vehicle leasing business. Despite the challenges presented the outlook for the economy remains positive with growth expected to pick up pace in due course along with stabilised interest rates.

In this backdrop Softlogic Finance had prudent processes, checks and balances in place to withstand the pressures of the economic environment and record its best performance to-date.

Strengthening core competencies

At the end of the financial year, Softlogic Finance recorded its strongest performance of Rs 369 million with a substantial growth in profitability of 70 percent. Our company took several prudential steps to establish sound processes and systems to control provisioning.

In view of the challenging conditions prevalent in the vehicle leasing industry Softlogic Finance has considerably curtailed activities in this sector. Prior to the imposition



of the Government's LTV ratio, which adversely affected the industry, the company already had a 70 percent lending ceiling in place on vehicle value which served to soften the impact. Moreover, our vehicle portfolio was drastically reduced in response to the losses sustained over the past two years. Furthermore, the setback in the leasing portfolio was largely offset by the success achieved through the company's strategic shift in the loan portfolio. To this end, the working capital product introduced in 2013 to cater to the SME sector was further strengthened in the year under review to become the strongest portfolio in lending. This lucrative move has considerably buttressed our company's profits placing us at the forefront in the SME segment.

Greater stability and growth

One of the primary methods of funding for Softlogic Finance is by way of deposit mobilisation which has increased to 77 percent of the funding mix in this financial year. Conversely, measures were taken to reduce Commercial Paper borrowings with more sound alternatives in place. In this regard, our company's branch expansion drive that saw the opening of 12 new branches in 2015/2016, would further augment the company's capacity to source customer deposits. The expansion of the company's footprint along with efficient cost controls established proved effective in mitigating the cost-to-income ratio and further contributed towards profit growth.

In order to increase efficiency in internal processes and functions we streamlined our human capital so that excess staff members were effectively mobilised to meet the needs of the branch expansion. As a consequence no new recruitments were required reflecting the operational proficiency achieved in the year under review. We have also initiated the establishment of technological infrastructure and advancements for the new developments in our portfolio management.

Further establishing our stability in the industry, Softlogic Finance benefitted from a debt-to-equity conversion in early 2016. The shares converted from the high cost FMO loan were purchased by the parent Company, Softlogic Capital PLC, increasing its shareholding in Softlogic

Finance to 68 percent. As a result, the company's capital base experienced an increase, while the Capital Adequacy Ratio (CAR) rose to 14.44 percent. Overall our company is well poised to deliver better results in the coming years.

Towards long-term goals

It must be stressed that Softlogic Finance is not a conventional finance company, with aspirations set well-beyond bottom-line goals. It is in the interest of all concerned to safeguard our customers from financial turmoil and ensure their security. The company in this regard is vested with the responsibility of placing customer interests ahead of its own. In turn, Softlogic Finance can be assured of its own success, growing in tandem through partnerships with financially viable customers to generate real value for shareholders.

Addressing the needs and issues of customers through the company's core competencies is our contribution to society. These efforts can affect positive change in the country's economy in the long run establishing a sound economic environment and gainful customers conducive to the company's own growth trajectory. It is this ethos ingrained in our belief and value systems that sets us apart in the industry.

Softlogic Finance will continue to harness its potential with aggressive plans in place in terms of expanding the branch network. We will also work towards developing the company's motor vehicle leasing portfolio which is expected to pick up pace and recover from a challenging period in time. Going forward we expect continued growth and profitability fuelled by an expanding deposit base and loan portfolio.

Appreciation

I offer my sincere thanks to all our valued customers for their confidence in us during trying times, giving us the impetus to reach our targets and goals. I also extend my appreciation to the Governor of the Central Bank of Sri Lanka and the Supervisory Division of Non-Banking Financial Institutions for their continued guidance and support. I also wish to convey my appreciation to the

It must be stressed that **Softlogic Finance is not a conventional finance company**, with aspirations set well-beyond bottom-line goals. It is in the interest of all concerned to **safeguard our customers from financial turmoil and ensure their security.**

Board of Directors for their invaluable role in keeping the company on course its growth trajectory towards a positive future outlook.

I extend my thanks to the Senior Management as well as all employees of Softlogic Finance for their commitment and contribution to the company's success. With aggressive plans ahead their roles will no doubt be instrumental in generating the desired outcome for the company's performance going forward. I also wish to convey my sincere appreciation to all shareholders whose confidence in us fuel our commitment to consistently create value and wealth.

(Sgd.)

Ashok Pathirage

Chairman

29 June 2016

"Resources were mobilised to open **12 new branches** in the year under review and the **benefits of this expansion** drive are only just **beginning to bear fruit**. Ultimately, the consolidated business of all **30 branches** will realise its **full potential** in the coming years."



12

New Branches



Deputy Chairman's Statement

THE DEPUTY CHAIRMAN'S STATEMENT

Gradually gathering steam over a period of anticipation, uncertainty and change, the Sri Lankan economy is poised for growth. During this subdued period Softlogic Finance has been laying the ground work, and initiating processes so that our company can harness the full extent of benefits when the economic conditions are ripe. As a result it has been a year of planning and leveraging on our company's strengths to stand well-ahead of our competitors.

In time, economic growth will stimulate development projects and activities, paving the way for more lending opportunities. In the meantime Softlogic Finance has been focusing on identifying suitable markets and areas of potential in order to maximise on opportunities to register growth.

The Company's Performance

The company's profits have grown tremendously compared to the previous year as new initiatives gained momentum over the financial year. This is particularly evident in our SME business that has recorded healthy growth margins, culminating in a sound portfolio with minimal bad debts. Simultaneously, intense recovery plans are under way to manage bad facilities which will see positive results in the next two years. The company also recorded a decline in NPL growth with less provisions made in the year under review as against the previous financial year. To further mitigate NPL growth, the company will direct greater focus on this area going forward.

Another aspect that received particular focus was the branch expansion of the company. Resources were mobilised to open 12 new branches in the year under review and the benefits of this expansion drive are only just beginning to bear fruit. Ultimately, the consolidated business of all 30 branches will realise its full potential in the coming years. Along with this expansion arrived the need for streamlining our operations with efficient procedures in place in order to deliver an uncompromised service to customers. To this end, our operations were subject to scrutiny in our efforts to iron our deficiencies and lift the company performance to greater heights. This year too we are looking at opening new branches to tap into our target segments across the island.

Although our leasing business was given less prominence in the face of turbulence in the vehicle market, it made way for us to reposition this product with quality control. To gradually push this segment we have refined this product further and recruited a leasing expert in order to build it up to its true potential with his stewardship. In future, our leasing business is expected to make a healthy contribution and add value to our lending portfolio.

As a company that is customer-centric we are consistent in our efforts to drive innovative solutions to bridge the needs that exist in the market. As such our "4 in 1" fixed deposit is just such a product that appeals to customer needs and has met with much success. This unique product allows customers to withdraw prematurely on four different occasions during the year without losing interest and is a testament to our company's stability in terms of liquidity and healthy cash flows. With funds from our growing deposit base, borrowings and bank lines we are well-placed to achieve growth in the next year as well.

Another stable and profitable product in our portfolio is the Gold Loan product which recorded a 53 percent growth during the financial year. Although this product captures only four percent of our portfolio it is a lucrative business with the potential to grow further with the increasing branch network. While volumes are already on the rise, the portfolio has not recorded any bad loans and the quality of lending remains high, requiring no provisioning by the company. Presently our stand alone Gold Loan outlets are being converted to fully-fledged branches to better serve customers in their transactions and in turn the product is poised to bring greater revenue in the coming years. We are continuously evaluating the risk elements associated with this product and prompt actions are taken to mitigate the risk.

In addition to recording a healthy performance driven by our best products Softlogic Finance has strengthened its position by establishing the necessary checks and balances in managing risk. Particular focus was given to our credit evaluation with the necessary human resource in place to function independently. Furthermore, our operational risk is closely monitored with mitigating measures in place and overseen by our personnel including a risk management committee. As a result, our arrears portfolio was well-managed, placing the company towards improved performance.

Our driving force

Through all our successes and capacities to meet challenges, it is our staff that has proved their mettle and competency in driving the company to greater heights. Through our recruitment processes, training and development and staff promotion mechanisms we have established the cream of the talent in the industry. As a growth-oriented company the members of staff have ample opportunities to guide their career paths along with the growth of the company.

We have given particular emphasis during the year under review to training and quality assurance with a Deputy General Manager appointed to oversee related activities. The ultimate intent of our human resource development has always been geared towards delivering customer satisfaction. While deficiencies and shortfalls in performance are remedied across the branch network, incentives such as promotions and bonuses are the hallmarks of our performance driven culture.

Future outlook

To further enhance our lending portfolio we have identified education as a niche market and developed a highly specialised product to tap into this segment. The Education Loan will have a lending capacity of up to Rs.10 million and would lift the financial strain off students and parents. The product features include coverage for higher education opportunities overseas, and school tuition fees or down payments for international school enrolment at reasonable interest rates and three to five year payment terms. We have aggressive advertising campaigns already in the pipelines and it is our intent to establish brand awareness in the young mindset of the country through this product and intercept healthy business in the long-run.

Softlogic Finance is actively engaged in making new strides and advances to elevate customer convenience. Accordingly, a state of the art software system to streamline processes is another new development in the pipelines. The company is looking to acquire a banking software package that would introduce greater efficiency and sophistication to our operations. Consequently with sound technological infrastructure in place the company will take the next step in fuelling our savings product along with an ATM network in place to emulate a banking model.

Along with continued re-engineering and **changes internally**, these steps would serve to propel the **company's position** further with a new phase of **growth** towards attaining our **medium to long-term goals**.

CSR Initiative

The company further strengthened its commitment to the Clean Zone initiative during the financial year drawing from the positive reception received from the branch localities where the programme covers a one kilometer road extent. The initiative grows along with the branch expansion with a total of 30 km extent to date benefitting from the operation. The underlying theme of keeping the vicinity clean with proper mechanisms in place is set to spread to other public areas as well such as religious places and bus stands, building on the success achieved so far.

Appreciation

I wish to convey my sincere thanks to our Chairman, Mr Ashok Pathirage, Director/Chief Executive Officer, Mr Nalin Wijekoon and the Board of Directors for their invaluable support during a pivotal time for the company and the industry.

I would also like to express my appreciation to the Central Bank of Sri Lanka and its officers for their vital role in upholding sound practices and regulatory measures. In this regard I also extend my thanks to the external auditors, PricewaterhouseCoopers for their valuable contribution.

Finally, I convey a big "Thank you" to the Softlogic Finance Team for their outstanding contribution which is reflected in the company's exceptional performance for the year. Their hard work and commitment are without a doubt the pillars of our company's strength and will be instrumental to the growth strategies going forward.

(Sgd.)

Harris Premaratne

Deputy Chairman

29 June 2016



CEO's Statement



14%

Growth in Customer
Deposits

The strategy of **focusing** on individual retail deposits paid-off for the **company** and enabled the **maintenance** and **growth** of our **customer** deposit base.

THE CEO'S STATEMENT

The financial year 2015/2016 proved to be an exceptional year for Softlogic Finance, recording the best performance in the company's 16 year history. The many budgetary milestones surpassed present a clear demonstration of the company's capacity to consistently build on its performance in an increasingly challenging and competitive environment. The full potential of the company's working capital loan product, introduced specifically to assist the SME sector, was achieved during the year.

As a result, in the year under review, Softlogic Finance recorded its highest Net Profit After Tax to date, reaching Rs 369 million, which is a 70 percent increase against last year. The Net Profit Before Income Tax of the company stood at Rs 430 million, achieving a 95 percent increase. Further establishing the company's financial health, the Cost-to-Income Ratio was maintained at 56 percent, marking an improvement from the 58 percent at the end of the previous financial year. These advancements reflecting operational excellence were accomplished through developments to internal processes and cost control initiatives undertaken by the company during the year.

The Sri Lankan Economy

Primarily due to the challenges in the political arena, the economic growth rate experienced a marginal decline. A real GDP growth rate of 4.8 percent was recorded for the year 2015 as against 4.9 percent in 2014.

There was a slowdown in demand for the country's traditional exports. Further, the country experienced a contraction in the net foreign exchange inflows. However, domestic consumption saw a rebound as income grew, particularly in the public sector. Overall the government experienced a downward trend in tax and non-tax revenues. Among the major components of the economy, the Agriculture and Services Sectors saw peripheral growth while the Industry sector slowed down in the year under review.

When considering the Agricultural Sector, a marginal growth of 5.5 % was seen in 2015 compared to 4.9 % in 2014, with the main contribution coming from the increase in paddy production. A contraction in tea production was seen due to supply-side constraints and as a response to

contraction in international demand.

With regard to the Industrial Sector, the growth rate slowed down to 3% in 2015, compared to 3.5% in 2014, mainly due to slowdowns in the construction, mining and quarrying sectors. The Services Sector growth rate stood at 5.3%, compared to 5.2% in 2014, with main contributions coming from the financial services sector.



In 2016, we were recognised by Brand Finance and LMD, **as one of the Top 100 companies in the country,** ranking at the 74th position, **which is a testament to the value placed on the Softlogic Finance brand name among Sri Lankan consumers.**

For the most part of 2015, the market experienced high liquidity and the market interest rates remained low for most of the year. Inflation continued to firmly stay in the single digits during 2015 and continued in the same fashion into 2016, but an increasing trend in the inflation was seen due to the inflationary pressure coming in. In order to curb this unravelling trend, the market interest rates were increased, along with increases to the statutory reserve funds. In light of these developments and quick reactions by the governing bodies, inflation is expected to remain in the single digits in the foreseeable future. As a result of this increase in market interest rates, the borrowing and fixed deposit rates increased across the banking and non-banking sectors and competition among lenders is also likely to grow substantially.



Operational Performance

During the first half of 2015, the credit growth in the market remained stagnant with lacklustre economic activity due to two major elections and the ensuing transition periods in the wake of political changes.

In this challenging environment Softlogic Finance was able to perform in terms of asset growth and profitability. This achievement was possible as a result of the strategic changes introduced to our lending product mix in 2013 in anticipation of such a volatile industry environment and the continuous improvements made to customer services and conveniences right throughout.

The strategic transition of our core business from leasing and hire purchase to working capital lending began in 2013. The product is now beginning to realise its full potential, adding value to our business with an increased net interest margin and a sound client portfolio. Presently, the working capital product accounts for 45 percent of our total lending portfolio and plans are afoot to further increase its reach. Further, Non-Interest Income increased significantly during the year, with the year-on-year growth in the SME working capital loan portfolio.

During the year under review, greater focus was given to the control of operating costs. This was achieved through the improvement and streamlining of internal processes and several cost control initiatives undertaken. Moreover, the marked increase in employee productivity and efficiency also contributed to the control of operational expenses. This resulted in a decrease in the Cost-to-Income Ratio from 58 percent to 56 percent this year. This translated to a 91 percent growth in total operating profit before VAT & NBT on financial services at the end of the year, denoting the company's best performance to-date.

In terms of the company's Asset Base at the end of the year, we were able to achieve a 4% growth in Total Assets, despite having to face a host of industry specific and general economic challenges. Similarly, a growth of 7% was recorded in the total portfolio of Loans and Advances when compared to the previous year. With regard to Customer Deposits, the portfolio experienced a 14 percent growth in a very competitive environment.

The strategy of focusing on individual retail deposits paid-off for the company and enabled the maintenance and growth of our customer deposit base.

Furthermore, USD 2 million of the convertible loan obtained from FMO was converted to equity, leading to an increase in equity by Rs. 288 million. This contribution to shareholder funds resulted in the strengthening of our equity position and the foreign financier's decision to exercise the option of converting debt to equity, demonstrates the confidence placed in us. With this conversion of an interest bearing liability to equity, our profitability also increased and significantly reinforced our ability to accept more public deposits. Therefore, this equity infusion has undoubtedly positioned our company to drive the next stage in growth plans.

Milestones

In 2016, we were recognised by Brand Finance and LMD, as one of the Top 100 companies in the country, ranking at the 74th position, which is a testament to the value placed on the Softlogic Finance brand name among Sri Lankan consumers. This also indicates the increased awareness that our brand enjoys and its penetration among the Sri Lankan consumers. The recognition is to the credit of years of tireless work applied for the enhancement of customer convenience, quality of service and value delivered to them.

Moreover, in LMD's compilation of Sri Lanka's Most Respected Entities 2015, we were conferred with the 49th position. This ranking is a measure of an entity's strength and stability in the eyes of their corporate peers. It goes on to signify the corporate admiration we enjoy among our peers.

In view of our continued commitment to overall business excellence and service delivery in the NBFI sector, the Company was awarded the Merit Award for "Business Excellence in the Non-Banking and Financial Services" category at the National Business Excellence Awards organised by the National Chamber of Commerce Sri Lanka (NCCSL). This award was conferred upon us for the third consecutive year.

THE CEO'S STATEMENT Contd.

Moreover, for the fourth consecutive year, our company was awarded with a Compliance Award at the 51st Annual Report Awards conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL). This is further proof of the transparency of our reporting culture and goes on to showcase the trust and confidence that our stakeholders place in us.

Furthermore, at the Effie Awards 2016, we were recognised with a Bronze Award for the marketing communications developed by us for our working capital SME loan product. Only the Bronze Award was awarded in this respective category.

In relation to our growth strategy, it is notable that the company was able to open 12 branches during this financial year to expand our network to 30 branches by the end of this financial year.

Future Outlook

Softlogic Finance is well-positioned to drive its three year strategic plan, which primarily focuses on expanding its geographical footprint and its product range. The key component in our three year strategic plan is the branch expansion drive, which kicked into high gear during the last financial year. This focus will continue with 20 branch openings earmarked for the upcoming financial year, as a part of the strategy to establish a geographical footprint of 100 branches island-wide. Heavy emphasis will be given to the eastern parts of the island during this expansion drive.

This infrastructural network expansion will be complemented with the introduction of a range of lending products and the re-positioning of our fund mobilisation products. With regard to lending, we plan to introduce educational loans and import and export financing as well. Additionally, Islamic financing is to be specifically introduced in order to leverage on our expansion into the east of the island.

Our savings product will receive an impetus for growth with plans well underway to introduce an ATM network island-wide for the convenience of our customers. The introduction of the ATM network is to be operationalised through a strategic partnership with

an ATM service provider. This service introduction will considerably drive our savings portfolio growth, which the company has identified as a comparatively cheaper source of funds. To further improve customer convenience and service excellence, the company is well on its way towards completing the implementation of state-of-the-art IT systems.

With regard to our fixed deposits product, our company has made a strategic decision to heavily concentrate on drawing in individual fixed deposits from the retail customer segment in the market and gradually move away from institutional deposits in order to spread its risk.

Overall, the rights issue that took place during the last financial year, the part conversion of our FMO loan into equity and our accumulated profits will fuel the next step of our company's growth that is currently well underway.

Acknowledgements

I take this opportunity to extend my sincere gratitude to our Chairman Mr. Ashok Pathirage, Deputy Chairman Mr. Harris Premaratne and the Board of Directors for their invaluable support and guidance throughout a year of many challenges.

I also convey my appreciation to the officers of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for their vital role in regulatory matters and to the external auditors for their invaluable service.

I conclude by expressing my sincere thanks to the Softlogic Finance team whose unflinching commitment was instrumental to the exceptional performance achieved this year and I have no doubt that they will continue to secure the company's success going forward.

(Sgd.)

Nalin Wijekoon

Director / Chief Executive Officer

29 June 2016



AS A RESULT, IN THE YEAR UNDER
REVIEW,

SOFTLOGIC
FINANCE
RECORDED ITS
HIGHEST NET
PROFIT AFTER
TAX TO DATE,
REACHING
RS 369
MILLION

BOARD of Directors



Ashok Pathirage
Chairman

Harris Premaratne
Deputy Chairman

N H G Wijekoon
Director/ CEO

Iftikar Ahamed
Director



B H S Jayawardena
Director

D T C Soza
Director

S N P Paliyana
Director

Hiran K M Perera
Director

C J E Corea
Director

THE BOARD OF DIRECTORS' PROFILE

01

Ashok Pathirage - Chairman

Mr. Pathirage is one of the co-founders of Softlogic, a conglomerate now involved in retail, healthcare, financial services, ICT, leisure and restaurant operations. He was appointed as Chairman of Softlogic in 2000 and he is one of the top business leaders of the country managing 47 companies within the Softlogic Group, which employees over 9,000 people. He is also Chairman/Managing Director of Asiri hospital chain, Softlogic Capital PLC, Asian Alliance Insurance PLC and Odel PLC which are listed in addition to other companies of the Group. He is also the Deputy Chairman of National Development Bank PLC and the Chairman of NDB Capital Holdings Limited.

02

Harris Premaratne - Deputy Chairman

A leading banking professional Mr. Harris Premaratne who is already on the Board of Softlogic Group companies including Asiri Hospital Holdings PLC, Asiri Surgical Hospital PLC, Asiri Central Hospitals PLC and Central Hospital Ltd, is appointed as the Deputy Chairman of the Softlogic Finance PLC effective 1st January 2015.

Mr. Premaratne has over 42 years of banking experience with expertise in the areas of trade services, trade finance, corporate credit, corporate finance, recoveries and correspondent relations, and was the Senior Deputy General Manager Corporate Banking at Commercial Bank PLC, former Chief Executive Officer of Cargills Bank and Managing Director of Sampath Bank PLC. In addition, he was a Director of the Sri Lanka Credit Information Bureau (CRIB) and was the Chairman of the Technical Advisory Committee of the Sri Lanka Banks' Association.

He is an Associate of the Chartered Institute of Bankers of London and a former President of Sri Lanka Banker's Association.

03

N H G Wijekoon - Director/CEO

Mr. Nalin Wijekoon, was appointed as Director/CEO of Softlogic Finance PLC in 2013. Prior to him being 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). He commenced his career at Peoples Bank and has functioned as Finance Officer up to 1990 before joining KMPG Ford Rhodes Thornton & Co as its Branch Manager in Kandy in 1990. He has also functioned as a Project Officer at DFCC Bank in 1992. He joined Vanik Incorporation Ltd as Asst. Vice President - Finance in 1994 and served in that capacity until 2003. He has undergone numerous training programmes in Sri Lanka and overseas, including training at Harvard University, Boston, USA. He counts more than 36 years of experience in the Financial Sector. He was appointed as a Director to Credit Information Bureau in 2014.

Mr. Wijekoon functioned as the Chairman of the Finance Houses Association of Sri Lanka (FHA) for years 2013/14 and 2014/15. At present he is serving as a committee member of FHA.

04

Iftikar 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 that has interests in insurance, leasing and finance and stockbroking. He is also the Managing Director of Asian Alliance Insurance PLC and an Executive Director of both Softlogic Finance PLC and Softlogic Stockbrokers (Pvt) Ltd. He counts over 30 years of experience in a wide range of metiers within the financial services industry and has extensive banking experience both in Sri Lanka and overseas, having held senior management positions as Deputy Chief Executive Officer at Nations Trust Bank PLC and Senior Associate Director at Deutsche Bank AG. He holds an MBA from University of Wales, UK.



B H S Jayawardena - Director

He is a Fellow Member 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 Botswana Postal Service. He was responsible for strengthening the finance function of the Postal Service. In Sri Lanka he has been involved in two World Bank funded projects and presently holds the position of Executive Director of Vanik Incorporation PLC.



D T C Soza - Director

He is the 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, the 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. He is an engineer by profession and a graduate from the University of Reading, UK.



S N P Palihena - Director

Mr S N P Palihena was appointed to the Board of Softlogic Finance PLC as an Independent Non-Executive Director on 17th March 2014. In addition he serves on the Board of E.B. Creasy & Company PLC and some of its subsidiaries. He also serves on the Board of a subsidiary of The Colombo Fort Land & Building PLC. Mr. Palihena currently holds a Directorship in SMB Leasing PLC as well.

He was a former Chief Executive Officer/General Manager of Bank of Ceylon and has a distinguished banking career spanning almost 40 years. He also worked at the National Development Bank of Sri Lanka for a period of over three years and is a former Director of DFCC Bank. Mr. Palihena is a Fellow of the Chartered Institute of Bankers - UK and a Fellow of the Institute of Bankers, Sri Lanka. He holds a Postgraduate Diploma in Business and Financial Administration from The Institute of Chartered Accountants of Sri Lanka.



Hiran K M Perera - Director

Mr. Perera is currently serving as the Head of Treasury and Corporate Finance of Softlogic Holdings PLC. Prior to this appointment in 2013, he was the Head of Wholesale Risk, Sri Lanka and Maldives at HSBC. He was also the Acting Chief Risk Officer at HSBC, Sri Lanka and Maldives from 2010-2012. He counts over 28 years of experience in banking, including three years of cross-border exposure.



C J E 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.

MANAGEMENT COMMITTEE



Left to Right

Standing : 01. Nalaka De Silva

02. Bharatha Manjula

03. Nalinda Ranaraja

04. Hemantha Silva

Seated : 05. Mark Thrimawithana

06. Sanjaya Vithanage

07. Ashok Jayantha Perera

08. Indresh Fernando



Left to Right

Standing : 09. Priyan Jayakody

10. Kumara Kongahawatta

11. Gangadharan Murrliidhar

12. Shehan Uduwara

Seated : 13. N H G Wijekoon

14. Monika Ranasinghe

15. Channa De Silva

16. Fairoze Burah

MANAGEMENT COMMITTEE PROFILES



N H G Wijekoon - Chief Executive Officer

Mr. Nalin Wijekoon, was appointed as Director/CEO of Softlogic Finance PLC in 2013. Prior to him being 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). He commenced his career at Peoples Bank and has functioned as Finance Officer up to 1990 before joining KMPG Ford Rhodes Thornton & Co as its Branch Manager in Kandy in 1990. He has also functioned as a Project Officer at DFCC Bank in 1992. He joined Vanik Incorporation Ltd as Asst. Vice President - Finance in 1994 and served in that capacity until 2003. He has undergone numerous training programmes in Sri Lanka and overseas, including training at Harvard University, Boston, USA. He counts more than 36 years of experience in the Financial Sector.

He was appointed as a Director to Credit Information Bureau in 2014.

Mr. Wijekoon functioned as the Chairman of the Finance Houses Association of Sri Lanka (FHA) for years 2013/14 and 2014/15. At present he is serving as a committee member of FHA.



Indresh Fernando - Chief Operating Officer

Ms. Indresh Fernando is fellow of the Chartered Institute of Management Accountants (UK) and counts for over 20 years of experience in the Accountancy profession in diverse sectors such as financial services, inbound travel, out bound travel Leisure & Telecommunication sector. She has held several senior positions in the Corporate Sector and has served in the capacity of Sector Finance Director at both Hemas Transportation and Hotels sector (Serendib group), Financial Controller of Lanka Bell, prior to joining the Softlogic Group where she is seconded as Chief Operating Officer to Softlogic Finance PLC.



Sanjaya Vithanage - Deputy General Manager

Sanjaya presently heads the Operation Division. He holds over 19 years of managerial experience in diverse areas of leasing, hire purchase, factoring, bill discounting, margin trading and mobilisation of funds. He joined Vanik Incorporation Ltd, as an Assistant Manager in 1997 and was seconded to Capital Reach Business Development (Pvt) Ltd in 2005, as an Assistant General Manager. He holds a B.Sc (Agri.) Degree from the University of Peradeniya and a Post-Graduate Diploma in Business Statistics from The University of Ruhuna.



Nalinda Ranaraja - Deputy General Manager

Nalinda is in charge of legal Recoveries at Softlogic Finance. He has over 20 years of 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 joined the Capital Reach Group and was eventually appointed as Assistant General Manager in charge of Business Finance Recoveries.



Fairoze Burah - Deputy General Manager

Fairoze Burah joined the Softlogic Finance Deputy General Manager – Business Development and has served as the Vice President – Administration at Amana Bank PLC from 2006 to 2014. He was a Corporate Management Team (CMT) Member in the formation and establishment of Amana Bank in 2010/2011, which was the country's first commercial bank operating on the principles of Islamic Banking. Fairoze has been holding the positions of General Manager, and Group General Manager Human Resources & Administration in reputed groups of companies engaged in diversified businesses in Sri Lanka. He has over 30 years' management experience in Sri Lanka and in overseas employment.

He holds a Master of Business Administration (MBA) specialising in Human Resources Management from the Postgraduate Institute of Management, University of Sri Jayewardenepura, Life Member of the of the Association of Professional Bankers Sri Lanka, was an Executive Committee Member of the Sri Lanka - Malaysian Business Council which is under the auspices of The Ceylon Chamber of Commerce, from 2006 to 2014. He is a Senior Lecturer and the founder Course Director for the Certificate and Diploma Course in Islamic Banking & Finance at the Institute of Bankers Sri Lanka (IBSL), which is under the auspices of the Central Bank of Sri Lanka. He is a keen contributor to the social welfare community developments and holds key responsible honorary positions and also an All Island Justice of Peace



Monika Ranasinghe - Deputy General Manager

Monika Ranasinghe joined Softlogic Finance as Deputy General Manager and heads the Finance Division of the company. She has more than 13 years of experience in the finance field and held the Leadership and Senior Management positions. She possesses an MBA (specialised in Finance) of Southern Queensland in Australia and Member of the Association of Accounting Technician of Sri Lanka (AAT) and Associate Member of the Institute of Chartered Accountants of Sri Lanka (ICASL). She started her career as an Internal Auditor from Ernst & Young, and has worked in St. Anthony's Industries (Pvt) Ltd as an Assistant Credit Controller/Accountant and was the Accountant/Head of Treasury in Ceylon Pencil Co. (Pvt) Ltd. Prior to transferring to Softlogic Finance, she has engaged in Softlogic Retail (Pvt) Ltd from 2012 as the Finance Manager.



Kumara Kongahawatta - Assistant General Manager

Currently, Kumara is functioning as the Head of Credit of the Company. He has over 13 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 he was 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 Jayewardenepura 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.

MANAGEMENT COMMITTEE PROFILES Contd.

01

Nalaka De Silva - AGM Branch Operations & Recoveries

Nalaka overlooks Branch Sales and Recovery of the Company. He joined Softlogic Finance with nearly twenty years' experience in the field of Leasing & Collections with exposure to Litigation & Debt Recovery. Prior to joining Softlogic Finance he held the position of Manager - Consumer Collections (Consumer Loans & Credit Cards) at the Nations Trust Bank.

Prior to joining Nations Trust Bank, he worked for Bartleet Finance PLC for eight years holding numerous positions. He also held the position of Labor Welfare Officer at Diplomatic Labor Welfare in Cyprus, representing the Sri Lankan government and the Foreign Employment Bureau of Sri Lanka.

09

Priyan Jayakody - Chief Manager

Priyan leads the Company's Internal Audit Division. He counts over 10 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 Master of Business Administration from University of Sri Jayewardenepura and B.Com (Special) degree from the University of Sri Jayewardenepura. 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, holder of Diploma in Information Systems Security Controls and Audit jointly conducted by ICA India and CA Sri Lanka and has completed a Certificate level in Banking and Finance held by Institute of Bankers of Sri Lanka.

12

Shehan Uduwara - Chief Manager

Following a successful managerial career at Nation's Trust Bank, Shehan joined Softlogic Finance as Senior Manager Recoveries. He has excelled in taking up Credit Risk Management – a process that has long been a challenge for financial institutions - with proven success whilst addressing and supporting the need to resolve core issues in this sensitive but vital segment. As a senior hand, he has continued to maintain and model the Company's recovery competence, surpassing the indexes in the prevalent market equivalents. The integrated recoveries processes and systems required to sustain effective and efficient lending capabilities remained healthy with Shehan's implementation of a method to mitigate the company's credit risk and enabled services to an increasing spectrum of the customer base.

15

Channa De Silva - Chief Manager

Channa De Silva joined Softlogic Finance as Head of IT. He has more than 20 years of experience in IT field and held the Leadership and Senior Management positions in Information Technology in Sri Lanka & Overseas. He has completed the Fundamentals in Banking for IT Professionals (FIMS), Designing & Programming in COBOL, Data Processing & Management in IBM Systems, IBM AS/400 systems operations and Data Communications Environments IBM Emulations & Networking at Data Management Systems (Pvt) Ltd and IBM World Trade Corporation, Sri Lanka.

He started his career as System Engineer in a private company, and has worked in Senior Management positions in Commercial Bank of Ceylon Ltd, Misys PLC, Singapore, Computer Systems Ltd, Softlogic Information Systems (Pvt) Ltd and Misys PLC, Dubai. Prior to joining with Softlogic Finance, he was engaged in Softlogic BPO Services (Pvt) Ltd as a Consultant.



Ashok Jayantha Perera - Chief Manager

Mr. Perera joined Softlogic Finance as Head of Deposit Mobilisation and he overlooks Deposits & Savings Division of the company. He has more than 31 years of experience in the Banking field and held Senior Management positions in Sales & Marketing, Treasury and Branch Operations. He holds a Banking Diploma in Treasury Investment & Risk Management from Institute of Bankers of Sri Lanka. He started his career with Eswaran Brothers and later joined Habib Bank Limited, Colombo as Manager Treasury. Prior to joining with Softlogic Finance, he was at MBSL where he held the positions of Head of Branch Operations and Head of Treasury.



Mark Thrimawithana - Senior Manager

Mark is a progressive marketer and a well experienced banking professional, having 22 years of experience in Service Marketing, Brand Management, Product Development, Retail, Banking, Training and Development. Previously he worked at Seylan Bank as a Brand Manager, MBSL Savings Bank as the Marketing Manager and Interblocks Ltd. as the Marketing Consultant. Mark is a Certified Professional Marketer - Asia [CPM]. He has also completed his MBA specialised in marketing at the University of Ballarat - Australia while successfully completing his Advanced Diploma in Marketing and Management at Sri Jayawardanapura. Currently he heads the Marketing Division of the company.



Bharatha Manjula - Senior Manager

Bharatha joined Softlogic Finance in February 2015 and heads the Human Resources Division of the company.

He has more than 15 years of experience in Leadership and Senior Management positions in local and international organisations. He is an Associate Member of the Ceylon Hotel School Graduate Association (CHSGA), an Affiliate Member of the Institute of Personnel Management (IPM) and a certified Internal Assessor of TATA Quality Management Services (TQMS), India.

He started his career in 1992 with Taj Group of Hotels and later joined the Lotus Hospitality Group in Dubai as Corporate HR Manager. He has worked in Reed Lanka Holdings Pvt. Ltd, the holding company of 05 companies, as Group Manager – HR & Compliance, prior to joining with Bartleet Finance PLC as Senior Manager – HR & Administration.



Gangadharan Murrliidhar - Senior Manager

Mr. Murrliidhar overlooks the Gold Loans units of the company. He was a Partner of S D Jewels Mart for a period of 4 years. From 2002 – 2009 he was the Proprietor of S R Jewels Mart. In 2010 he joined Ariyawansa Investments & Jewellers as a Branch Manager. Prior to joining Softlogic Finance he worked at The Finance Co. Plc as Manager – Pawning.



Hemantha Silva - Senior Manager

Hemantha presently heads the Group Personal Loans Division and Consumer Loan Division. He has over 20 years of experience in diverse areas such as Personal Loans, Leasing, Hire Purchase, Business Loans, SME Loans, Fund Mobilisation and Recoveries. Commencing his career at Seylan Bank PLC in 1996, he thereafter served at Pramuka Savings & Development Bank until 2004. In 2005, he joined Softlogic Finance PLC.

BRANCH MANAGERS



Colin Samarathunge

AGM - Regional Manager -
Kadawatha



K M A Konara

Chief Manager - Nawala



J K A N Abeykoon

Chief Manager -
Matara Metro



U M H K Weerathunga

Chief Manager -
Senkadagala



T K M Dias

Chief Manager - Kandy



P M K S S Kumara

Chief Manager - Matara



S Thavaseelan

Chief Manager - Jaffna



N I Seneviratne

Chief Manager -
Corporate Branch



Udaya Surasooriyana

Senior Manager -
Negombo



R M N Rathnayake

Senior Manager -
Polonnaruwa



T M K J Peiris

Senior Manager - City Office



D A M Wickramasinghe

Senior Manager - Galle



Nalin Weerakoon

Senior Manager - Wattala



Mayura Adikari

Manager - Pettah



Kapila Chandrakumara
Manager - Pamankada



S D Ranwalage
Manager - Nuwara Eliya



G M R N P Gajanayake
Manager - Anuradhapura



S S N Hettige
Manager - Kurunegala



V G P Kumara
Manager - Embilipitiya



S W M C K Siriwardana
Manager - Dambulla



S Bandara
Manager - Chilaw



Lakmal Dharmasena
Officer in Charge -
Badulla



K Nishantha
Officer in Charge -
Thissamaharama



Janaka Munasinghe
Officer in Charge -
Rathnapura



Manoj Jayawardana
Officer in Charge - Borella



Francis Rodric
Officer in Charge - Hatton



Asela Nawaratne
Officer in Charge -
Weligama



Kenard Perera
Officer in Charge -
Kochchikade

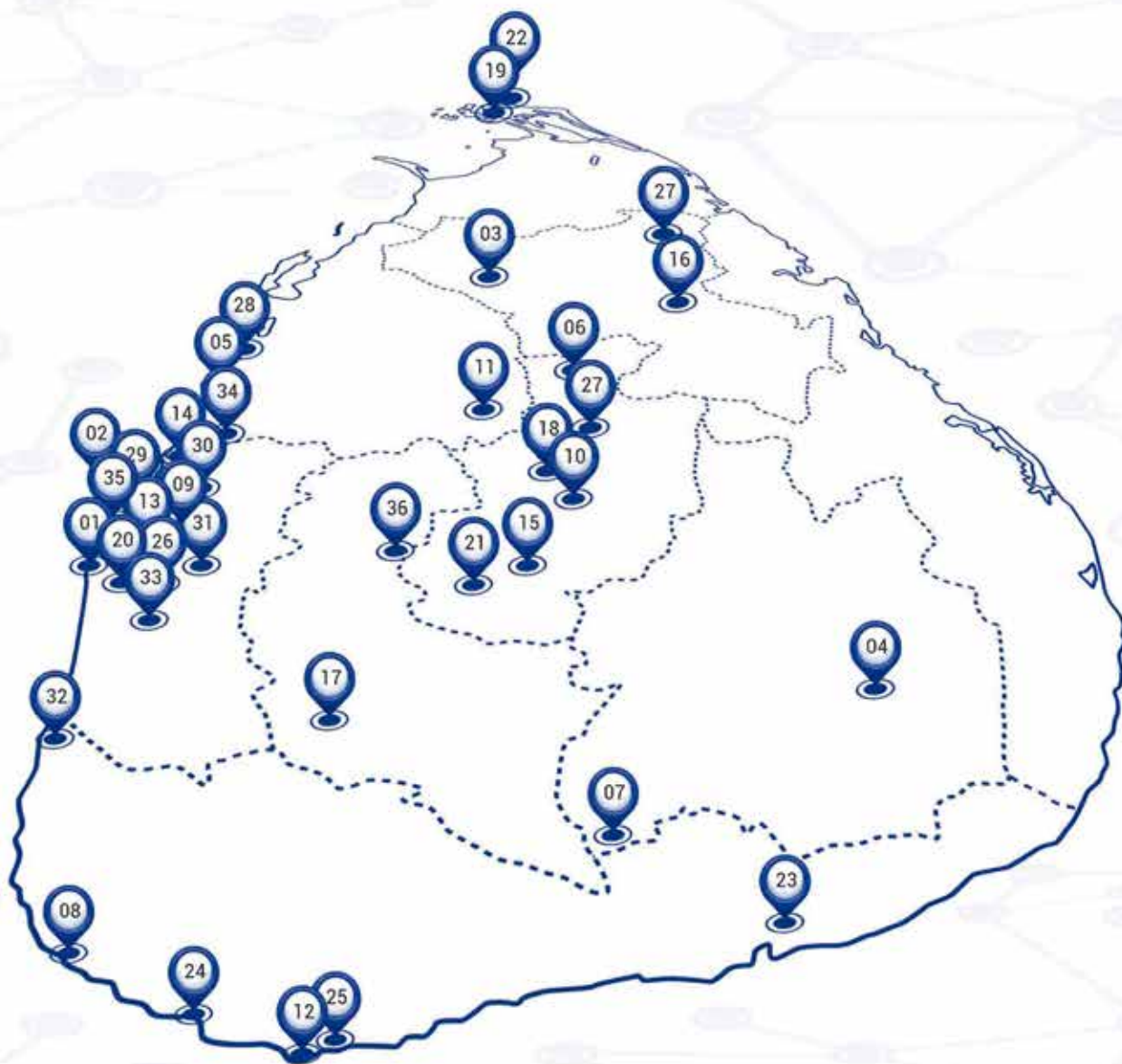


M. Waidyathilake
Officer in Charge -
Matale



S Ketharam
Officer in Charge -
Chunnakam

OUR EXPANDING GEOGRAPHICAL FOOTPRINT



Branch Network

	Branch	Address	Telephone Number	Fax	Email
01.	Head Office	No.13, De Fonseka Place, Colombo 4	0112 359700 / 0112 359600	0112 359799	headoffice@softlogicfinance.lk
02.	City Office Branch	No.14/9, Sri Jinarathana Road, Colombo 02	0112 303373 - 36 0112 303666	0112 303363	cityoffice@softlogicfinance.lk
03.	Anuradhapura	No.561/11, Maithreepala Senanayake Mw, New Town, Anuradhapura	025 2226279	025 2234743	anuradhapura@softlogicfinance.lk
04.	Badulla	No 38 Anagarika Dharmapala Mw, Badulla	055 5635072-3 / 055 2224206	055 2223905	badulla@softlogicfinance.lk
05.	Chilaw	No.28B, Kurunegala Road, Chilaw	032 2221415	032 2223754	chilaw@softlogicfinance.lk
06.	Dambulla	No.719, Anuradhapura Road, Dambulla	066 2284737 / 066 2284767	066 2284717	dambulla@softlogicfinance.lk
07.	Embilipitiya	No.176, Ratnapura Road, Pallegama, Embilipitiya	047 2230590 / 047 2230591	047 2230592	embilipitiya@softlogicfinance.lk
08.	Galle	No.64, Colombo Road, Kaluwella, Galle	091 5458666 / 091 2226501	091 5450020	galle@softlogicfinance.lk
09.	Kadawatha	No.139/7/D, Kandy Road, Kadawatha	011 2923011/ 011 2923012	011 2923013	kadawatha@softlogicfinance.lk
10.	Kandy	No.165, Kotugodella Veediya, Kandy	081 2224912-3	081 2224916	kandy@softlogicfinance.lk
11.	Kurunegala	No. 13, Rajapihilla Mawatha, Kurunegala	037 2232875	037 2232565	kurunegala@softlogicfinance.lk
12.	Matara	No. 8A, 1st Floor, F N Building, Station Road, Matara	041 2220195 / 041 2227257	041 2227257	matara@softlogicfinance.lk
13.	Nawala	No. 305B, Nawala Road, Nawala	011 2807080/ 011 2807081	011 2807082	nawala@softlogicfinance.lk
14.	Negombo	No. 121 & 123, St. Joseph's Street, Negombo	031 2224714 / 031 2224715	031 2224716	negombo@softlogicfinance.lk
15.	Nuwara Eliya	No.72, Kandy Road, Nuwara Eliya	052 2223382	052 2223383	nuwaraeliya@softlogicfinance.lk
16.	Polonnaruwa	No.125, Batticaloa Road, Polonnaruwa	027 2226727 / 027 5678501-2	027 2225909	polonnaruwa@softlogicfinance.lk
17.	Ratnapura	No.1/200, Ground Floor, Main Street, Ratnapura	045 2230677	045 2223574	ratnapura@softlogicfinance.lk
18.	Kandy -Senkadagala	No:235/B, Katugasthota Road, Kandy	081 2232601 / 081 2232602	081 2232603	senkadagala@softlogicfinance.lk
19.	Jaffna	No. 55/57/59 , Kannathiddy Road, Jaffna	021 2219444 / 021 2219555	021 2219666	jaffna@softlogicfinance.lk

Branch Network Contd.

	Branch	Address	Telephone Number	Fax	Email
20.	Pamankada	No. 201, W A D Silva Mawatha, Colombo 6	0112 367901	011 2055517	pamankada@softlogicfinance.lk
21	Hatton	No.107, Main street, Hatton	051 2225741	051 2225739	hatton@softlogicfinance.lk
22.	Chunnakam	No. 101,105, KKS Road, Chunnakam	021-2242771	021 2242772	chunnakam@softlogicfinance.lk
23	Tissamaharama	No. 28, Main Street, Thissamaharama	047-2239933	047 2239504	tissamaharama@softlogicfinance.lk
24.	Weligama	No. 325/A, Old Matara Road, Weligama.	041-2252888	041 2260523	weligama@softlogicfinance.lk
25	Matara Metro	No. 382A, Pamburana, Mathara	041-2238692	041 2238691	matarametro@softlogicfinance.lk
26.	Borella	No. 1072, Maradana Road, Colombo 08	011-2694262	011 2694261	borella@softlogicfinance.lk
27	Matale	No. 253, Main Street, Matale.	066-2226461	066 2228863	matale@softlogicfinance.lk
28	Kochchikade	No. 42, Chilaw Road, Kochchikade.	031-2272670	031 2272672	kochchikade@softlogicfinance.lk
29.	Pettah	No.12 Rathanaiothi Sarwamuttu Road Colombo 12	011-2334471	011 2334549	pettah@softlogicfinance.lk
30	Wattala	No. 180, Negombo Road, Wattala	011-2051660	011 2051676	wattala@softlogicfinance.lk

Standalone Gold Loan Centres

31.	Dematagoda	No.93, Kolonnawa Road, Dematagoda, Colombo 09.	011-2679089
32.	Kaluthara	No. 242, Galle Road, Kaluthara South.	034-2224714
33.	Kottawa	No.128/A, Highlevel Road, Kottawa.	011-2178464
34.	Minuwangoda	No.39/A, Negombo Road, Minuwangoda.	011-2281285
35.	Grandpass	No. 408, Grandpass Road, Colombo 14	011-2337040
36.	Mawanella	No. 53/B, Kandy Road, Mawanella.	035-2247304

OUR APPROACH TO VALUE CREATION



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Stakeholder Identification & Engagement

The Need for Stakeholder Identification

In order to ensure that we adopt a holistic approach to our value creation process, we have implemented a stakeholder identification and engagement process. This process is continuous and is primarily driven by our Management Committee.

Stakeholders have diverse needs and they face different issues when engaging with us. The purpose of this process that we have adopted is to help us engage actively and responsibly with all our key stakeholders. Therefore, in order to ensure the sustainable growth of our company, it is crucial that we have increased awareness of the external impact that our company makes.

What is expected from this process is that we get an overarching idea of everybody that we deal with operationally and how they can impact our performance. The process that we have adopted ensures that we avoid taking a myopic and purely shareholder - oriented view on value creation. The mechanisms in place help us monitor whether the expected outcomes of the stakeholder engagement process are met, whether we have taken any corrective actions and whether our actions have been sufficient. Overall, this helps us become a responsible corporate citizen.

Stakeholder Identification Mechanism

We have internally developed a stakeholder identification and filtration system that helps us identify our key stakeholders, assess the interest and power that they hold



In order to ensure the sustainable growth of our company, **it is crucial that we have increased awareness of the external impact that our company makes.**

over our value creation process and decide upon the level of impact that they can have on our activities.

Those identified as key stakeholders through our identification and filtration system are regarded as those who need to be regularly engaged with and hence the stakeholders that would get most of our attention. These stakeholders are comprehensively discussed in this Annual Report. The rest of the stakeholders who were not identified as key stakeholders, are anyhow continuously and regularly monitored for any change in their characteristics that would warrant their inclusion as key stakeholders.

Two tiered Identification and Filtration System

Step 1 - Initial Identification

01. Those who are affected by the operational activities and decisions made by Softlogic Finance PLC.
02. Those who can and are likely to affect our operational activities and influence our decision making processes.

Step 2 - Identification of Key Stakeholders

01. The level of interest in the activities of and decisions made by Softlogic Finance PLC
02. The ability of the stakeholder and their power level to impact the activities of and decisions made by Softlogic Finance PLC
03. The extent to which our activities would impact the stakeholder.
04. The legal obligations that the stakeholder has towards us and that we have towards the stakeholder.

The identified key stakeholders are:

- 1. Shareholders & Investors
- 2. Customers
- 3. Employees
- 4. Suppliers & Value Added Service Providers
- 5. Regulators
- 6. Society and the Environment

Stakeholder Engagement Process

Based on the results of the stakeholder identification and filtration process, the level of engagement, the frequency of engagement and the methods of engagement with the key stakeholders, are decided upon. These are decided upon internally by our management committee. This process involves the creation of broad stakeholder groupings based on the results of the identification process done before. Moreover, this process also involves the development of specific expected outcomes, in addition to the specific engagement approaches, in order to ensure that the whole engagement process is goal - oriented and measurable.

Stakeholder Type	Engagement Approach	Expected Outcomes
Shareholders & Investors	<ul style="list-style-type: none"> • Annual Financial Statements • Quarterly Financial Statements • Annual General Meeting • Extraordinary General Meetings as and when statutorily necessary • Media Releases • CSE Website • Company Website 	<p>From company perspective</p> <ul style="list-style-type: none"> • Increased shareholder confidence in the Board and company <p>From stakeholder perspective</p> <ul style="list-style-type: none"> • Increase in share price • Regulatory compliance • Declaration of dividends • Adoption and maintenance of best practices in corporate governance • Adoption of industry best practices
Customers	<ul style="list-style-type: none"> • Personalised interactions • Customer complaint handling process • Customer satisfaction surveys • Market Surveys • Communication through multiple media platforms 	<p>From company perspective</p> <ul style="list-style-type: none"> • Customer loyalty • Enhanced brand value and brand penetration • Increased customer satisfaction • Increased cross selling <p>From stakeholder perspective</p> <ul style="list-style-type: none"> • Ethical business practices and full disclosure of product information • Competitive interest rates on lending & deposits • Innovative products and services

Stakeholder Identification & Engagement Contd.

Stakeholder Type	Engagement Approach	Expected Outcomes
Employees	<ul style="list-style-type: none"> • One to one interactions based on our open-door policy • Confidential employee satisfaction survey • Transparent individual annual performance appraisals • Performance - based rewards and recognition • Talent development • Internal resources evaluated for internal recruitment before tapping into external resources. • Structured retention plan to ensure that the turnover of key personnel is minimised. • Internal communication through company intranet and emails • Promotion of work-life balance 	<p>From company perspective</p> <ul style="list-style-type: none"> • Increase employee productivity • Compliance with internal processes • Professional conduct • Reduced turnover • Motivated workforce <p>From stakeholder perspective</p> <ul style="list-style-type: none"> • Objective rewards and recognition system • Opportunities for internal professional growth • Safe working environment • Easily accessible communication channels • Availability of training • Work-life balance • Work environment free of harassment
Suppliers & Value Added Service Providers	<ul style="list-style-type: none"> • Dedicated personnel to interact with different types of suppliers and service providers on a continuous basis • Prioritised engagement with local suppliers • Mutually beneficial, long - term relationships being the focus during contractual negotiations 	<p>From company perspective</p> <ul style="list-style-type: none"> • Favourable funding facilities • Seamless execution of outsourced services <p>From stakeholder perspective</p> <ul style="list-style-type: none"> • Strategic partnerships to obtain competitive advantages • Long - term service contracts
Regulators	<ul style="list-style-type: none"> • Dedicated personnel for continuous, Personalised interaction • Uncompromised level of priority for regulatory compliance • On-time statutory reporting • Adhoc information provided as and when requested • External consultants engaged as per requirements 	<p>From company perspective</p> <ul style="list-style-type: none"> • Compliance with regulatory requirements • Adoption of industry best practices to improve internal core and supporting processes • Contributing to economic growth through taxation paid <p>From stakeholder perspective</p> <ul style="list-style-type: none"> • Development of the industry to maintain public confidence • Dissemination of industry best practices • Collection of state revenue

Stakeholder Type	Engagement Approach	Expected Outcomes
Society and the Environment	<ul style="list-style-type: none"> • Direct and continuous interaction • Establishment of a CSR Committee • Underpinning related engagement to our accelerated branch expansion • Non-engagement with environmentally hazardous businesses • Company website • Media releases 	<p>From company perspective</p> <ul style="list-style-type: none"> • Contribution to community development and environmental conservation • Community education of public waste disposal • Ensuring the long - term sustainability of the business • Contribution to the development of SMEs <p>From stakeholder perspective</p> <ul style="list-style-type: none"> • Maintenance of ethical business practices • Employment generation • Avoidance of any negative impacts on the environment

Management of Stakeholder Issues

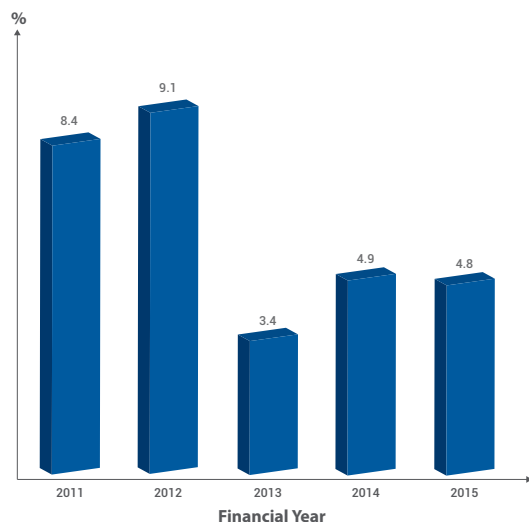
A sample of the typical issues that arise with regard to our identified stakeholders and how the company responds to them is given below.

Source of Issue	Issue Description	Stakeholder Expectation	Company Response
1. Customer	Ethical marketing practices	All relevant product information to be fully disclosed before entering into any agreement	All marketing material is vetted by the Central Bank prior to publication.
2. Customer	Customer complaints	Prompt handling of customer inquiries and complaints	Establishment of a customer complaint handling process with a hotline number. Plans are afoot to develop this further.
3. Employee	Rewards and recognition	Objective and transparent system for deciding on rewards and recognition	Transparent performance appraisal system where employees know the grading methods and criteria beforehand.
4. Employee	Training and professional development	Regular access to training and availability of career development opportunities	Based on training needs determined beforehand, multiple training programmes are held each month with internal and external resource personnel.
5. Society and the Environment	Environmental conservation	Avoidance of business practices that would harm the environment and contributing to environmental conservation	Public waste management has been focused upon with our "Clean Zone" initiative, which is expanded in tandem with our growing branch network.
6. Suppliers & Value Added Service Providers	Long - term service contracts	Mutually beneficial, long - term contracts for service provision	As per our procurement processes, we strive to enter into mutually beneficial, long - term service contracts at all given opportunities.
7. Regulators	Regulatory compliance	Consistent compliance with regulatory requirements across all business operations	We have ensured that employees are trained and are well aware of Central Bank requirements applicable to their sphere of operations.

Economic Review

Sri Lankan Economy

Real GDP Growth Rate



Source: Annual Report 2015, Central Bank of Sri Lanka

Compared to the adjusted real economic growth figure of 4.9 % in 2014, the Sri Lankan economy grew by only 4.8 % in 2015. Even with low international commodity prices

and an increase in domestic consumption, which was fueled by public sector worker income growth, economic activity was very much subdued. The fact that the demand for Sri Lanka's traditional exports did not grow as much as expected and the short-term capital outflows with the strengthening of the U.S. economy contributed to this slowdown in economic growth. By the end of 2015, year-on-year headline inflation stood at 2.8 %, when compared to 2.1 % recorded at the end of 2014. With regard to core inflation, on a year-on-year basis, it grew to 4.5 % by the end of 2015.

An overall deficit in the balance of payment was seen as a result of a slowdown in net foreign exchange inflows, including worker remittances and capital outflows. This was despite lower commodity prices and positive gains from the tourism sector. With central government debt rising to 76 % of the GDP by the end of 2015, the budget deficit also ballooned to 7.4 % of the GDP, primarily as a result of overruns in government expenditure and drops in tax and non-tax revenue.

Sri Lankan Key Economic Indicators

Indicator	2015	2014	2013	2012	2011
Real GDP Growth (%)	4.8	4.9	3.4	9.1	8.4
GDP (US\$ billion)	82.3	80.0	74.3	68.4	65.3
Inflation (YOY %)	2.8	2.1	4.7	9.2	4.9
Inflation - Annual Average (%)	0.9	3.3	6.9	7.6	6.7
GDP Per Capita Income (US\$)	3,924	3,853	3,610	3,351	3,129
Balance of Payment (US\$ million)	(1,489)	1,369	985	151	(1,059)
Exchange Rate (Rs/US\$)	144.06	131.05	130.75	127.16	113.90

Source: Annual Report 2015, Central Bank of Sri Lanka

GDP Growth

In real terms, the Sri Lankan economy grew by 4.8 %, as compared to the adjusted growth rate of 4.9 % experienced in 2014. Overall growth in the agricultural, industrial and service activities were seen, albeit at a slower pace than in the previous year. The largest contribution to growth came from service activities, especially with the financial services sector experiencing substantial growth, as a result of the favourable interest rate environment that existed in 2015.

With the increase in household disposable income, there was a noticeable growth in consumption, thus fueling the domestic demand growth. An increase in public sector salaries served as a catalyst for this domestic demand growth. Moreover, with the comparative increase in imports when compared to exports, the net external demand in real terms remained in negative territory. Import demand saw continuous increase as a result of low global commodity prices and for the most part of the year, a favourable duty structure and cheap credit. Export demand slowed down primarily due to the subdued economic recovery experienced in advanced economies and the unfavourable economic conditions that existed in Russia and in certain parts of the Middle East.

Sectoral Performance

Sector	Rate of Change (%)		As a Share of GDP (%)	
	2015	2014	2015	2014
Agriculture, Forestry & Fishing	5.5	4.9	7.9	7.8
Industries	3	3.5	26.2	26.7
Services	5.3	5.2	56.6	56.3

Source: Annual Report 2015, Central Bank of Sri Lanka

Agriculture

The agriculture, forestry and fishing sector grew by 5.5 % in 2015, compared to the 4.9 % growth experienced in 2014. As a result of the favourable weather conditions that existed, this growth is mainly attributable to the bumper harvest recorded in paddy cultivation and the growing of vegetables. However, a drop in the growth in the fishing industry, rubber, tea, sugar cane and tobacco, to some extent stifled the growth in the agriculture sector.

Industries

The industrial sector, which comprises of mining and quarrying, construction and manufacturing, among others, grew by only 3.0 % in 2015, compared to the 3.5% growth experienced in 2014. Manufacturing activities, which serves as the largest segment in the industrial sector, grew by 4.7 % in 2015, compared to 2.3 % in 2014. This growth was primarily as a result of the growth in the manufacturing of food, beverages and tobacco products.

Services

The services sector, which accounts for 56.6 % of the GDP, grew by 5.3 % in 2015, compared to the 5.2 % growth recorded in 2014. The main contributor to this services sector growth was the financial services sector, in light of the favourable interest rate environment that existed. Additionally, significant contributions to this growth were received from transportation services, warehousing, real estate activities, wholesale and retail trade activities, telecommunication and IT programming services.

Inflation

In line with the downward trend seen in prices of key consumer items and governmentally determined prices like fuel prices and favourable supply side conditions, inflation continued to decline. Year-on-year headline inflation increased from its position of 2.1 % at the end of 2014 to 2.8 % by the end of 2015. Nevertheless, the annual average inflation figure reduced to 0.9 % in 2015, compared to 3.3 % in 2014. It was observed that core inflation, recorded an upward trend in 2015, as a result of upward price pressures from non-food items. Thus, year-on-year core inflation stood at 4.5 % by the end of 2015, compared to 3.2 % at the end of 2014. When considering the annual average core inflation, it stood at 3.1 % at the end of 2015, compared to the 3.5 % recorded in 2014. Towards the end of 2015, demand-side pressures began to build up gradually and this movement was reflected in the year-on-year increases in the indices.

Exchange Rate

Influenced by the Central Bank move to permit greater flexibility in the determination of the exchange rate, the rupee depreciated significantly towards the latter part of 2015. Throughout 2015, continuous pressure was on the exchange rate as a result of high levels of foreign exchange outflows and lower than expected inflows. The main causes for this persistent pressure on the exchange rate were the increased spending on non-oil imports, foreign debt payments and the reversal of foreign investments in the stock market as a result of the increase in interest rates in the U.S.A. Primarily due to the Central Bank's decision to allow the exchange rate to be mainly decided by the demand and supply conditions in the market, the rupee depreciated by 9.03 % against the U.S. Dollar and stood at Rs. 144.06 against the Dollar by the end of 2015.

Economic Review Contd.

Interest Rates

Trends in Interest Rates	As a % of GDP				
	2015	2014	2013	2012	2011
Average Weighted Lending Rate (%)	11.00	11.91	15.18	15.98	13.44
Average Weighted Prime Lending Rate (%)	7.53	6.26	10.13	14.40	10.77
Treasury Bill Rate (364 days) (%)	7.30	6.01	8.29	11.69	9.31
Standing Deposit Facility Rate/Repurchase Rate (%)	6.00	6.50	6.50	7.50	7.00

Source: Annual Report 2015, Central Bank of Sri Lanka

With regard to interest rates offered for deposits by commercial banks, it was observed that the average weighted deposit rate (AWDR) was on a downward trend up until April 2015. From April 2015 onwards, the AWDR was seen to gradually increase with the impact of special interest rates offered for senior citizens coming into the equation. Towards the end of 2015, as a result of monetary policy measures, market anticipation of tighter monetary conditions and higher rates offered by financial institutions to attract deposits, a further increasing trend was seen in the AWDR.

The lending rates also demonstrated a continued downward trend for most of 2015, only to show an upward movement towards the latter part of the year. With regard

to the average weighted lending rate (AWLR), it reduced from 11.91 % recorded at the end of 2014 to 11.00 % by the end of 2015.

Private Sector Credit Growth

There was a significant increase in credit facilities given to the private sector in light of the relaxed monetary policy conditions that was prevalent. By the end of 2015, private sector credit growth was recorded at 25.1 %, compared to the 8.8 % growth experienced by then end of 2014. The consistently low lending rates environment that existed, coupled with widespread lending drives by financial institutions contributed to this marked growth. Fueled by the high demand for motor vehicles, leasing and hire purchase facilities increased substantially by Rs. 65.6 Bn in 2015, compared to the noticeably smaller increase of Rs. 16.4 Bn in 2014.

Fiscal Policy

Fiscal Performance	As a % of GDP				
	2015	2014	2013	2012	2011
Budget Deficit	7.4	5.7	5.4	5.6	6.2
Government Debt	76.0	70.7	70.8	68.7	71.1
Government Debt - Domestic	44.3	40.9	40.0	37.0	38.8
Government Debt - Foreign	31.7	29.8	30.9	31.7	32.3

Source: Annual Report 2015, Central Bank of Sri Lanka

The fiscal performance management of the country faced a myriad challenges during the year, in light of a host of domestic and global developments. It is pertinent to note that overruns in government expenditure was experienced during the year, due to higher expenditure on salaries, interest payments, subsidies and transfers to households.

This served as a key contributory factor to the increase in the overall deficit, which expanded from 5.7 % of GDP in 2014 to 7.4 % in 2015. With regard to government revenue, even though it increased as a result of the imposition of one-off taxes and revenue from duties collected from increased motor vehicle imports, it was unable to reach the annual revenue target.

Industry Review

The Non-Bank Finance Sector experienced healthy growth during 2015, with accelerated credit growth and a reduction in credit risk. This sector, which includes Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs), showed significant expansion in term of network growth and business volumes.

By the end of 2015, the sector consisted of 46 LFCs and 7 SLCs. The overall branch network grew by 84 branches to reach 1216 branch locations by the end of 2015. This year too, heavy emphasis was placed on network expansion outside the Western Province, with 59 of the 84 branches opened being outside the Western Province.

When looking at industry policy developments during the year, the Central Bank imposed a maximum loan-to-value ratio of 70% with regard to loans and advances granted for the purposes motor vehicle purchasing. This was imposed on both the banking and non-bank finance sectors.

The main reason for this imposition of a ceiling was to pacify the growing trend in credit demand for vehicle leasing facilities. This preemptive intervention was done in order to prevent any industry-wide risks arising in the sector.

Non-Bank Finance Sector Performance Highlights

Performance Indicators	2015	2014
Interest Income (Rs. Bn)	150.4	131.2
Net Interest Income (Rs. Bn)	82.2	62.1
Profit After Tax (Rs. Bn)	15.2	14.8
Total Asset Base (Rs. Bn)	996.1	814.6
Total Net Advances (Rs. Bn)	795.8	603.7
Total Deposits (Rs. Bn)	480.6	414.1
Total Borrowings (Rs. Bn)	314.3	217.4
Capital Elements (Rs. Bn)	123.1	116.9
Net Interest Margin (percent)	8.7	8.0
Return on Assets (percent)	3.0	3.1
Return on Equity (percent)	12.3	14.0
Gross NPA Ratio (percent)	5.7	6.9
Provision Coverage Ratio (percent)	61.0	59.3
Total Advances to Total Assets (percent)	79.7	75.2
Liquid Assets to Total Assets (percent)	7.6	9.6
Core Capital Adequacy Ratio (percent of Risk Weighted Assets)	10.5	12.8
Capital Adequacy Ratio (percent of Risk Weighted Assets)	11.2	13.5

Source: Annual Report 2015, Central Bank of Sri Lanka

Analysis of Sector Assets and Liabilities

Total Assets of the sector experienced accelerated growth in 2015, compared to the previous year. Total Assets grew by 22.3% from Rs. 814.6 Bn to Rs. 996.1 Bn in 2015, compared to the 19% growth experienced in 2014.

This asset growth was mainly influenced by a significant increase in borrowings by 44.6% and an increase in public deposits by 16.1%. This substantial fund Mobilisation was employed mainly for the granting of accommodations.

When looking at credit growth during the year, the NBF sector enjoyed a significant growth in the disbursement of loans and advances as a result of strong demand for finance leases for vehicles and secured loans. This strong credit growth was evidenced by the 31.8% increase in loans and advances to Rs. 795.8 Bn compared to the 15.8% growth experienced in 2014.

With regard to investment activities undertaken by the NBF sector, there was a drop of 9.2% in 2015 compared to the 111.9% growth recorded in 2014. Investments in this context contain investments in equity, capital market debt instruments, government securities and investment properties.

As a result of the fairly attractive market interest rates that were in place for most of the year, deposits experienced a steady growth. The NBF sector was able to attract a healthy level of deposits based on the comparatively higher interest rates offered by it compared to the deposit interest rates offered by the banking sector. The total deposit base grew by 16.1% to Rs. 480.6 Bn from Rs. 414.1 Bn. This was marginally lower compared to the 22.8% growth recorded in 2014.

Total borrowings during 2015 marked a substantial increase of 44.6% and stood at Rs. 314.3 Bn compared to Rs. 217.4 Bn at the end of 2014. This growth of 44.6% is a sizable increase compared to the 12.6% growth in 2014. The sources of funding for this high level of borrowings growth were the banking system and debenture issues.

Focusing on the capital elements of the NBF sector, there was a peripheral increase of 5.4% to Rs. 123.1 Bn from Rs. 116.9 Bn. This was primarily as a result of profits generated by the sector.

Industry Review Contd.

Credit Risk

In 2015, with the significant improvement of asset quality in the NBFIs sector, there were encouraging improvements in the NPA and provision coverage ratios, when compared to the previous year. The Gross NPL ratio decreased to 5.7% in 2015, from 6.9% in 2014. With regard to the Net NPL ratio, it reduced to 1.6% compared to 2.3% last year. These NPL ratio reductions were mainly due to the accelerated growth in the accommodations portfolio. Moreover, the total NPL figure increased by only Rs. 3.3 Bn in 2015, compared to the Rs. 7.1 Bn increase experienced in 2014.

Total Assets grew by 22.3% from Rs. 814.6 Bn to Rs. 996.1 Bn in 2015, compared to the 19% growth experienced in 2014.

Liquidity Risk

Throughout the year, the NBFIs sector experienced excess liquidity. A liquid asset surplus of Rs. 13.7 Bn was present in the sector, when compared to the statutory minimum requirement of Rs. 65.7 Bn at the end of 2015. As a consequence of accelerated credit growth in the sector, the liquid assets to total assets ratio reduced to 7.6% in 2015, compared to 9.6% in 2014.

Sector Profitability

The year 2015 saw sector profit after tax increasing to Rs. 15.2 Bn from Rs. 14.8 Bn last year. The sector experienced a significant increase of 32% in net interest income to Rs. 82 Bn with the growth in the loans and advances portfolio. Key contributors were the high margins from micro finance and finance lease businesses. As a result, the net interest margin grew to 8.7% from 8.0% in 2014. Further, the sector also recorded a nominal increase in non-interest income by means of an uptick in income



from service charges. Operational costs rose due to increased personnel expenses and provisions made pertaining to drops in market values of investments. An analysis of provisions made on NPLs show a decrease by Rs. 1.5 Bn, compared to the Rs. 11.0 Bn provision made in 2014.

Capital Funds

With regard to the total regulatory capital, an increase by 5.8% to Rs. 92.8 Bn was recorded due to the retention of profits by the companies in the sector. By the end of 2015, the Total Capital Adequacy Ratio reduced to 11.2% from 13.5% that was recorded at the end of 2014. Further, by the end of 2015, the Core Capital Ratio also reduced to 10.5% from 12.8% that was recorded in 2014. It needs to be noted that these drops in statutory capital ratios were primarily due to a larger increase in risk weighted assets.

Major Changes in Economic Policy with Regard to the Finance Sector

The focus has been on improving access to finance for small business ventures and those involved in the agricultural, livestock and SME sectors. For instance, the agricultural sector was supported with the New Comprehensive Rural Credit Scheme which provides small scale farmers with short-term credit facilities. To tackle the collateral issue, this system allows the farmers to pledge the warehouse receipts issued by the government owned warehouses, as collateral. SME sector development received attention by the Central Bank this year too, with the introduction of 5 credit schemes to foster credit growth. Further, 2015 also saw the introduction of 4 microfinance schemes, thus increasing financial outreach and financial inclusiveness.

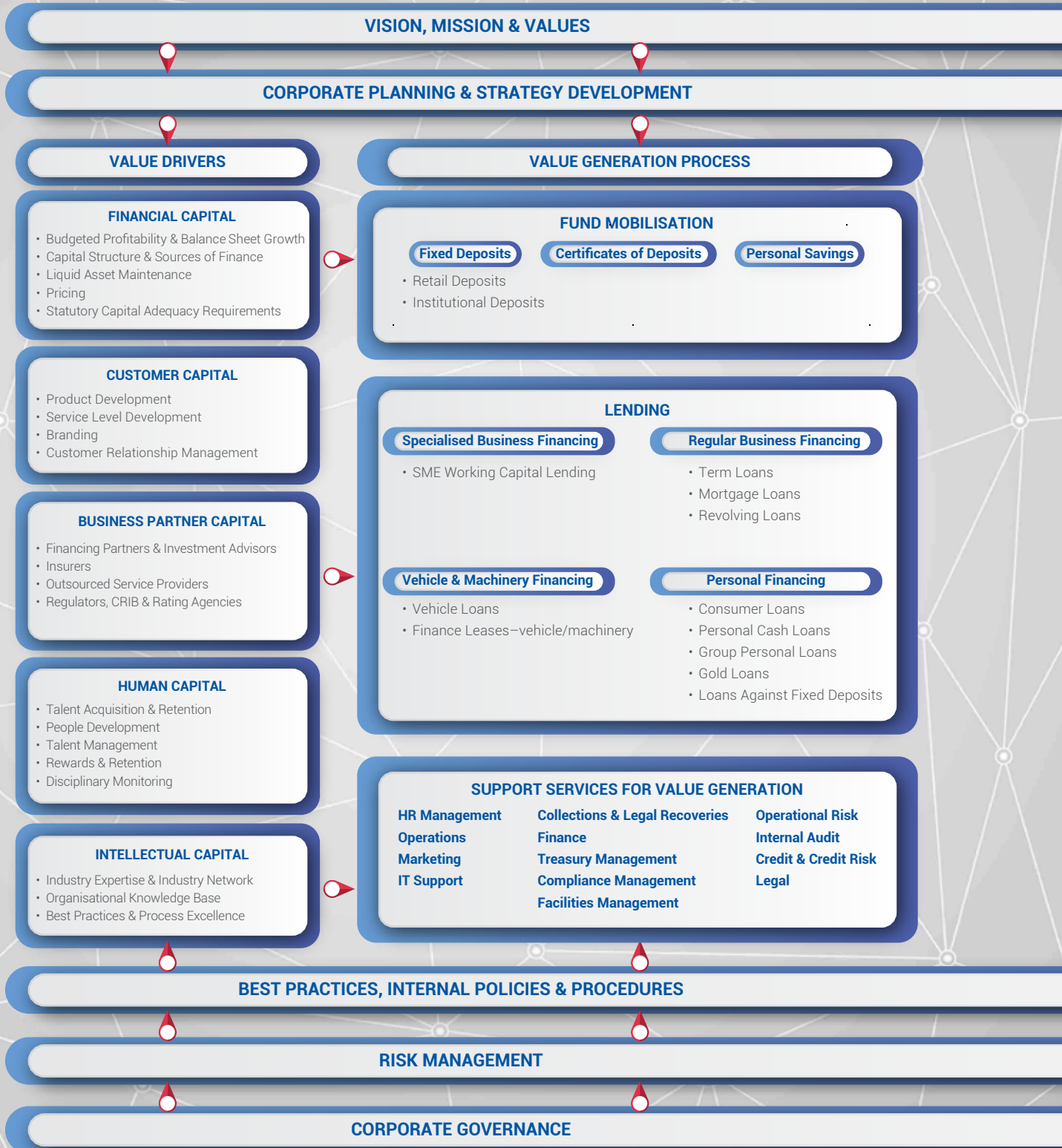
Additionally, the Central Bank decided to replace the Rule Based Approach pertaining to the Anti-Money Laundering and Countering the Financing of Terrorism system, with the Risk Based Approach. This would now serve as the foundation for the AML/CFT system.



THE NON-BANK FINANCE SECTOR

EXPERIENCED
HEALTHY
GROWTH
DURING
2015, WITH
ACCELERATED
CREDIT
GROWTH AND A
REDUCTION IN
CREDIT RISK.

Our Business Model



Vision Mission & Values :- Page 6.

Corporate Planning & Strategy Development :- Pages 56 to 57

Fund Mobilisation & Lending :- Pages 75 to 77

Value Drivers & their Outputs :- Pages 60 to 74

VISION, MISSION & VALUES

CORPORATE PLANNING & STRATEGY DEVELOPMENT

ENHANCED OUTPUTS

FINANCIAL

- Budgeted Profitability & Balance Sheet Growth Achievement
- Maintenance of Statutory Capital Adequacy Requirements
- Budgeted Dividend Declaration
- Enhancement of Reserves
- Share Price Increase

CUSTOMER

- Deposit & Lending Portfolio Growth
- Increased Customer Satisfaction
- Increased Repeat Customers
- Enhanced Brand Value
- Increased Cross Selling

BUSINESS PARTNER

- Favourable Funding Facilities
- Seamless Execution of Outsourced Services
- Compliance with Regulatory Requirements
- Favourable Ratings

HUMAN

- Increased Employee Productivity
- Motivated Workforce
- Reduced Turnover
- Increased Internal Recruitment
- Compliance with Internal Processes

INTELLECTUAL

- Enhanced Organisational Know-how
- Development of Best Practices & Process Excellence
- Ability to predict & face Industry challenges

OUTCOMES & IMPACTS

ECONOMIC

- Contribution to State Revenue
- Returns to Shareholders
- Investments Made in Branch Network Expansion
- Retention of Profits

SOCIAL

- Employment Generation
- Regulatory Compliance
- Maintenance of Business Ethics
- Contribution to the Development of SMEs
- Engagement in Industry Development

ENVIRONMENTAL

- Public Waste Management through the "Clean Zone" Initiative
- Community Education of Proper Waste Disposal
- Non-Engagement with Environmentally Hazardous Businesses

BEST PRACTICES, INTERNAL POLICIES & PROCEDURES

RISK MANAGEMENT

CORPORATE GOVERNANCE

Best Practices & Internal Procedures :- Pages 73 to 74

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Corporate Strategy on Value Creation

The Business Model

Our vision is to be the preferred non-bank financial institution in Sri Lanka. To bring this vision to life, we are focused on differentiating ourselves from other financial services providers, evolving from the traditional notion of what a finance company should be. In order to achieve our vision and mission, we have rolled out in our business model, certain key domains that are instrumental to this effort.

Critical to this endeavour is the building of an engaged, innovative and productive workforce, the continuous refinement of our internal processes and controls, the effective application and management of our monetary resources through operational excellence, the expansion of our geographical footprint and partnering and maintaining relationships with strategic partners who give us a competitive advantage.

In order to consistently deliver value to our stakeholders and stay ahead of the competition, we have made significant investments to improve our IT infrastructure and expand our branch network. Further, proactive measures have been taken to tighten internal controls and streamline internal processes in order to achieve operational excellence. The enhancement of the customer experience has been given constant attention by fostering a culture of personalised customer relationship management amongst our team. All these initiatives help us to confidently ensure that we continue to create value for our stakeholders in the medium and long-term.

The Value Drivers

In order to ensure value creation for all our stakeholders, we have engaged a host of input capitals as drivers of our value creation process. They are Financial Capital, Customer Capital, Business Partner Capital, Human Capital and Intellectual Capital.

Financial Capital involves the financial management function which ensures that our financial resources are leveraged and used effectively in the value generation process, while complying with statutory capital adequacy requirements. Customer Capital involves the effective management and fostering of our customer base through

personalised customer relationship management, product development and branding and service level development. Business Partner Capital involves the careful engagement and management of our business partners in order to deliver the desired value to our customers.

Human Capital involves the management of our most important resource in our value creation process that is our team. Functions like internal and external recruitment, people development, talent management, rewards and retention planning and discipline management contribute to ensuring that this key resource becomes a strategic partner in value generation. Intellectual Capital involves the industry expertise that we bring into this value generation process. Through our organisational knowledge base, the best practices we have adopted and our continued commitment to process excellence, our Intellectual Capital brings in that intangible component that helps operationalise our other inputs.

The Value Generators

The impetus on our value generation process is to manage and effectively utilise input capitals in order to produce the desired outputs whilst ensuring that the economic, environmental and social impacts of our business are managed as planned. In order to generate the expected value from our fund mobilisation, specialised business financing, regular business financing, vehicle and machinery financing and personal financing activities, it is imperative that our internal processes and controls in place are geared to make efficient use of our value chain. The success of our specialised business financing function, which involves the provision of working capital solutions for SMEs is a direct result of the effective use of our input capitals and our internal processes and controls in place. This helps us to maintain credit discipline, adhere to statutory requirements and cut operational wastage, thus creating an environment where the value created can be maximised in order to meet the diverse demands of our stakeholders. All this is done in the context of strict adherence to industry regulatory directions and corporate governance standards, so as to not compromise our stance on running an ethical business and being a responsible corporate citizen.

The Immediate Outputs

Our value generating process results in outputs and outcomes that we have categorised as impacts. With regard to the immediate outputs, we expect a variety of financial results including achievement of budgets, maintenance of statutory capital adequacy requirements, declaration of budgeted dividends and increase in share price, to name but a few. Among customer domain related outputs are deposit and lending portfolio growth, increased customer satisfaction, increased repeat customers and enhancement of brand value. With regard to the Business Partner domain, we expect the seamless execution of outsourced services, availability of favourable funding facilities, obtaining of favourable ratings and compliance with regulatory requirements. In the context of Human Capital, increased employee productivity, a motivated workforce, reduced turnover and increased internal recruitment are among the immediate outputs. Finally, in the context of Intellectual Capital enhancement, we expect the continuous fine-tuning of our internal processes,

development of our organisational knowledge bank and enhancement of our ability to predict and take proactive measures to face industry challenges.

The Outcomes and Impacts

Our value creation process impacts a host of stakeholders with differing and sometimes conflicting interests. Management of these impacts is paramount for a long-term survival. For monitoring efficacy, we have identified these impacts as Economic, Social and Environmental impacts. In the Economic context, we have identified as key impacts, the contribution to state revenue, returns to shareholders, investments made in branch network expansion and the retention of profits. With regard to Social impacts, we see employment generation, regulatory compliance, maintenance of business ethics, our contribution to the development of the SME sector and our engagement in industry development, as noteworthy. Further, with regard to Environmental impacts, we have identified as critical, the non-engagement with businesses that are hazardous to the environment, public waste management and community education of proper waste disposal.



The impetus on our **value generation process** is to **manage** and **effectively utilise input capitals** in order to produce the desired outputs whilst ensuring that the **economic, environmental and social impacts** of our business are managed **as planned.**

INTEGRITY



WE ACT FAIRLY
AND HONESTLY.
WE BELIEVE IN
ETHICS AND
TRANSPARENCY
IN ALL OUR
DEALINGS.

MANAGEMENT DISCUSSION & ANALYSIS



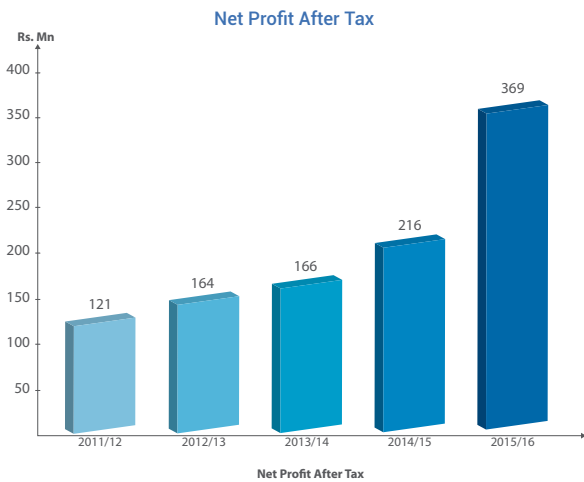
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KEY VALUE DRIVERS

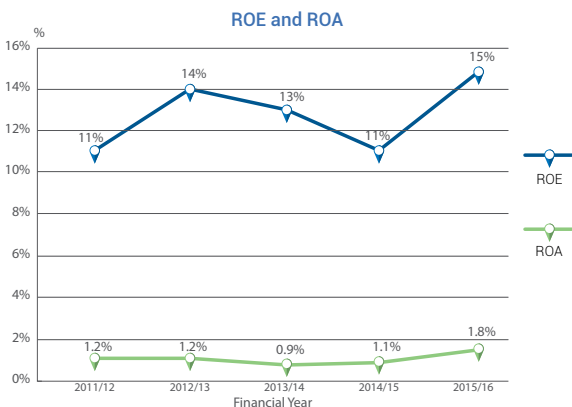
Financial Review

Profitability

Softlogic Finance achieved its highest ever Net Profit After Tax of Rs. 369 million, which was a 70% increase over the Rs. 216 million recorded during the previous financial year. Key contributions to this significant profit growth originated from an increase in total revenue, reduced interest costs, the effective management of operational expenses and a reduction in the impairment charge for the year. Overall, this momentous increase in the company's bottom line was achieved as a result of the careful execution of a number of corporate and operational strategies by the management of the company.

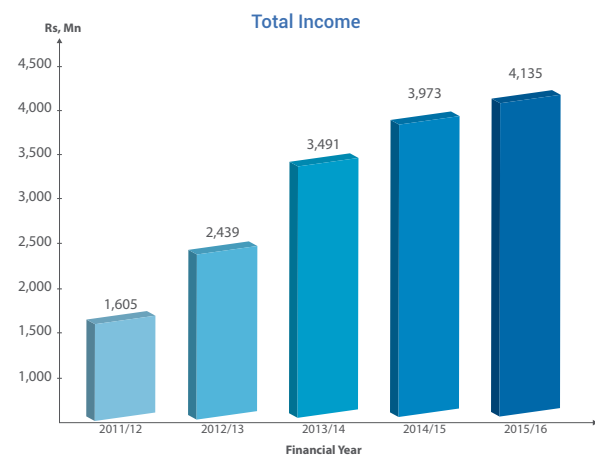


This stellar performance of the company's bottom line led to substantial increases in the Return on Equity and the Return on Assets ratios of the company. The noteworthy increase of the Return on Assets demonstrates that the company is increasingly utilising and managing its assets more efficiently to generate earnings. Further this increase in the Return on Equity exhibits the fact that the company is continuously deploying its shareholders' equity more efficiently to generate increasing returns.



Income Analysis

During the year under review, the company posted a sound top line performance even with increased competition arising from other finance companies moving to business financing. The Total Income of the company which consists of Interest Income, Fee Income, Net Trading Income and Other Operating Income, grew from Rs. 3.97 billion to Rs. 4.13 billion during this financial year.

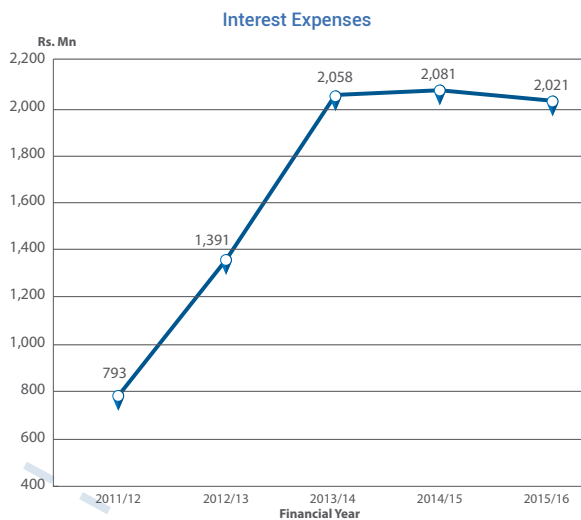


With regard to Interest Income growth, a significant year-on-year increase in disbursements of 21% served as a key contributor. More specifically, the 53% year-on-year increase in SME working capital loan disbursements played a vital role in interest income and fee income growth and served as a testament to the effectiveness of the proactive strategies adopted by the management in shifting towards business financing from leasing and hire purchase, in order to weather industry volatility. In comparison to the previous financial year, it is noteworthy that the contributions to Interest Income increased by 13% from the Personal Loan portfolio by 32% from the Gold Loan portfolio and by 157% from the SME loan portfolio.

Interest Cost Analysis

During the year under review, the company was successful in effectively managing its interest expenses and actually reducing its interest cost burden by 3%, when compared to the previous financial year. The company took advantage of the relatively low interest regime that existed for most of the financial year and focused on fixed deposits and bank borrowings as funding tools. In this predominantly low interest climate that existed, the company was able to rationalise and carefully manage its fixed deposit costs.

Moreover, the company made a conscious decision to reduce its Commercial Paper portfolio as it entailed a higher interest cost. Additionally, steps were taken to further manage interest expenses by effecting the conversion of USD 2 million of the FMO loan to equity and not undertaking any high interest securitisations during the year. Moreover, as a result of the low interest regime that prevailed for most of the financial year, the company was able to negotiate with banks and obtain low interest credit lines.



Total Operating Income

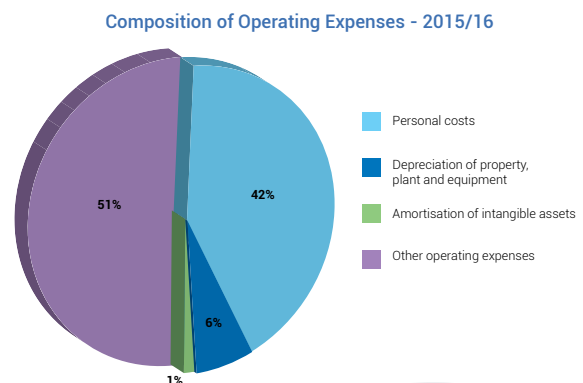
As a result of increases in total revenue and the effective management of interest expenses, the company was able to record a 12% increase in Total Operating Income before impairment.

Net Operating Income (After Impairment)

For the year under review, the impairment charge decreased by 22% to Rs. 405 million from the previous financial year's charge of Rs. 522 million. This was as a result of the adoption of effective recovery strategies and the improved quality of credit disbursed. Thus, this resulted in a 25% increase in Net Operating Income after Impairment to Rs. 1.7 billion from the Rs. 1.4 billion recorded in 2014/15.

Cost Management

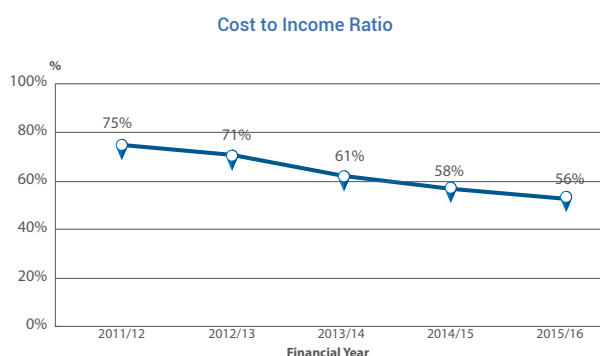
During the financial year under review, the company was able to effectively manage its operational expenses. Thus, when compared to the previous year, Operating Expenses only increased by 8%. When analysing the composition of Operating Expenses, it is seen that Other Operating Expenses constitute 51% of total Operating Expenses and consist of administrative, marketing, maintenance and professional expenses, among others. Continuous action was taken to streamline and re-engineer internal processes, minimise wastage, renegotiate contractual terms with vendors and execute various cost saving initiatives in order to manage these costs. The result being that the company was able to increase its efficiencies and productivity, while containing its cost exposure.



Continuous action was taken to **streamline and re-engineer internal processes, minimise wastage, and execute various cost saving** initiatives

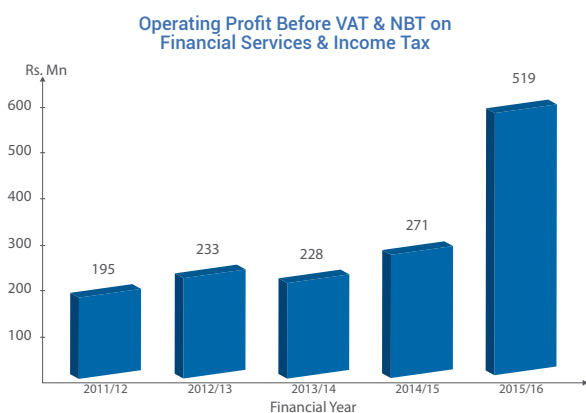
Financial Review Contd.

As a result of the cost saving initiatives adopted during the year, the Cost-to-Income Ratio reduced to 56% for this financial year, compared to the previous year's figure of 58%. This reduction occurred as the Total Operating Income for this financial year increased by 12%, compared to the previous year, while the Total Operating Expenses increased by only 8%, compared to the previous year.



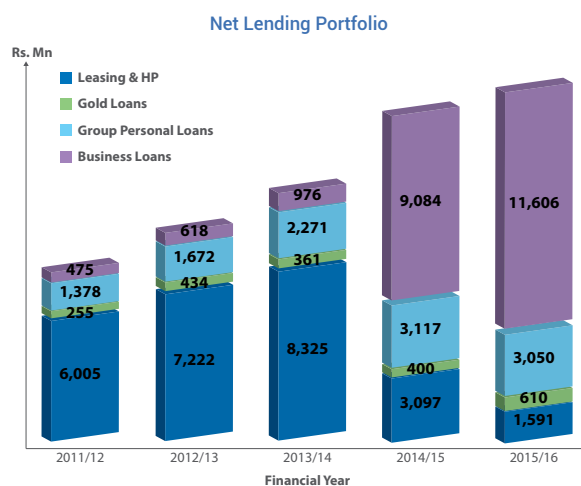
Operating Profit before VAT & NBT on Financial Services and Income Tax

The company's ability to reduce its impairment charge for the year, when compared to the previous year and also contain its costs through effective cost management techniques ensured that the Operating Profit before VAT & NBT on Financial Services and Income Tax increased by 91% to Rs. 519 million from the Rs. 271 million recorded in the previous year.



Lending Portfolio

The total Net Lending Portfolio of the company grew by 7% during this year to reach Rs. 16.9 billion as at 31st March 2016 from Rs. 15.7 billion in 2014/15. During the year, in line with the company's strategic decision to focus on business financing and decrease dependency upon the traditional Leasing & Hire Purchase products, the Business Loans portfolio grew by 28% to reach Rs. 11.6 billion. Therefore, when analysing the company's portfolio mix, it is seen that the contribution from the Business Loans portfolio has been significantly increasing. Additionally, of note is the fact that the net Gold Loans portfolio grew by a healthy 53% during the year, as a result of the company's re-engineering of its Gold Loan operations by improving the internal processes and controls in place.

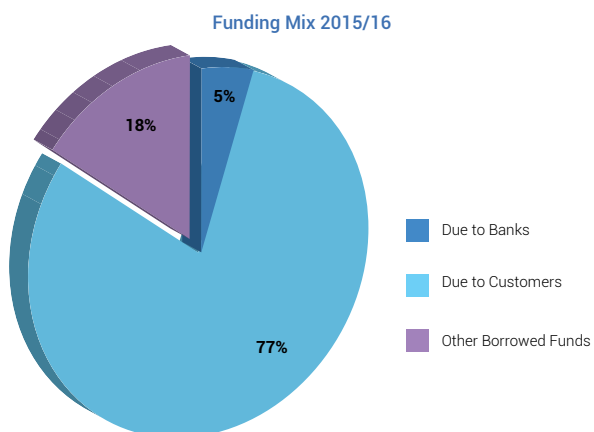
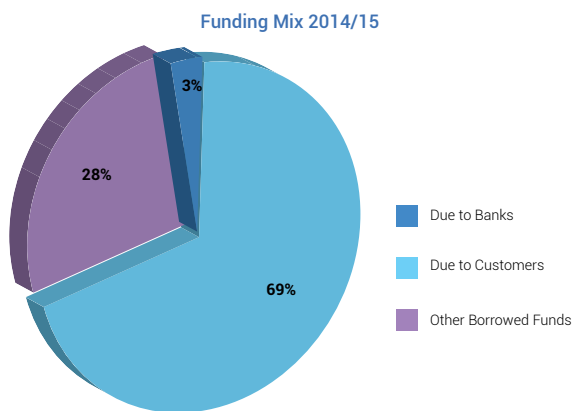


Liquidity

The company was able to maintain healthy liquid asset levels right throughout the year in excess of the minimum regulatory liquidity requirements. Liquid assets were maintained in the form of cash and cash equivalents, government securities, repos and bank deposits. With the relatively low interest regime that existed for a better part of the financial year, the company decided to aggressively mobilise retail deposits and negotiate bank credit lines. This helped the company lower its interest costs by moving away from institutional deposits and commercial papers, both of which entailed higher interest costs and not undertake any high cost securitisations. This move has a positive effect on liquidity, with cash reserves improving. At the end of the 2015/16 financial year, in addition to unutilised credit lines worth Rs. 750 million, the company's liquid assets stood at Rs. 651 million in excess of the minimum regulatory level, compared to the previous year's excess liquid asset level of Rs. 569 million.

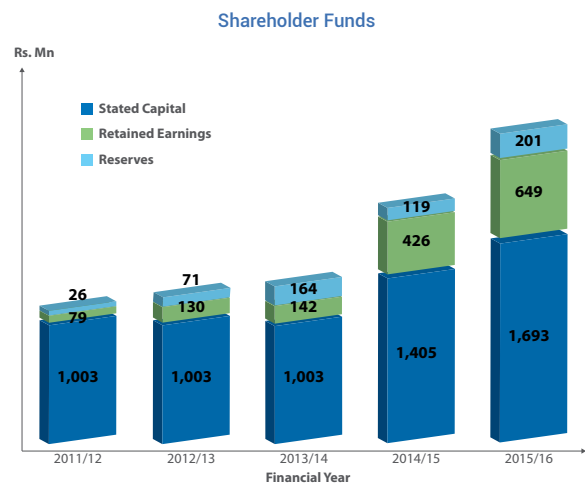
Funding

Even in the context of the low interest rate environment that existed for the most part of the financial year, the company was able to grow its public deposits portfolio by 14% from Rs. 12.4 billion to Rs. 14.1 billion. The company made a strategic decision to focus on retail deposits and move away from institutional deposits, as they entailed a higher cost. Further, it was also decided to reduce its focus on commercial papers, as they too carried a higher cost. Bank borrowings had increased by 82% at the end of this financial year when compared to the previous year, as the company decided to take advantage of the relatively low interest regime and obtain additional credit lines from banks. Overall, when looking at the company's funding mix, it is seen that the company's reliance on public deposits has comparatively increased to 77%, signifying the company's ability to draw in public funds, based on the trust the customers have on the company.



Shareholders' Funds

Total shareholder funds increased by 30% to reach Rs. 2.5 billion by the end of this financial year. The main contributory factor in this regard was the 21% increase in stated capital. This is as a result of USD 2 million of the convertible loan obtained from FMO, being converted to equity, leading to an increase in equity by Rs. 288 million. This contribution to shareholder funds resulted in the strengthening of the equity position and the foreign financier's decision to exercise the option of converting debt to equity, demonstrating the confidence placed in the company. While this conversion of an interest bearing liability to equity helped increase profitability by reducing interest costs, this equity infusion will also help drive the company's expansion plans.



Capital Adequacy

Capital Adequacy ratios signify the company's maintenance of sufficient capital in the form of equity and subordinated debts as a margin of safety in order to absorb any unexpected losses. This ratio measures the company's capital components in terms of its risk weighted assets. As per minimum required regulatory levels, the company has to maintain its Core Capital to Risk Weighted Assets ratio at not less than 5% and its Total Capital to Risk Weighted Assets ratio at not less than 10%.

As at 31st March 2016, the company's Core Capital Adequacy ratio stood at 14.37% and the Total Capital Adequacy ratio stood at 14.44%. Both indicators were well above the minimum regulatory levels, thus signifying the financial stability and strength of the company.

Customer Capital Management

The Customer Experience

The customer centric approach that we have embraced means that we do not simply offer standardised products. We strive to cater to every customer need with innovative and tailor-made financial products. Further our customer centric approach means that we are constantly re-engineering our internal processes so that we can further improve the fast and personalised customer service that we are known for. The good relationships that we have with our banking partners mean that we can offer our valued clientele virtually any payment disbursement method that is convenient to them. Moreover, as part of the personalised customer experience that we deliver, our employees are trained to engage with our customers in a warm and professional manner.

Moreover, we have developed a customer complaints handling hotline, backed by a dedicated team to address any issues that our customers would have. The hotline number is prominently displayed in our branches and our team is trained to ensure that the customer is constantly kept abreast of the developments regarding the issue raised.

The personalised customer experience we offer is further enhanced by the manner in which we have designed our branches. The overall ambience and the professional, yet warm atmosphere created in our branches are conducive for our customers to openly discuss their financial needs with us.

Improvement of Service Levels

Key Focus Areas
Personalised Service
Efficient Service Delivery
Well-Designed Internal Processes

Customer service is paramount to any service organisation. We focus on delivering an efficient and personalised service to meet the customer expectations. Our processes are constantly subjected to scrutiny and re-engineered to effectively fulfill customer expectations, which give us a decided edge over the competition. Such well-designed internal processes have allowed us to deliver a personalised and quick service to the door step of the customer.

Our internal stake holders who represent the various support services such as Operations, Human Resources, Marketing, Administration, Risk, Finance and Internal Audit are well-structured and geared to add value to and improve the value chain. Continuous improvements to our processes and service levels are undertaken to foster relationships among customers and our staff.

Moreover, training, internal circulars, policy and process briefings, workshops and internal assessment examinations protect the integrity of our processes and keep the staff up-to-date. For instance, we have conducted internal spot audits to evaluate service levels and training was introduced based on the gaps found.

Our Branding Philosophy

Corporate Branding
Product Based Branding
Service Level Branding

We have challenged ourselves to reach the foremost position in the non-bank finance sector. Being a member of a large and diversified conglomerate bestows us with the advantage of an instantly recognisable brand and adds leverage in reaching our goals. During the year, we changed our corporate branding and adopted the corporate logo of the Softlogic Group so that our branding is in line with the group's branding.

Our branding strategy has focused primarily on product features while giving increased visibility to the corporate image that we have built up. Our current focus is on building strong product based brand identities and improving our brand visibility at our branches and surrounding areas.

We are conscious of representing and communicating our brand values accurately. Consequently our human resources function places emphasis on driving home the importance of building the brand image among our staff. This is achieved through motivational and customer centric training programmes so that our employees become the ideal representatives of the corporate image we strive to present.

Key among our brand values are our commitment to the community at large. One way in which we reaffirm our responsibilities to community development is through strategic CSR projects carried out regularly under a formalised system. The planned activities underline our objectives of uplifting communities and environmental engagement. The Clean Zone project, which is our main

project in this regard, runs in tandem with our branch expansion drive and as such is closely linked with our corporate strategy and brand image.

Some of the campaigns held for each type of product, in year under review were:

Promotion Type	Product Type	Description
Internal & External	Fixed Deposits	Marketing communications were undertaken across TV, Radio & the Press. An internal campaign was also conducted and included a rewards scheme for target achievers.
Internal & External	Working Capital Lending Product	Launched the "Atha Hitha" campaign to promote business lending through TV, Radio & the Press. Introduced an internal campaign that included a reward scheme and branch promotions for target achievement.
External	Fixed Deposits	New Year Campaign to promote seasonal opportunities.

Future Outlook

It is our aim to continue our commitment to customer convenience and value addition whilst building our branch network, introducing new products and maintaining the efficiency of our personalised services.

New IT solutions in the pipeline will further enhance the process efficiency of our products and services and in turn contribute to further improvement of customer convenience. Notably, our partnership with an ATM service provider, will serve to enhance customer convenience considerably.



Our **customer centric** approach means that we are constantly **re-engineering** our **internal processes** so that we can further improve our **fast and personalised** customer service

CUSTOMER TESTIMONIALS

Over the years Softlogic Finance has catered to small businesses and entrepreneurs that make real contributions to the communities. Timely financial support has helped them sustain their operations and build capacities further so that they may in turn uplift and enrich the social and economic fabric. The efficiency in the Company's processes are geared to benefit many industry-focused entities and individuals so that they may avail of the necessary resources to grow and innovate as viable businesses.

For 25 years Island Dairies has engaged in producing dairy products of high nutritive value such as yoghurt. They place emphasis on uplifting the local dairy farmers, giving them the best prices for their milk and providing them support and other resources towards the betterment of the rural communities.

"In obtaining loans from Softlogic Finance we have greatly benefitted from being able to avail of funds within a very short period of time, which has proved useful in emergencies. Their support and services have allowed us to acquire a new ice cream plant, increase our production volumes and make timely purchases such as storage facilities. It has been a fruitful partnership in sustaining and growing our business."

"We joined hands with Softlogic Finance over two years ago. The services rendered through the Jaffna Branch during this time meant that we had access to sound financial assistance at crucial periods which fuelled the expansion of our business. The Senior Manager of the branch ensured that we received timely financial assistance to satisfy our expansion activities. It must be noted that Softlogic Finance has given root to numerous positive outcomes in commerce and industrial spheres of the Northern Province. I am confident that their team's commitment will no doubt add value to your business and attract more commercial and industrial activities and resources."



Ms. Sheela Liyanage,
Director, Island Dairies (Pvt) Ltd
Kegalle

Entrepreneur A. L. V. Kumara established and gradually developed a flourishing bakery business in the southern region of the island.

"It was four years ago that I sought the services of Softlogic Finance and quickly gained confidence from the very first loan that I obtained from them. Starting as a modest business in Ranna and thereafter expanding with a branch in Matara, the loans that I received periodically largely contributed to the success of my business. I must especially acknowledge their customer service for its efficiency. Following two visits to the Matara branch they disbursed a substantial loan after a short span of two days. I believe that no other financial institution offers such an efficient and effective service. Through Softlogic Finance I was able to achieve my business goals and I wish them all success."



Mr. Subramaniam Pararasingham,
Chairman, Managing Director, NHT Group
Narayana Hardware Trader – Jaffna



Mr. A.L.V. Kumara,
Vijitha Bakers
Ranna, Matara

Business Partner Management

Business Partner Engagement

Our Business Partners contribute to the efficiency and effectiveness with which we reach our customers and help us obtain a competitive edge. Built on a foundation of trust and mutual understanding, we strive to maintain win-win partnerships in order to avail of reliable and consistent services while offering a steady source of revenue to our business partners.

Our intention is to have partnerships that are prudent investments rendering value for the resources that we expend. Therefore, it is with careful and continuous evaluation that we engage with our pool of business partners in availing of their services.

Business Functions where Business Partner Engagement is Sought
Market Research
Marketing Communications
Financial Planning & Investment Advisory
Insurance
Training and Talent Development
Recoveries
Legal Advisory
Outsourced Non-Core Operational Services
Compliance Management

Business Partner Management

Classification of Business Partners
Approved Vendors
Valued Consultants
Strategic Partners
Regulatory Partners

Approved Vendors

Examples of Approved Vendors
Outdoor Advertisers
Corporate Communication Partners
Infrastructure related Suppliers & Contractors
Courier Services
Outsourced Operational Service Providers

Our procurement and supplier assessment policies come into play in this context. Within the ambit of achieving operational excellence and effective cost management, we undertake continuous negotiations with these suppliers and look to streamline our processes and maintain prudent inventory levels to ensure that the best value is received at a competitive price. The focus is on managing operational costs whilst obtaining the expected service level. Moreover, we are committed to maintaining good working relationships in order to obtain acceptable prices and service levels.

Valued Consultants

Examples of Valued Consultants
Investment Advisors
Rating Agencies
Branding Consultants
Human Resource Consultants and Trainers
Legal Advisors
External Auditors

These partners help us mould our business so that we can deliver enhanced value to our stakeholders. Collectively they contribute towards the medium and long term growth of the company and help achieve operational excellence through their expertise. The focus in this instance is on the medium and long term value added to our business and not solely the costs entailed when engaging them.

Strategic Partners

Examples of Strategic Partners
Financial Partners
Insurers
Advertising Agencies
Credit Information Bureau
IT Service Providers
Partnering Vendors for our Consumer Loan product
Partnering Companies for our Group Personal Loan product
Banking Partners for Payment Services
ATM Network Service Provider
Specialised Recovery Service Providers

With these strategic partners, the focus is on forming long-term strategic partnerships to facilitate competitive advantages and set us apart from traditional industry norms. This is an engagement that goes beyond the focus

Business Partner Management Contd.

on short-term cost considerations and instead is based on strategic value addition. Such partnerships are a necessity due to the industry related input that is constantly introduced.

Furthermore, certain strategic partners provide specialised services like IT infrastructure development. Moreover, other strategic partners assist in business development by acting as distribution-channel facilitating agents for our products such as Consumer Loans and Group Personal Loans. Notably, the Credit Information Bureau of Sri Lanka (CRIB) is considered a valued partner, as we obtain the most up-to-date credit information of our customers for our credit evaluations. Close engagement with CRIB, not only benefits us but the industry as a whole as enhanced information sharing, helps in better industry-wide credit management.

Regulatory Partners

Examples of Regulatory Partners	
	Central Bank of Sri Lanka
	Department of Inland Revenue
	Securities and Exchange Commission
	Colombo Stock Exchange

Being a listed company and a registered Non-Bank Financial Institution entail considerable responsibilities in terms of regulatory compliance. As such, our regulatory partners are not merely regulators but valued partners who help us operate efficiently and serve our stakeholders better. We do not see regulatory compliance and regulatory reporting as a burden but as a value adding process which allows us to maintain transparency, achieve operational excellence and provide customers with products that generate value to them.

While both parties can mutually benefit from this partnership, from our end, we take the initiative to engage with our regulators and ensure that issues are resolved without delay so that our operations are not compromised. All regulatory reporting and disclosures are performed in the context of partnership building and not merely limited to regulatory compliance.

Future Outlook

Looking forward, our business partners will play a critical role in our future branch expansion plans. The success of our branch expansion drive relies greatly on a cross section of business partners such as the Central Bank of Sri Lanka, municipal councils, outdoor advertisers, creative agencies, infrastructure related contractors and funding partners. Additionally, business channel development partnerships, product development advisers, the ATM partner network service provider and IT service providers would greatly impact the success of this network expansion.

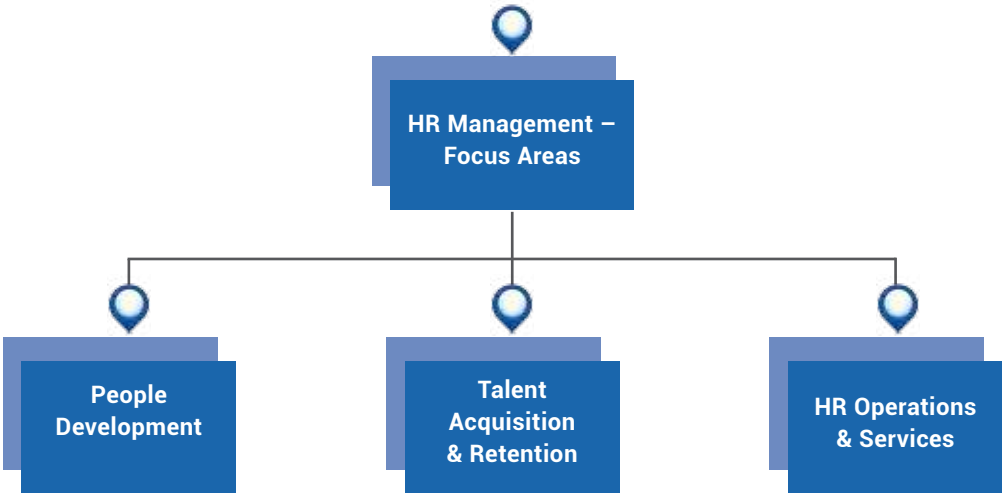
Moreover, conducting qualitative and quantitative supplier data analysis will assist in refining our procurement policies and supplier assessment procedures in order to control costs and foster mutually beneficial business partner relationships.



Our **Business Partners** contribute to the **efficiency** and **effectiveness** with which we reach our **customers** and help us obtain a **competitive edge.**

Human Capital Management

Management Approach



Established as a function central to the business development of the company, the HR management function of Softlogic Finance goes beyond traditional employee welfare management. We adopt a range of best practices in HR management to ensure that our employees add strategic value to our business.

As we operate in a constantly changing environment, we need our employees to act as change agents who drive the continuous enhancement of our service culture. To achieve this, we provide our employees with sustained training and duly recognise their contribution to organisational development.

We adopt a range of **best practices** in **HR management** to ensure that our employees add **strategic value** to our business.



Year at a glance

Based on our well-rounded HR philosophy of empowering our staff as a sought-after talent team committed to achieving results in line with the Company's vision, we undertook several measures in the year under review.

Highlights	Extended internal and external training for employees which provide necessary support for staff to improve their product knowledge
	Launched an online "Employee Satisfaction Survey" for all employees
	Internal promotions were given to staff with the necessary skills and competencies.
	Widened the scope of the professional development programme, to support career development
	Opened a fully-equipped Training Centre
	Conducted the annual comprehensive & transparent performance appraisal.
	Re-launched the 'HR Manual' that sets out corporate information, policies and practices which will meet current business environment standards.

Human Capital Management Contd.

Employee Engagement

There was a marked increase in employee engagement to address and evaluate their concerns and offer remedial

measures with the view to develop a stronger and competent workforce.

Key Concerns	Our Response	Engagement Method	Frequency
Employee Grievances & Suggestions	Grievance Redressal form & Discussion at management committee (MC) meetings.	Open door policy at all levels of management.	As and when required
Operational issues, business performance issues, internal process issues.	Discussion, delegations & progress tracking at MC meetings.	Direct engagement with relevant manager at MC meeting.	Twice a month
Up-to-date company related news.	Updating relevant news through multiple channels.	Intranet, internal memos & e-mails.	As and when required
Career progression & rewards	One-on-one performance appraisals	Performance appraisal system & internal surveys	Annually
Work-life balance	Organising various networking events & sports activities	Through the company recreation club	Regularly throughout the year
Identifying & addressing training needs.	Customised training based on identified gaps.	Formal training evaluations	As per the training calendar

Talent Acquisition

Effective recruitment and selection is crucial to the successful operation of Softlogic Finance. The challenge is to acquire talent with the necessary skills, shared values and competencies to add value in the competitive environment that we operate in.

We have at our disposal, a variety of methods and channels to attract the right talent to our organisation, depending on the type of talent strategically required.

The company is committed to ensure that internal resources are considered provided that necessary skills and competencies are available with the staff. This process is well-structured and transparent. All internal vacancies including job descriptions and selection criteria are duly communicated via internal correspondence, encouraging eligible employees across the company to apply. Due training and guidance are extended towards such employees, enabling them to fit into their new job roles and take up new responsibilities and duties therein.

The recruitment strategy advocates community recruitments in areas where branches operate. This strategy is well in line with the Company's aspirations of being an inclusive employer and in turn such employees

with local ties and local knowledge truly support branch operations in reaching out to their respective communities, blending well with the local culture and offering a responsive service.

Talent Retention

A key component of our Human Resources policy is to strictly ensure that our people are treated fairly and with respect, without having to face any kind of discrimination. This will lead to our people feeling valued and will in turn help foster their loyalty towards the organisation. In the long run, this strategy will help us retain key talent.

Some of the key initiatives taken in this regard are:

- Recognition of high performers
- Performing Employee Satisfaction Surveys
- Continuous structure training based on a well-designed training plan
- Development of career development plans for our people
- Transparent performance appraisal & management process

People Development

The company is committed to providing opportunities for employees to continuously enhance their existing skills and competencies. A significant amount of resources and time is invested to continuously develop the skill pool in light of changing organisational needs.



Softlogic Finance - New Training Facility

Corporate training and development are based on the following criteria:

- The training needs identified during annual performance appraisal process
- To bridge the identified skill gap during the annual appraisal process
- Technical trainings will be based on the relevant technical requirements
- Management can also identify certain development programmes
- Employee satisfaction surveys and customer satisfaction surveys are helpful for training need identification
- Qualities such as communication, leadership, team building, motivation and service excellence are considered in deciding training and development programmes



Softlogic Finance - Training on Leadership



Softlogic Finance - Training on Strategic Management

Industry specific training programmes were conducted with affiliated bodies such as the Central Bank of Sri Lanka (CBSL), The Finance Houses Association of Sri Lanka (FHASL), The Institute of Credit Management (ICM) and the Institute of Bankers of Sri Lanka (IBSL) to enhance and cultivate job specific competencies required to perform and excel in respective duties.



Softlogic Finance - Men's Cricket Team

The company opened a fully-equipped Training Centre at the Borella Branch for its convenience for having internal training programmes with the coordination of identified professional trainers. This allowed a greater number of employees to benefit from internal training programmes, whereas external training would require a selected number of employees to be nominated for training.



Softlogic Finance - Women's Cricket Team

Human Capital Management Contd.

Succession Planning

Our continuous and consistent succession planning targets high achievers with leadership and management skills. The performance management system is effectively used in this endeavour, where high achievers and potential employees are identified and mentored by the management, focusing on areas that need improvement. Selected employees once groomed and their potential gauged, were promoted to branch manager positions in the newly opened branches.

Employee Wellbeing

Further reinforcing our commitment towards employee wellbeing, the Company has adopted firm measures to safeguard the dignity, health, wellness and safety of all employees at the workplace.

Health and safety

With respect to employee health, a comprehensive medical insurance policy in place covers work related illnesses and accidents.

The company continued to give due diligence to quality and safety within the workplace with measures to uphold best practices and standards. The Head Office is equipped with the necessary safety equipment including smoke detectors, fire safety equipment, fire alarms, emergency escapes and first aid kits.

Furthermore, at the new Cafeteria opened for staff, stringent hygiene practices are upheld for the safety and wellbeing of employees.

Grievance Redressal

The commitment extended to redress employee grievances plays an essential role in employee wellbeing. Employees are encouraged to openly discuss with their immediate supervisors on issues and concerns or give their feedback on policies and practices within the workplace.

If employees are unable to effectively redress their grievances within their departments, they can recourse to the formal process which is structured and independent and mediated by the Head of HR. The Whistleblower

Policy coming under the purview of Internal Audit is also a structured mechanism which is in place where employees can opt to address their concerns on employee rights, violation or misdeeds, confidentially.

In the year under review, there were no employee grievances directed to the HR department for formal redressal. Moreover, no grievances with respect to employees' human rights were filed through this formal process within the organisation and through litigation.

Non discrimination

With 'equal opportunity' as the underlining principle, Softlogic Finance, did not record any incidences of discrimination. All facets of HR management including recruitment, remuneration, rewards and recognition are based on performance merits devoid of any discrimination. A grievance redressal mechanism, among other measures, is in place to protect employees from such incidents if and when they occur in the future.

Future Outlook

People Development

- Carry out training to build on technical and soft skills. Structure training programmes on new products such as Educational Loans.
- Extend foreign training opportunities for high achievers.
- Further develop the professional development programme with coverage to the sustainability aspect.
- Focus on cost-effective learning practices extended to branches island-wide.

Performance Management

- Focus on new evaluation techniques to stay abreast of best industry practices. Carry out performance evaluations covering all employees

Talent Acquisition & Retention

- Acquire talented personnel at all levels to continuously enhance the talent pool.
- Attract young talent to the Management Trainee Programme.
- Head-hunt professionals for new products.

Remuneration

- Review employee remuneration packages to ensure that they are on par with industry norms and make necessary adjustments.

Intellectual Capital Management

Enhancing Organisational Knowledge Base

As a service sector organisation and a pioneer in business financing in the Non-Bank Financial Institution (NBFI) sector, our long-term operational sustainability very much hinges on the development and the effective utilisation of our organisational knowledge-base which is a representation of our industry expertise. We operate in a very competitive environment, rife with industry challenges. The team of industry experts in our senior management plays a significant role in fostering our internal knowledge and help in providing our team with strategic guidance to face industry challenges. This is because we have identified that maintaining the competitive advantage that we have gained in fund mobilisation and business financing involves the continuous updating of internal knowledge and effective sharing of it with our team.

In this respect internal workshops and training programmes play a dual role. It serves as a platform for the dissemination of existing industry know-how and for the refinement of our knowledge-base through sharing market information from the ground level. Consequently, we have been able to predict industry challenges and face them with success. A fine example is the development of our SME working capital product developed for the purposes of product diversification to face the rising challenges in the leasing product segment. Such proactive decisions taken as a result of our industry expertise have paid dividends as we have been able to position ourselves as the pioneer in SME business financing in the NBFI sector.

Achievement of Process Excellence

We have recognised the operationalisation of best practices and the achievement of process excellence as the sources of competitive advantage. This is why a conscious effort is being made to consistently drive the adoption of best practices and compliance with documented processes, so that process excellence and transparency of operational functions remain commonplace aspects. At all levels of management, there

is commitment to refine internal policies and procedures as our customer service levels significantly depend on them. As and when the need arises, we engage with external consultants to ensure that we are well-versed with industry best practices.

Enhancement of our Brand Value and Reputation

As a key player in the NBFI sector, our aim is to move away from the perception of a traditional finance company and position our brand as a total financial services provider. A personalised service is key to the brand message that we wish to project. As we continue to expand our geographical presence, the positioning of our brand and the image we project are deciding factors in the success of our expansion drive. In this context, as a responsible financial services provider, our approach is to introduce and establish our brand presence in line with our values and the mission that we have set for ourselves.

External Recognition

As a testament to the transparency with which we conduct our business and the elevated personalised service levels we deliver to our esteemed clientele, we have been bestowed with industry awards and accolades this year as well. This is a clear demonstration of our continued and effective brand exposure and successful value enhancement.

National Business Excellence Awards 2015 (NBEA 2015) – Merit Award

For the third consecutive year, we were awarded the Merit Award for "Business Excellence in the Non-Banking and Financial Services" category at the National Business Excellence Awards 2015 organised by the National Chamber of Commerce Sri Lanka (NCCSL). We received this accolade in recognition of our continued commitment to overall business excellence and service delivery in the NBFI sector. The National Business Excellence Awards is

Intellectual Capital Management Contd.

an annual awards competition conducted by the NCCSL with a view to recognise business enterprises, which have demonstrated excellence in business, whilst contributing to the economic progress of the country.



National Business Excellence Awards 2015

51st Annual Report Awards – Compliance Award

For the fourth consecutive year, we received an award for compliance in financial reporting at the 51st Annual Report Awards ceremony from the Institute of Chartered Accountants of Sri Lanka (ICASL) for adhering to financial reporting requirements set out by them.

Most Valuable Brands in Sri Lanka 2016 – 74th Place

In the Brand Finance 2016 ranking of the most valuable brands in Sri Lanka published by LMD, we were positioned at number 74 in the Top 100 ranking.

Sri Lanka's Most Respected Entities 2015 – 49th Place

In LMD's compilation of Sri Lanka's Most Respected Entities 2015, we were conferred with the 49th position. This ranking is a measure of an entity's strength and stability in the eyes of their corporate peers. It goes on to signify the corporate admiration we enjoy among our peers.

Effie Awards 2016 – Bronze Award

At the Effie Awards 2016, we were recognised with a Bronze Award for the marketing communications developed by us for our working capital SME loan product. Only the Bronze Award was awarded in this respective category.



Effie Awards 2016



As a **key player** in the **NBFI sector**, our aim is to **move away** from the perception of a **traditional finance company**.

Product Review

Product Discussion

Softlogic Finance relentlessly observes and evaluates consumer behavioral patterns to identify unmet needs in the market, in order to create products that cater to those financial requirements. Bolstered by high performing and pioneering products, such as the Group Personal Loans and the SME Working Capital product, profits increased by 70 percent; an achievement which can be attributed to the strength of the company's position and its quality of management.

Business Finance

Business Finance forms the majority of the company's lending portfolio and 2015/2016 saw a further strengthening of the company's strategic shift initiated in 2013, to loan products. In particular, the focus on working capital financing considerably strengthened the company's ongoing transition to a retail banking model. As intended, this transition largely fuelled the company's emphasis on small and medium enterprises with favourable results. The company's working capital lending product, also known as 'Atha Hitha', continued to contribute with big numbers. Having repeat clients, the expertise to evaluate customers and the necessary processes to execute payments, proved to be the key strengths in developing this portfolio.

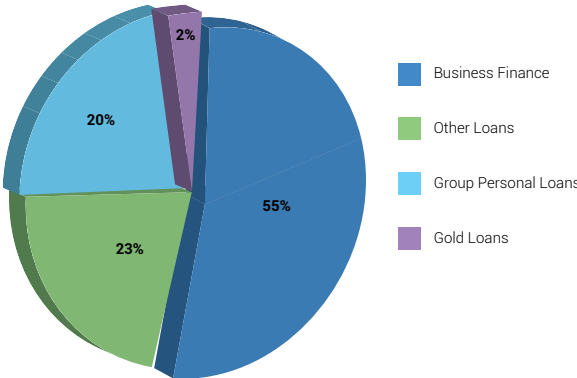
This shift in focus to working capital financing was a proactive, calculated measure undertaken by the management to minimise the impact on the company from the volatility in economic and industry policies. For example, as a result of this strategic shift, the company was able to withstand the negative industry impact of the 70-30 Loan-to-Value ratio imposed on leasing facilities, which is traditionally the core business of the NBF1 sector. Looking forward, the company has set its sights on developing a sustainable leasing portfolio of at least 20 percent of its lending portfolio.

The Business Finance category was strengthened with strategic steps taken to facilitate an increase in the number of repeat clients. To this end, improving the 24-hour loan approval process, rewarding selected clients with longer tenures and pre-approved loan facilities were among the conveniences offered to stimulate results. Along with the company's growth in business volumes, the company took steps to control and manage risks in

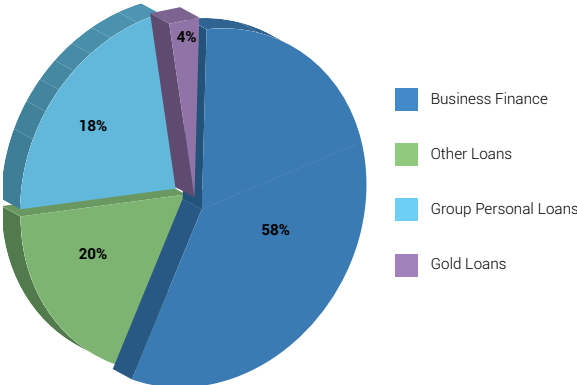
the revenue generation processes. The first line of defense was provided with systematic training on credit evaluation to improve credit quality. Moreover, the company's well-balanced loan portfolio was subjected to further diversification to streamline the business and improve resilience to any eventualities that may occur.

In future, the company has geared itself to developing its leasing portfolio to at least 20 percent of its total portfolio, with the adoption of the Central Bank guidelines and strict controls in place for credit evaluations.

Product-wise Portfolio - F/Y 2014-15



Product-wise Portfolio - F/Y 2015-16



Product Review Contd.

Personal Finance

Amongst the Personal Loans portfolio, the lucrative Group Personal Loans, another pioneering product of Softlogic Finance, benefitted from marked improvements in employee productivity. The segment made the largest contribution to company profits and this success can be primarily attributed to the systematic training and development of its credit officers. The redesigning of the loan application and standardisation of processes further improved efficiency at branch level as well as at the head office.

The change in the credit policy with the aim of diversifying the product portfolio and the shift into new demographic market segments may initially hinder product disbursement. However, disbursement is expected to pick up pace, displaying a 'J curve effect' that would result in a strong and well-diversified portfolio. The year under review also saw the introduction of a stand-alone credit approval unit along with a robust risk assessment system to improve the quality of the portfolio. The ATM network that is in the pipeline is seen as a further improvement to our processes and would serve as a counter balance to the declining popularity of the current recovery tool.

Gold Loans

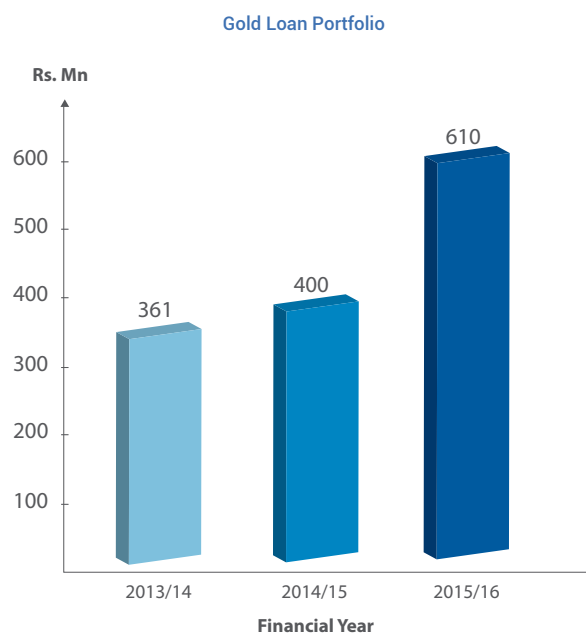
Gold Loans saw a tremendous improvement in 2015/2016, leveraging on the 5 percent cap imposed on banks for pawning, as well as the company's enhanced internal processes. Recording a 53 percent growth, this loan category contributed substantially to company profits.

With 30 branches and 6 standalone gold loan centres around the country, Softlogic Finance offers customers a quick cash fix, made available at convenient locations. This loan category greatly benefitted from streamlined processes in the company's operations, in particular, central credit approval, bank slip transfers and the pay fast facility that allows the immediate transfer of loans to the customer's current account. Further, the continuous training that was conducted to improve the technical skills of staff has helped this product achieve its targets in testing conditions.

In line with the reinforced customer-centric approach, Softlogic Finance acts in the best interest of customers,

urging them to recover their possessions even in the event of gold prices appreciating. This has resulted in a loyal customer base that places their trust in the company during a time of need.

The prospects for Gold Loans remain positive despite the expected outflow of funds from Gold to US Dollar due to the anticipated increase in base interest rates by the U.S. Federal Reserve in the upcoming quarters. However the effect of this is mitigated by the high demand for gold from the Indian market, which will allow gold prices to remain stable. The company aims to capitalise on the future outlook and hopes to capture a greater market share in the coming year.



Deposit Mobilisation

In the year under review the focus was on accumulating public funds via small retail customers as opposed to larger corporates or institutional deposits. Incidentally, the company over-achieved its inflow of fixed deposit targets by 75 percent, demonstrating the momentum gained in customer confidence. This not only resulted in an increase in the customer base, but also an influx of Rs. 12 billion through a growing retail base during the course of the financial year.

The company's Asset and Liability Committee (ALCO) discouraged Commercial Papers (CPs) that carried a

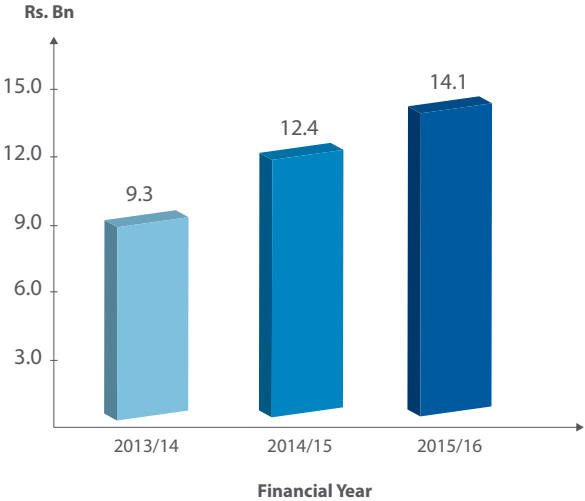
higher interest rate, and instead credit lines from banks available at cheaper rates were utilised as an alternative. The low interest offered by banks also illustrated the level of confidence held in the company. The healthy Rs. 1.6 billion in credit lines acquired, placed the company in good stead in the event of sudden withdrawals. Additionally, the substantial increase in the inflow of deposits helps curb the impact of large withdrawals, with a risk appetite of 80 percent deposit funds and 20 percent other borrowings. Further, we have been able to maintain a deposit renewal ratio of 67 percent, which is at the higher end of the market renewal ratio of 60 to 70 percent. Therefore, adequate liquidity is always in place to meet any large withdrawals of funds.

The strategic phasing out of the Commercial Paper base, the increase in the fixed deposits base and avoiding costly securitisations helped maintain the company's interest costs at manageable levels.

As a company that constantly strives to innovate products to meet the needs of its customers, the "4 in 1 Fixed Deposit" was launched to cater to inconsistent and unexpected withdrawal needs of customers. This fixed deposit product offers four different maturity rates for the same deposit where the customer is not penalised for making pre-mature withdrawals. In conveying the mechanism of this novel product to the market, the stages of a jack fruit was used as an analogy.

In future, the company is expected to attract larger deposits from Savings Accounts, with the proposed ATM network in place. This facility would offer a higher rate to customers, whilst lowering the average cost of public borrowings for the company. Furthermore, with the increase in the deposit rate threshold enforced by the Central Bank, the company will strive to attain larger volumes, going forward.

Customer Deposits Portfolio



The **continuous training** that was conducted to improve the **technical skills** of staff has helped this product **achieve its targets** in **testing conditions.**

CREATING SUSTAINABLE VALUE

Our Sustainability Philosophy

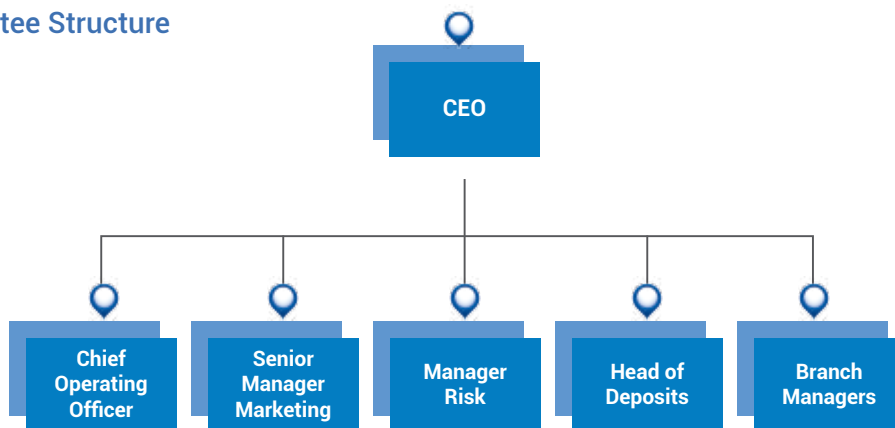
It is our firm belief that we cannot exist and operate in isolation from society. That is why, as a responsible corporate citizen, we have taken cognizance of and are actively engaged in addressing, the needs of our stakeholders. We cannot sustain our business, simply by focusing on the bottom line and the economic value generated to our shareholders. We have recognised that it is imperative that we manage the impacts that we make on the society and the environment as well.

We have taken a holistic and overarching approach to the management of the impacts of our business. This is the result of the effective operationalisation and management of our business model. Hence, as outcomes of our value creation process, we have identified three key domains that need to be managed by us for the medium and long-term sustainability of our business. These have been categorised as the Economic, Social and Environmental impacts of our business.

Owing to the importance of the management of the various impacts that our business has on our operating environment, we have adopted a formalised process to sustainable value creation. This is done through our CSR Committee, which is headed by our CEO, whilst being guided by our COO and manned by members of the Senior Management representing various business channels. Such a formalised approach is adopted in identifying, assessing and formulating responses to our sustainability impacts, as a result of our commitment to the sustainable development of our business. We are committed to this process as it ensures that we identify and serve the interests of our diverse set of stakeholders.

In the long term, we plan to align our enterprise sustainability mechanisms with those of the Softlogic Group, so that collective synergies can be achieved in the implementation of stakeholder related initiatives undertaken.

CSR Committee Structure



Economic Contribution

Our economic performance serves as the cornerstone for our survival and is the key enabling factor for our active engagement with our stakeholders. The monetised value we generate through our business model is shared amongst a range of stakeholders. A significant economic contribution to the country's economy is made through our business operations and as we grow in scale through our branch expansion, our contributions in this regard will only continue to increase.

More specifically, substantial economic contributions are made every year towards government revenue, our shareholders, our suppliers and service providers, financing partners, investments in rural areas supporting economic growth, the provision of employment and the community at large.

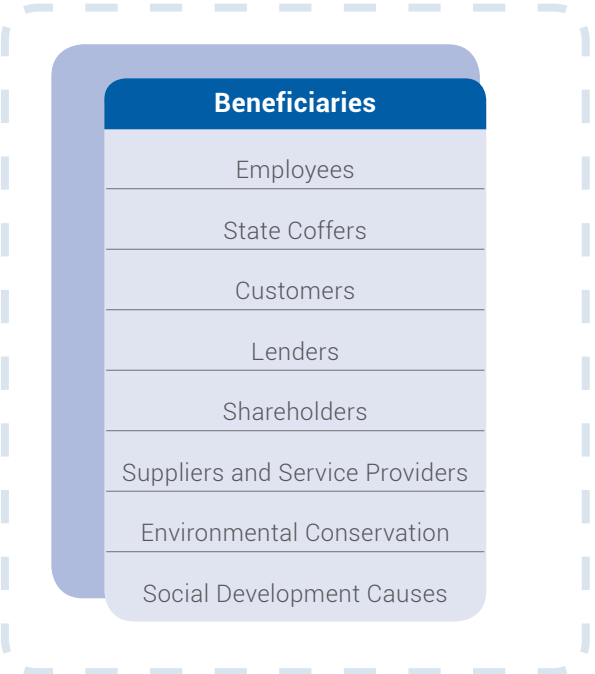
Our products also play a major role in the economic contribution that we make. In line with the national objective to continuously foster the growth of SMEs, our specialised SME working capital product that we have pioneered, continues to make inroads and play a significant role in the development of SMEs, through the provision of easy access to funds.



Employment Generation

	Western Province	Rest of the Country	Total
Employees as at 31st March 2016	281	210	491

Beneficiaries of the Distribution of Monetised Assets



“Our **branch expansion** drive provides us with the **perfect platform** to **contribute** to the **local economy**”

Social Contribution

As Softlogic Finance expands its reach into every district of Sri Lanka, it is reminded of the harsh realities that people in rural areas face as they struggle to make a living in difficult social and economic conditions. As a significant player in the NBFi industry, we are always ready to serve communities and aid in uplifting the lives of those less fortunate.

Improving Access to Finance

The government has realigned its goals and strategies for the development of the rural economy particularly by empowering the SME sector in the country. Through its potential to generate income and employment, the SME sector has earned interest and focus as an engine of growth in the rural economy and holds the potential to form the backbone of the country's economy. In this backdrop we are well-placed to align our goals to propel the country's economic growth trajectory. Our ability to become actively involved in the communities we operate in helps us identify the needs of the SME segment and provide speedy solutions for their financial needs. Notably, our increasing focus on providing facilities and services tailor-made for the SME sector through innovative products and expertise, which are disbursed through a branch network creating access to rural economies, further complement the country's economic goals.

People Development

Being a company that prides itself in providing unparalleled service, we at Softlogic Finance understand the crucial role that our employees play in realising the Company's expansion drive and commitment towards service excellence. People development has always been an integral part of our business strategy. We have a well-planned training calendar in place covering several internal

and external training programmes to develop technical knowledge, soft skills, leadership skills, team building and customer service skills.

Through our strong belief in the value of achieving "work-life balance", Softlogic Finance ensures that employees have a steady stream of exciting recreational and sports activities to participate in throughout the year. This helps our employees to build relationships with individuals across branches and departments, which in the long run will benefit both the individual and the Company.

Ethical Business Practices

Our customers and shareholders are amongst our most valued assets and it is in their interest as well as ours that we have stringent processes in place to uphold sound business ethics and practices. Compliance with all industry regulations allows us to subject our engagements to scrutiny and preserve integrity in all aspects of conducting business. Consequently, regulations and assessments meted out by the relevant authorities contribute to enhance the value of our business. Transparency in our processes further enables us to serve customers with confidence and earn their unwavering trust in availing of financial services we offer.

Engagement in Industry Development

Furthermore, we have a vested interest in developing and building people's confidence in the NBFi industry. Our continued contributions through industry associations are amongst our efforts that serve to improve community access to finance and help formulate industry best practices. Overall, our aim is to elevate public confidence in the NBFi industry so that they may engage in our services without hesitation.



School book donation at a Jaffna school

We have a vested interest in **developing** and **building people's confidence** in the **NBFi industry.**

Environmental Contribution

We at Softlogic Finance, recognise the importance of using the most appropriate methods to preserve the environment for future generations by instilling "green" habits amongst our staff and the community in the vicinity of each branch. Our policies are always aligned towards conserving energy and resources whilst minimising waste and disposing of it responsibly.

The "Clean Zone" Initiative

Public waste management through appropriate and environmentally-friendly disposal of garbage in Sri Lanka is one of the most difficult challenges faced by the authorities and the people of the country. The lack of a proper mechanism for garbage disposal not only affects the environment but also leads to the spread of many deadly diseases, such as dengue, that have brought about challenges in various regions of the country.

Responding to this national need for proper garbage disposal, Softlogic Finance PLC embarked on a carefully-planned, large-scale effort which would eventually improve the cleanliness of a 2 kilometre roadside extent around each branch and mobilise public support for waste segregation and recycling. Consequently, we formulated a 'Clean Zone' campaign which was launched in March 2015 at the Nawala branch. Initially the Clean Zone encompassed a 500m roadside extent on either side of the branch and subsequently expanded gradually to cover a two kilometre extent. Following the first Softlogic Finance Clean Zone in Nawala, more were established across existing branches and each new branch will open with "Clean Zone" facilities in place. This strategy would promote road-side cleanliness whilst simultaneously contributing towards the eradication of diseases such as dengue in those areas.

Community Education on Waste Management

The main feature of this project is to establish community education of proper waste disposal techniques in the vicinity of the branches. The programme focuses on the importance of segregating recyclable and non-recyclable garbage and proper waste disposal. As enablers,

informative leaflets and stickers to encourage and certify the residents as members of our "Clean Zone" programme, are distributed amongst the communities. To inculcate the habit of garbage segregation, separate bins are placed in front of the branch or designated places to dispose plastic, glass and non-recyclable waste. Our primary role is in establishing an efficient system for collecting waste responsibly and with the support of the municipality the waste is disposed of or recycled. Furthermore, the company hires personnel to clean up the area thrice a day and the collected waste is segregated to the bins and cleared away by the municipality.

The Way Forward

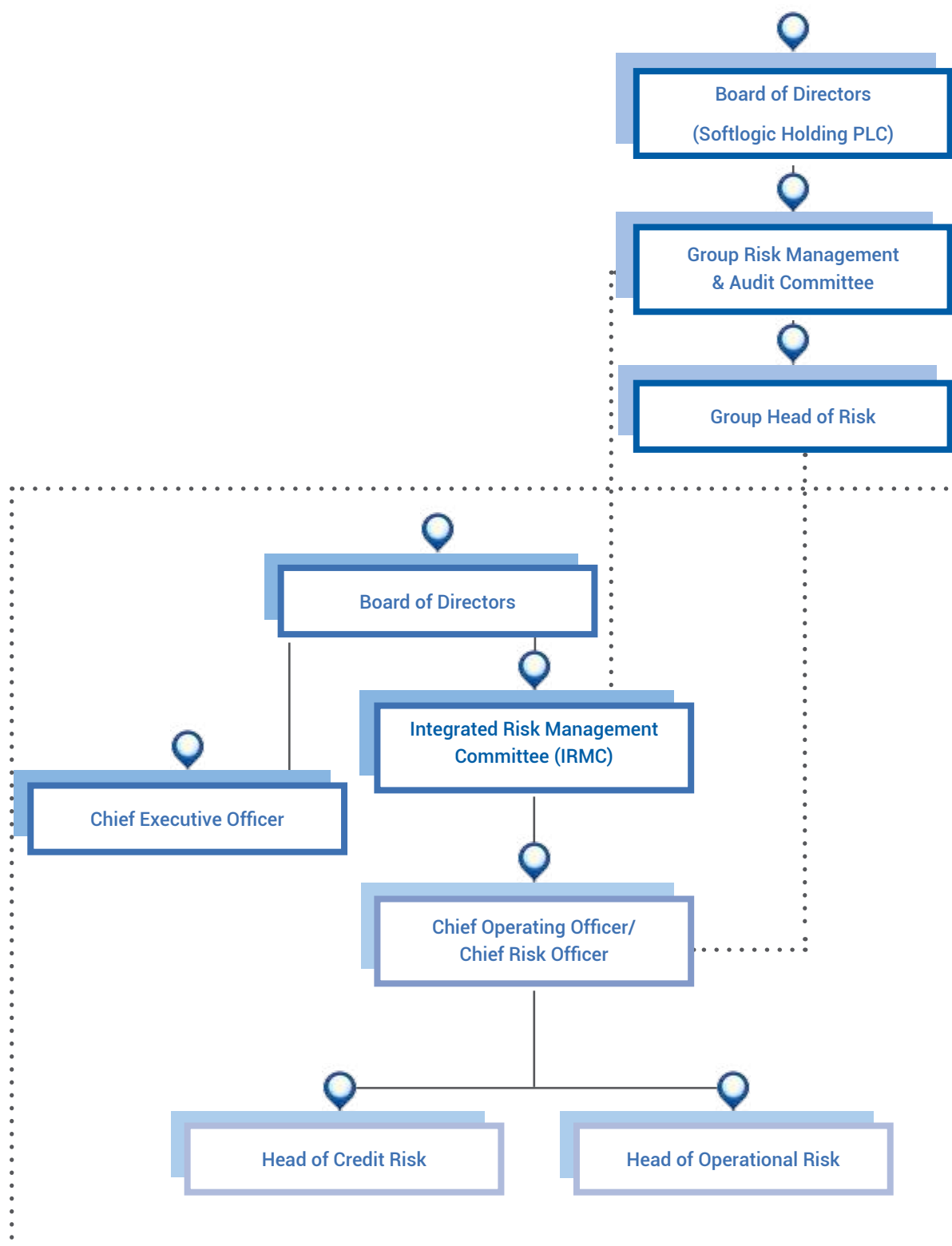
The second phase of the campaign will be to go beyond the branch network and introduce public waste management in religious places, schools and public places. For instance, individual bins will be placed along the temple premises such as around the chaitya and in the vicinity. To further enhance community education of proper waste management, signboards will be put up to inform visitors on how best to keep sacred places clean. Already, the project has been implemented at the Dambulla bus stand and the Thissamaharama town. At present, Clean Zone has received positive feedback from NGOs as well as the Nuwara Eliya municipality with requests for assistance in town clean-ups.



"Clean Zone" initiative at Gangarama temple

INTEGRATED RISK MANAGEMENT

Risk Management Structure



Integrated Risk Management Committee

Risk Management is an ongoing dynamic and evolving process that is essential to the sustainability of any financial institution. A comprehensive Integrated Risk Management framework greatly assists in the achievement of strategic corporate objectives. The activities of the Company invariably attract an element of risk. Integrated Risk Management 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.

Our Risk Management framework plays a critical role in withstanding our reputation as a safe and sound financial institution. During the year, we continued to improve loan origination and appraisal systems by bringing down the independent credit risk review thresholds. Our steady approach has been nurtured and derived from key inputs obtained through stakeholder engagement, understanding the needs of customers amidst rapidly changing markets where they conduct business and lifestyles, and issues that matter to the environment they operate in. The objective of the risk management process in Softlogic Finance is to assist the decision-making process and enhance management effectiveness and also to optimise capital utilisation. The 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 whilst optimising risk and return.

The Risk Management department ensures that risks are well within the risk appetite limits and overlooks the credit, operational and market risks relating to all business activities that the organisation is engaged in. The organisation believes that the risk management practice and information need to be constantly updated and remain on par with or surpass the best in the market, in a dynamic environment that the Company operates in.

Risk Governance Framework

The Company has adopted a 'three-lines-of-defense' governance framework which operates as follows:

First Line of Defense

The head of each operational department acts as the risk owner and forms the most important element in the first line of defense. They have the direct responsibility of identification and management of risks.

Second Line of Defense

The Risk Management Department (RMD) provides an independent oversight function, acting as a second line of defense within the organisation. It co-ordinates, facilitates and oversees the integrity and effectiveness of the Company's Risk Management framework. RMD is tasked with the responsibility of assisting the business units and functional departments in identifying and managing risks related to their respective operations and processes. It also monitors the status and effectiveness of the mitigation action plans. RMD consists of three units namely Credit, Market and Operational Risk.

Third Line of Defense

Internal audit

Internal audit provides an independent review on the effectiveness of the risk management framework and internal controls and recommends improvements where necessary. Internal auditing is an independent, objective assurance and consulting activity. Its core role with regard to risk management is to provide objective assurance to the Board on the effectiveness of risk management and

Integrated Risk Management Committee Contd.

the internal control framework. This has added value and improved efficiency of the organisation's operations. The Company's internal audit function helps to bring a systematic, disciplined approach to evaluate and improve the effectiveness of operational controls, governance processes and Risk Management.

Compliance Function

Compliance function is responsible for ensuring that the Company is in compliance with all applicable laws, regulations and supervisory directions. It complements the RMD by providing necessary risk related information on legal and compliance risk areas.

External Audit

External audit is responsible for adding credibility and reliability to the Company's financial reports by giving an independent opinion on the report. In addition, as part of their annual audit exercise, external auditors also perform an audit on the adequacy of the Company's Risk Management measures, corporate governance and compliance.

Softlogic Finance Risk Profile

Type of Risk	Definition and Possible Impact	Mitigation Strategy
Strategic and Business Risk	<p>Strategic Risk is the possible loss that may arise from the pursuit of an unsuccessful business plan. This will adversely affect the medium and long-term profitability of the Company in failing to identify and implement the correct strategy or react appropriately to changes in the systematic environment.</p> <p>Business Risk is the risk that the Company may not be able to achieve its business objectives. Business Risk may arise if the Company strategy is not compatible with potential markets or customer requirements.</p> <p>We are aware of the importance of understanding all elements of new business expansions before commencement.</p>	<p>New strategies and business opportunities are discussed and vetted by relevant business heads, Chief Operating Officer, Chief Executive Officer and Deputy Chairman before forwarding them for Board approval.</p> <p>The Company's strategic and business plans are updated on an annual basis and formally approved by the Board.</p>

Softlogic Finance Risk Profile Contd.

Type of Risk	Definition and Possible Impact	Mitigation Strategy
Credit Risk	<p>The risk of default on a debt that may arise from a borrower failing to make required payments. In the first resort, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, increased non-performing loans and collection costs. Credit Risk is closely tied to the potential return of an investment. In the industry which we operate, Credit Risk is a major concern and non-management of which can lead to severe cash flow and liquidity problems.</p> <p>Further Credit Risk can be widely categorised into two segments, namely Concentration and Systemic Credit Risk.</p> <p>Concentration Risks The risk posed by any single or group of exposures which has the potential to produce losses large enough to threaten the ability of the institution to continue operating as a going concern. Significant level of concentration can lead to unacceptable losses while creating severe liquidity issues.</p> <p>Systemic Credit Risk The risk inherent to the entire credit portfolio or to the entire financial industry is known as systemic Credit Risk. The interest rate and other fluctuations can adversely affect the balance sheet and the profit figures as well.</p>	<p>The Company has a robust credit policy which provides guidelines for optimising the risk and return. The Credit Risk is managed at two broad levels: pre- and post-disbursement. Pre-disbursement is regulated by establishing an appropriate Credit Risk culture through dedicated Credit and Credit Risk departments and having approved delegated lending limits. Post-disbursement risk management involves monitoring and following-up through regular MIS and independent reviews by the Group subcommittee on credit.</p> <p>At Softlogic Finance we continuously monitor the concentration at various levels to control the same. We analyse the concentration according to product, sector, exposures and various other parameters. Proper limits are established to ensure that the concentration is not tolerated beyond tolerance levels.</p> <p>We periodically assess the impact on systemic risks by stress testing and other scenario analysis techniques. At Softlogic Finance, product pricing is a highly dynamic process which amalgamates all possible market and global economic elements and systemic risk factors.</p>

Softlogic Finance Risk Profile Contd.

Type of Risk	Definition and Possible Impact	Mitigation Strategy
Market Risk	<p>Market Risk is the possibility of experiencing losses due to factors that affect the overall performance of the financial markets. It often challenges the balance between assets and liabilities through movements in interest rates or exchange rates which may adversely affect the Company.</p> <p>Softlogic Finance focuses mainly on the interest rate risk.</p>	<p>The Company has put in place a comprehensive Treasury Policy that has been approved by the Board, which is updated regularly to incorporate the latest developments in the market.</p> <p>In terms of the Interest Rate Risk, the committee comes out with a dynamic Interest Rate Risk report that takes into account variations based on market rates to see how a stress scenario could affect capital and profitability. We continuously monitor the processes and review the policies in order to achieve faster turnaround times and to reduce the incidents of losses.</p>
Liquidity Risk	<p>The risk that the company may not be able to meet short-term financial obligations. This usually occurs with the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.</p> <p>Adequate liquidity depends on the institution's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial position.</p> <p>With the intervention of Softlogic Holdings Group, we were able to keep the liquidity levels at optimum level.</p>	<p>The Treasury Unit under the purview of the CEO along with the consultation of the Group Treasury Department, daily monitors the liquidity position and takes appropriate action with the advice of the Deputy Chairman, CEO, COO and CFO.</p> <p>The primary role of Treasury Unit is to</p> <ol style="list-style-type: none"> (1) Prospectively assess the need for funds to meet obligations (2) Ensure the availability of cash or collateral to fulfill those needs at the appropriate time by coordinating the various sources of funds available to the institution under normal and stressed conditions.
	<p>Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. These are risks relating to people, systems and processes through which we operate.</p>	

Type of Risk	Definition and Possible Impact	Mitigation Strategy
Operational Risks	<p>People</p> <p>We believe that the human resources are our enduring advantage and therefore it is essential that we develop and maintain management capability across our Company. Recognising, developing and retaining talented managers with an appropriate succession plan are essential for the present and future development of the Company.</p>	<p>We believe in building leadership and a talent pool through our Company training initiatives. Sustaining a strong culture of accountability, empowerment and personal development is fundamental to our Human Resource Management. A clear succession plan for key management positions is in place.</p>
	<p>Failure in human resource will affect the profitability as well as the reputation of the company.</p>	<p>The Head of Human Resource regularly reviews HR policies and procedures. We ensure that adequate processes are in place to understand and respond to employee needs. The staff recognition and rewarding are done with the assistance of annual performance reviews.</p>
	<p>Processes</p> <p>Inadequate or failed processes will eliminate the efficiency of the operations. All products-related processes and procedures should be in place to achieve faster turnaround time and to reduce operational loss events.</p>	<p>All the important processes in the organisation have been documented and these are reviewed periodically to ensure that operations/activities are carried out seamlessly. 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 which has enabled us to have an effective operations monitoring system. Continuous re-engineering of processes and controls are critical to ensure efficiency and productivity in the Operations and to eliminate possibility of frauds. Strict adherence to laid down processes and regular review by Internal audit and Risk department.</p>
	<p>Systems and Information Security</p> <p>Increasing sophistication of cyber-attack capabilities, disruption of information technology (IT) systems and a loss of valuable and sensitive information and assets could lead to significant business disruption. These can have a negative impact on business cash flows and financial position with loss of competitive advantage and reputational damage through the publicised loss of key operating systems and confidential data.</p>	<p>The Company approves and reviews the IT strategy on a regular basis to ensure investment in IT systems and innovations to improve business efficiency. The Head of IT and the IT Security Manager monitors and controls the integrity of the IT infrastructure and data.</p>

Softlogic Finance Risk Profile Contd.

Type of Risk	Definition and Possible Impact	Mitigation Strategy
Compliance Risk	<p>Compliance Risk is defined as the risk of legal sanctions, material financial loss, or loss to reputation the Company may suffer as a result of its failure to comply with laws, its own regulations, code of conduct, and standards of best/ good practice.</p> <p>Though the amount seems unquantifiable it is a major concern for the entire financial industry.</p>	<p>The compliance function has a formal status within the company to give it the appropriate standing, authority and independence and it has been set out in the Compliance Policy. All the operational processes and best practices have been documented and communicated to the staff and the Compliance Department is monitoring these same with the assistance of our Internal Audit division</p>
Political, Environmental, and Regulatory Risk	<p>Our business sectors may be affected by legal or regulatory changes and political developments of the country.</p>	<p>We engage with government organisations to represent the views of our organisation. Our close relationship with Central Bank of Sri Lanka has been very cordial and identified regulatory risks are closely monitored by compliance officers.</p>
Reputational Risk	<p>Damages to the "Softlogic Finance" brand arising from any association, action or inaction perceived by stakeholders to be inappropriate or unethical could lead to loss of trust and confidence or a decline in our customer base and will affect our ability to maintain existing or establish new business relationships and continued access to sources of funding.</p> <p>Unlike other risk types, the reputation risk will affect the Softlogic Holdings Group as a whole.</p>	<p>Softlogic Finance values have been embedded in how we do business at all levels. Strong Corporate Governance and Risk Management practices are promoted across all levels of the Company while significant investments have been made in enhancing the Company's brand image through well thought out marketing strategies.</p> <p>Our Company values, guide our employees in dealing with customers, employees, suppliers and society at large. Social media publicity and displays are monitored. We respond to customer complaints promptly through our customer complaint handling unit.</p>
Business Continuity Plan (BCP) and Disaster Recovery	<p>A major incident that could have severe implications on our business will interrupt the business for a considerable time, which may lead to losses in financial and potential new businesses.</p>	<p>Appropriate business continuity and disaster recovery plans are tested and in place. Alternative plans for uninterrupted system and database access are in place as well.</p>

Risk Management Process

The identified risks are reviewed by the internal Risk Committee after which they are submitted to the Board Risk Committee for review on a regular basis.

Initiatives carried out to aid in the Company's Risk Management process have been listed out below.

A. Risk Management Charter and Policy

A Risk Management Charter, which outlines the purpose, members, responsibilities, duties and powers of the Integrated Risk Management has been approved by the Board of Directors of Softlogic Finance.

A Risk Management Policy is in place, which outlines the risk framework that will be applied at Softlogic Finance PLC. The policy also formalises the Risk Management processes, standards, roles and responsibilities, whilst assisting the efficient management and mitigation of risks. The policy is reviewed on an annual basis and revised accordingly.

B. Risk Assessment Basis

Individual Credit Risk assessments are being carried out for facilities over Rs 2.0 million, by an independent unit, headed by Senior Manager Credit Risk to ensure that a proper pre disbursement analysis is carried out to minimise risks. Risk evaluation has been amalgamated into the credit proposal, which are reviewed by the line management prior to granting approval. Post disbursement credit risk management involves monitoring and follow-up through regular MIS and independent reviews by the Group subcommittee, on credit.

Operational risks are assessed according to a prioritised list, which is derived from the Risk Register. All the other assessments (i.e. new product developments, branch expansions, etc.) are carried out by the Integrated Risk Management Committee with the support of the Risk Management division.

C Risk Register

The Risk Register has become essential as it records identified risks, their severity, and the actions to be taken. The register provides an outline through which problems that threaten the delivery of the anticipated benefits are captured. As the first step towards achieving an enterprise risk management framework, we have identified the main risks under each department. This allows the company to identify the main areas that need attention to mitigate any future losses as well as opportunities to gain through identifying new control measures. These risks have been scored and analysed to achieve optimal decision making.

Risk Scoring Matrix

Severity		Probability		
	Rating	1	2	3
		Low	Moderate	High
Major	4	4	8	12
Moderate	3	3	6	9
Minor	2	2	4	6
Negligible	1	1	2	3

	1 - 4	Low Risk
	5 - 8	Moderate Risk
	9 - 12	High Risk

Using the Risk Scoring Matrix, critical functions of the company are evaluated and risk weighting is given. This process helps early detection of risk across the company where appropriate actions are then instigated to reduce the probability and the potential impact of specific risks. Interdependencies are to be taken into account and risk concentration or accumulation of risks is to be continuously analysed and evaluated.

Risk Management Process Contd.

D. Risk Appetite and Tolerance

The Company's risk appetite and tolerance levels are discussed, set and approved by the Board Risk Committee. The Board Risk Committee reviews these levels periodically while the Internal Risk Management Committee is responsible for continuous monitoring and reporting of these limits as well as any business responses in times where these limits may be significantly challenged.

The limits are set considering regulatory requirements, best practices, industry benchmarks and internal benchmarks as appropriate. The limits are reviewed annually and linked to the overall strategy of the Company.

Integrated Risk Management Committee

The Board delegated its authority to the Integrated Risk management Committee, which is responsible for developing and monitoring the Company's Risk Management framework.

Meetings of IRMC are held quarterly, and the Board of Directors is duly updated of its activities.

Its main responsibilities are:

- A. Review the risk identification and management process to confirm that it is consistent with the Company's objectives, strategies and business plan.
- B. Review the Management's assessment of risk at least annually and provide an update to the Board in this regard.
- C. Inquire from the Management and the Independent Auditor about significant business, financial and control risks or exposure to risks.
- D. Oversee and monitor the documentation process of the material risks that the Company faces and update as events change and risks shift.
- E. Assess the steps, which have been implemented to manage and mitigate identifiable risks, including insurance.
- F. Oversee and monitor the Management's review, at least annually, pertaining to the Company's risk management policies (for identification, monitoring, and mitigation of risks).
- G. Review the following with the Management, with the objective of obtaining reasonable assurance that financial risk is being effectively managed and controlled:
 - a) Management's tolerance for financial risks
 - b) Management's assessment of significant financial risks facing the Company
 - c) The Company's policies, plans, processes and any proposed changes to those policies for the control of significant financial risks.

ACCOUNTABILITY & TRANSPARENCY

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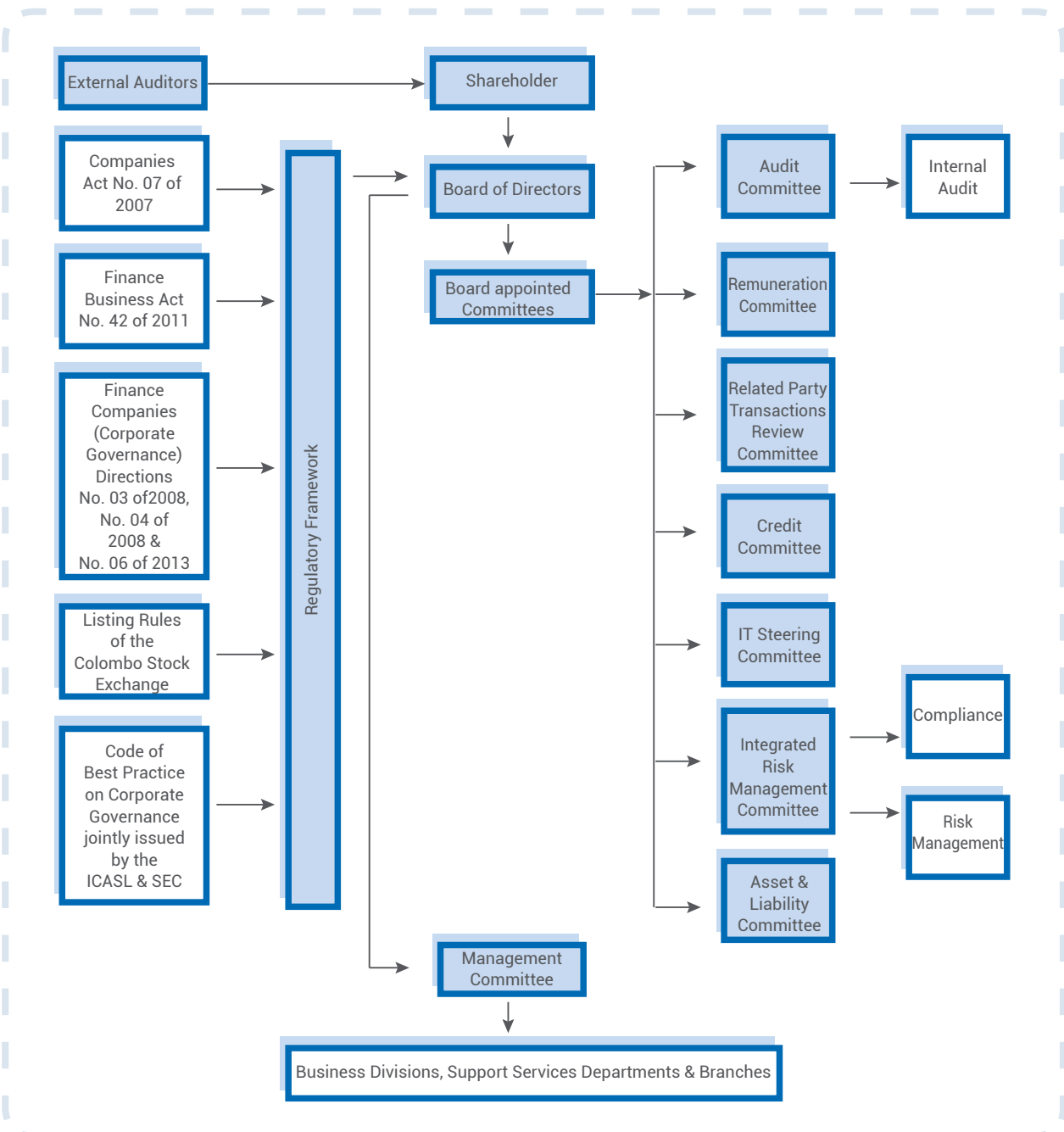


CORPORATE GOVERNANCE PHILOSOPHY

Governance Framework

We strongly believe that accountability, transparency and ethical corporate behaviour serve as the cornerstones for creating organisational value. The corporate governance framework that is in place serves as the foundation to operationalise the internal control and risk management mechanisms in the organisation. The necessary checks and balances in place have been designed specifically to monitor and assess the performance execution and delivery of the value creation activities that we undertake.

The overall responsibility and oversight on sound corporate governance rests with the Board. The regulatory framework under which the company operates provides the scope for the definition of this governance mandate. The governance framework that is in place highlights the policies, processes and the board appointed committees in place to give effect to this mandate.



Governance Philosophy and Best Practices

Broadly, the Board plays a dual role. One is to ensure that the company operates within the applicable regulatory framework and the other is to ensure that it provides strategic direction to the company to create value and achieve its corporate objectives. Thus, playing this dual role involves driving performance delivery, whilst ensuring effective risk management, responsible resource utilisation and overall transparency and accountability towards its stakeholders.

Corporate Governance as a philosophy is embedded in the manner in which the company operates. Our policies, procedures and internal controls in place bear witness to the fact that we advocate responsibility, transparency and accountability right throughout the organisation, at all levels. These policies and procedures are not only in place to deliver operational excellence but also to ensure conformance with all applicable regulations.

Our quest for instilling a culture of accountability and transparency does not stop there. At every juncture, we strive to go beyond mere compliance with regulations and adopt industry best practices in our value creation activities.

Board of Directors

The highest decision making body of the company is responsible for providing guidance and ensuring that the adequate systems and procedures are in place to achieve the corporate objectives, within an environment where regulatory compliance and good governance are adhered to. Its primary objective is to ensure that the shareholders are rewarded with sustainable and superior returns, whilst maintaining transparency in business and acting responsibly. In order to ensure that its obligations are fulfilled, the Board has set up seven board appointed committees. These committees ensure that performance delivery of our value creation process is monitored and internal control mechanisms are effective.

The Directors' statement on internal controls is given in page 121 and the statement of Directors' responsibilities is given in page 134.

The table at the end of this section in page 94 provides the attendance details of each director at Board meetings.

Internal Audit Function

The internal audit function of the company is an independent body in place that directly reports to the Board Audit Committee. Its overall mandate is to provide objective risk based monitoring and assessments of the risk management and internal control mechanisms in place.

The internal audit department carries out continuous testing and evaluation of the effectiveness and adherence to the procedures, internal controls and risk management mechanisms in place. Further, it proposes actionable improvements to the internal control, risk management and governance structure of the company as a whole, in the context of applicable regulations.

Compliance Management

The compliance management function of the company plays an integral role in the internal control mechanisms in place. Broadly, this function is responsible in ensuring that all business operations and internal policies and procedures adhere to the applicable laws and regulations. This involves the adoption of new regulations and driving change into the existing processes so that they are in compliance with the applicable regulations. This extends to constant monitoring and reporting on all regulated activities across the company. Operationally, the compliance management function is also responsible for the preparation of all Central Bank mandated financial reporting.

CORPORATE GOVERNANCE PHILOSOPHY Contd.

During the year under review, the Board met 12 times and the attendance of each Director at these meetings was as follows:

Name of Director	Nature of the Directorship	Attendance
Mr. A K Pathirage (Chairman)	Non-Executive Director	12
Mr. G L H Premaratne (Deputy Chairman)	Executive Director	11
Mr. N H G Wijekoon (CEO)	Executive Director	12
Mr. T M I Ahamed	Executive Director	10
Mr. B H S Jayawardena	Non-Executive Director	12
Mr. C J E Corea	Independent Non-Executive Director	12
Mr. D T C Soza	Independent Non-Executive Director	11
Mr. H K M Perera (appointed w.e.f. 15 March 2016)	Executive Director	1
Mr. S N P Palihena	Independent Non-Executive Director	12
Mr. S Wickramasinghe (resigned w.e.f. 13 August 2015)	Executive Director	3



The **compliance management function** of the company plays an **integral role** in the **internal control mechanisms** in place.

CORPORATE GOVERNANCE DISCLOSURES

Disclosures mandated by the Companies Act No. 07 of 2007

Applicable Section	Disclosure Requirements	Disclosure Reference Page
168 (1)(a)	The nature of the business of the company and any change thereof during the accounting period	Page 135
168 (1)(b)	Signed financial statements of the company for the accounting period completed	Page 143 to 197
168 (1)(c)	Auditor's report on the financial statements of the company	Page 142
168 (1)(d)	Applicable accounting policies and any changes therein made during the accounting period	Page 147 to 160
168 (1)(e)	Particulars of entries in the interests register made during the accounting period	Page 136
168 (1)(f)	Remuneration and other benefits of directors during the accounting period	Page 191
168 (1)(g)	Total amount of donations made by the company during the accounting period	Page 137
168 (1)(h)	Names of the persons holding office as directors of the company as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the company during the accounting period	Page 136 to 94
168 (1)(i)	Amounts paid/ payable to the external auditor as audit fees and fees paid/ payable for other services provided by the external auditor during the accounting period	Page 137
168 (1)(j)	Any relationship (other than being the auditor) that the auditor has with or any interests which the auditor has in the company	Page 137
168 (1)(k)	Acknowledgement of the contents of the Annual Report and signed on behalf of the board by two directors of the company and the secretary of the company	Page 139

Disclosures mandated by the Sections 7.6 and 7.10 of the Listing Rules of the Colombo Stock Exchange

Stated below are the disclosures as per Section 7.6 of the Listing Rules with regard to content on the Annual Report

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
7.6 (i)	Names of persons who during the financial year were directors of the Entity	Compliant	This is stated in page 94
7.6 (ii)	Principal activities of the Entity during the year and any changes therein	Compliant	This is stated in the Annual Report of the Board of Directors in page 135
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Compliant	This is stated in the Investor Information section in page 201
7.6 (iv)	The Public Holding percentage	Compliant	This is stated in the Investor Information section in page 200
7.6 (v)	A statement of each director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of the financial year	Compliant	This is stated in the Annual Report of the Board of Directors in page 136

CORPORATE GOVERNANCE DISCLOSURES Contd.

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Compliant	This is stated in the Intergrated Risk Management section from page 82 to 90 and in the Integrated Risk Management Committee Report in page 133
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity	Compliant	Details relating to employees and employee relations are stated in the Human Capital section from page 69 to 72. There were no material issues relating to industrial relations of the entity.
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Compliant	This is stated in Note No:21 in pages 170 to 172
7.6 (ix)	Number of shares representing the Entity's stated capital	Compliant	This is stated in Note No: 28 in page 177
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings as at the end of the year	Compliant	This is stated in the Investor Relations section in page 200
7.6 (xi)	Ratios and market price information on:	Compliant	This is stated in the Investor Relations section in pages 201 to 202
	Equity: Dividend per share, Dividend payout ratio, Net asset value per share, Market value per share	Compliant	This is stated in the Investor Relations section in page 201
	Debt: Interest rate of comparable government security, Debt/equity ratio, Interest cover, Quick asset ratio, market prices & yield during the year	Compliant	This is stated in the Investor Relations section in page 202
	Any changes to the credit rating	Compliant	Not applicable
7.6 (xii)	Significant changes in the Entity's fixed assets and the market value of land, if the value differs substantially from the book value	Compliant	This is stated in Note No 21 in pages 170 to 172
7.6 (xiii)	Details of funds raised by the entity either through a public issue, Rights Issue or a private placement during the year	Compliant	This is stated in Note No 28 in page 177
7.6 (xiv)	Information with regard to employee share option or employee share purchase schemes	Not Applicable	The company does not have any employee share option or employee share purchase scheme
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	Compliant	This is stated from page 95 to 98
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	Not Applicable	The company did not have any related party transactions exceeding these thresholds during the financial year.

Stated below are the disclosures as per Section 7.10 of the Listing Rules with regard to Corporate Governance requirements

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
7.10.1 (a)	The board of directors of a Listed Entity shall include at least two non-executive directors or such number of non-executive directors equivalent to one third of the total number of directors whichever is higher	Compliant	The Board comprises of 5 non-executive directors
7.10.2 (a)	Two or one-third of Non-Executive Directors appointed to the board of directors, whichever is higher, should be independent	Compliant	The Board comprises of 3 independent non-executive directors
7.10.2 (b)	Each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria	Compliant	All non-executive directors have submitted their declarations during the year under review
7.10.3 (a)	The board shall make a determination annually as to the independence or non-independence of each non-executive director based on such declaration and other information available to the board and shall set out in the annual report the names of directors determined to be 'independent'	Compliant	Based on the determination carried out by the Board as per the stipulated direction, the names of directors determined to be 'independent' have been stated in page 136 of this report
7.10.3 (b)	In the event a director does not qualify as 'independent' against any of the criteria set out below but if the board, taking account all the circumstances, is of the opinion that the director is nevertheless 'independent', the board shall specify the criteria not met and the basis for its determination in the annual report	Not Applicable	No such determination was required to be made by the board as the independent directors of the company met the specified criteria
7.10.3 (c)	The board shall publish in its annual report a brief resume of each director on its board which includes information on the nature of his/her expertise in relevant functional areas	Compliant	Please refer the profiles of the board of directors laid out in pages 30 to 31
7.10.3 (d)	Upon appointment of a new director to its board, the Entity shall forthwith provide to the Exchange a brief resume of such director for dissemination to the public	Compliant	There was one new director appointed to the board and the company disclosed this to the Exchange, along with a profile of that director
7.10.5	A listed company shall have a Remuneration Committee	Compliant	The composition of this committee is stated in page 139 of this report
7.10.5 (a)	Shall comprise a minimum of two Independent Non- Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher	Compliant	The Remuneration Committee comprises of 2 independent non-executive directors
7.10.5 (b)	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and the Executive Directors, to the board	Compliant	Please refer the Remuneration Committee Report in page 126 of this report

CORPORATE GOVERNANCE DISCLOSURES Contd.

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
7.10.5 (c)	The annual report shall set out:	Compliant	The composition of this committee is stated in page 139 of this report
	(i) The names of the Directors that comprise the Remuneration Committee		
	(ii) A statement of remuneration policy		
7.10.5 (c)	(iii) Aggregate remuneration paid to Executive and Non- Executive Directors	Compliant	Please refer page 191 of this report
	A listed company shall have an Audit Committee	Compliant	The composition of the Audit Committee is stated in page 139 of this report
	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors, or a majority of Independent Non-Executive Directors, whichever is higher	Compliant	The Audit Committee contains 3 independent non-executive directors
7.10.6	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings	Compliant	Both these officers attend Audit Committee meetings by invitation
	One non-executive director shall be appointed as Chairman of the committee by the board of directors	Compliant	The chairman of the Audit Committee is an independent non-executive director
	The Chairman or one member of the Committee should be a member of a recognised professional accounting body	Compliant	Two members of the Audit Committee including the Committee Chairman, are members of recognised professional accounting bodies
7.10.6 (b)	The functions of the Audit Committee shall be as set out in section 7.10.6 of the Listing Rules	Compliant	Please refer the Audit Committee Report from page 123 to 124 in this report
7.10.6 (c)	The names of the directors comprising the audit committee should be disclosed in the annual report	Compliant	Please refer the Audit Committee Report from page 123 to 124 in this report
	The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report	Compliant	Please refer the Audit Committee Report from page 123 to 124 in this report
	The annual report shall contain a report by the audit committee, setting out the manner of compliance by the Entity, during the period to which the annual report relates	Compliant	Please refer the Audit Committee Report from page 123 to 124 in this report

Disclosures as per Finance Companies (Corporate Governance) Direction No. 03 of 2008 as amended by Directions No. 04 of 2008 and No. 06 of 2013 issued by the Central Bank of Sri Lanka

Paragraph Reference	Guiding Principle	Status & Details of Compliance
The Responsibilities of the Board of Directors		
2 (1)(a)	Approving & overseeing the finance company's strategic objectives & corporate values & ensuring that such objectives & values are communicated throughout the company.	COMPLIANT The Board is responsible for formulating strategy, ensuring the adequacy of the risk management processes, review of the internal control system & defining the responsibility of the Corporate Management. The Company's strategic objectives & corporate values which are derived from the vision & mission statement have been communicated to all staff members throughout the company.
2 (1)(b)	Approving the overall business strategy of the company, including the overall risk policy & risk management procedures & mechanisms with measurable goals, for at least immediate next three years.	COMPLIANT During the year, the Board approved a 3 year strategic plan. The business strategy is reviewed monthly by the board with updates at Board meetings on execution of the agreed strategy. Further the risk management policy, procedures and mechanisms with time bound implementation milestones are approved and monitored by the Integrated Risk Management committee.
2 (1)(c)	Identifying risks & ensuring implementation of appropriate systems to manage the risks prudently.	COMPLIANT The Board takes responsibility for the overall risk framework of the Company. The Integrated Risk Management Committee ensures risks in credit, operational, market, strategic & other areas are within the approved risk appetite set out by the Board.
2 (1)(c)	Identifying risks & ensuring implementation of appropriate systems to manage the risks prudently.	COMPLIANT The Board takes responsibility for the overall risk framework of the Company. The Integrated Risk Management Committee ensures risks in credit, operational, market, strategic & other areas are within the approved risk appetite set out by the Board.
2 (1)(d)	Approving a policy of communication with all stakeholders, including depositors, creditors, share-holders & borrowers.	COMPLIANT The board has approved respective policies for dealing with different types of stakeholders & the AGM is used to have an effective dialogue with the shareholders.
2 (1)(e)	Reviewing the adequacy & the integrity of the finance company's internal control systems & management information systems.	COMPLIANT The Internal Audit Division carries out regular reviews on the internal control system including internal controls over financial reporting. The Audit Committee monitors, reviews & evaluates the effectiveness of internal control system.
2 (1)(f)	Identifying & designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; & (iii) exercise control over business activities, operations & risk management	COMPLIANT The directors (including Executive & Non-Executive Directors) & their immediate family members have been classified as KMPs in the company's financial statements.

CORPORATE GOVERNANCE DISCLOSURES Contd.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
2 (1)(g)	Defining the areas of authority & key responsibilities for the Board & for the key management personnel	COMPLIANT Duties & responsibilities of the Board of Directors are included in the Articles of Association. Areas of authority & key responsibilities of the KMPs are included in their own appointment letters approved by the chairman & authority limits are approved by the Board.
2 (1)(h)	Ensuring that there is appropriate oversight of the affairs of the company by key management personnel, that is consistent with the company's policy	COMPLIANT Affairs of the company are reviewed by the Board on a monthly basis. Company affairs & operations are also reviewed by the management committee of the company twice a month.
2 (1)(i)	Periodically assessing the effectiveness of its governance practices, including:	COMPLIANT
2 (1)(i)(i)	The selection, nomination & election of directors & appointment of key management personnel	The effectiveness of the Board's own governance practices, including the process for selection, nomination & election of directors & the process for managing conflicts of interest are reviewed by the board on a periodic basis for the purposes of internal control & reporting to the Central Bank. A self-assessment policy has also been put in place for all directors.
2 (1)(i)(ii)	The management of conflicts of interests	
2 (1)(i)(iii)	The determination of weaknesses & implementation of changes where necessary	
2 (1)(j)	Ensuring that the finance company has an appropriate succession plan for key management personnel	COMPLIANT The Board has implemented a structured approach towards succession planning of the Corporate Management team & has developed a succession plan. Thus a layer of senior managers have been developed, who can be promoted to key positions in the future.
2 (1)(k)	Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives	COMPLIANT Management committee meetings are held every 2 weeks and 4 executive directors take part in discussions & reviews of business operations. Further, in monthly Board meetings, the Executive Directors sum up the discussions of management committee meetings.
2 (1)(l)	Understanding the regulatory environment	COMPLIANT A procedure has been put in place for directors to seek independent professional advice, at the Company's expense. Further, a team has been established, headed by the compliance officer to maintain an active relationship with regulators
2 (1)(m)	Exercising due diligence in the hiring and oversight of external auditors	COMPLIANT The Audit Committee has considered the External Auditor's independence, objectivity & the effectiveness of the audit process, taking into account relevant professional & regulatory requirements in the appointment of the auditor.
2 (2)	The Board shall appoint the chairman & the chief executive officer & define & approve their functions & responsibilities in line with the applicable requirements of this Direction	COMPLIANT The board has appointed a Chairman and a CEO. The board has delegated responsibility & functions to the CEO and the Chairman in line with the applicable directions.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
2 (3)	There shall be a procedure determined by the Board to enable directors, to seek independent professional advice in appropriate circumstances, at the company's expense.	COMPLIANT The board has established a procedure for Directors to seek independent professional advice in furtherance of their duties, at the company's expense.
2 (4)	A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, & he shall not be counted in the quorum for the relevant agenda item at the Board meeting	COMPLIANT Any director with a material personal interest in a matter being considered by the Board declares his interest & he does not participate in discussions or vote on that specific matter.
2 (5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction & control of the finance company is firmly under its authority	COMPLIANT The Board's power & matters specifically reserved to it have been set out in the Articles of Association.
2 (6)	The Board is to disclose to the Director of the Department of Supervision of Non-Bank Financial Institutions, any situation of insolvency, before taking any decision or action	COMPLIANT No such situation of insolvency has arisen during the year under review for the company to inform the Director of the Dept. of Supervision of Non-Bank Financial Institutions.
2 (7)	The Board shall include in the Annual Report, an annual corporate governance report setting out the compliance with this Direction	COMPLIANT The annual corporate governance report, which forms an integral part of the annual report, has been published in the annual report.
2 (8)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, & maintain records of such assessments	COMPLIANT The board has implemented such an annual self-assessment on its performance in discharge of its key responsibilities. Each Director carries out a self-assessment of "Fitness & propriety to serve as a Director of the Finance Company".
Meetings of the Board		
3 (1)	The Board shall meet at least twelve times a financial year at approximately monthly intervals	COMPLIANT The board met 12 times during the year under review.
3 (2)	The Board shall ensure that arrangements are in place to enable all directors to include matters & proposals in the agenda for regular Board meetings	COMPLIANT Proposals from all Directors on promotion of business and management of risk & other relevant areas are included where relevant in the agenda for regular meetings.
3 (3)	Notice of at least 7 days shall be given for a regular Board meeting. For all other Board meetings, a reasonable notice shall be given.	COMPLIANT Directors are given at least 7 days of notice for regular meetings. For all other meetings, a reasonable notice period is given.
3 (4)	A director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director.	COMPLIANT All directors have attended at least two-thirds of the meetings held during 2015/16. Further, no director has been absent from three consecutive regular board meetings.

CORPORATE GOVERNANCE DISCLOSURES Contd.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
3 (5)	The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board & shareholder meetings.	COMPLIANT The board has appointed a company secretary – Softlogic Corporate Services (Pvt) Ltd. All Directors have access to the Board Secretary, who is an Attorney – at – Law by profession.
3 (6)	If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function	COMPLIANT The Chairman has delegated the function of preparing the Agenda for the board meeting to the secretary and this agenda, together with the notice, is prepared, based on the advice of the chairman.
3 (7)	All directors shall have access to advice & services of the company secretary	COMPLIANT The company secretary's services are available to all Directors, particularly the Non – Executive Directors who need additional support to ensure they receive timely & accurate information to fulfill their duties.
3 (8)	The company secretary shall maintain the minutes of Board meetings & such minutes shall be open for inspection by any director	COMPLIANT The Board minutes are adequately maintained & open for inspection by any Director.
3 (9)	Minutes of Board meetings shall be recorded in sufficient detail as per the detailed requirements of Paragraph 3(9) of this Direction	COMPLIANT Minutes of the Board meetings were maintained with sufficient detail as detailed out in Paragraph 3(9) by the board secretary.
Composition of the Board		
4 (1)	The number of directors on the Board shall not be less than 5 & not more than 13	COMPLIANT As at 31st March 2016, the board comprised of 9 directors.
4 (2)	Total period of service of a director other than a director who holds the position of chief executive officer or executive director shall not exceed nine years.	COMPLIANT There was only one director who has exceeded the service period of 9 years (Mr. N.H.G. Wijekoon), but he is an Executive Director and CEO. Hence, this requirement is complied with.
4 (3)	Appointment, election or nomination of an employee as a director and the qualifications applicable thereto.	COMPLIANT In composition of the board, Executive Directors do not exceed one half of the number of directors of the board.
4 (4)	The number of independent non-executive directors of the Board shall be at least one fourth of the total no. of directors. The criteria for assessing the independency of a non-executive director.	COMPLIANT The Board includes three Independent Non-Executive Directors as per the definition of this Direction, which is more than one fourth of the Board. The Board considers Non-Executive Director's independence at the time of their appointment as well as annually in their declarations. The criteria for assessing the independency of a non-executive director have been complied with.
4 (5)	Situations where an alternate director is appointed to represent an independent non-executive director	COMPLIANT No alternate directors were appointed during the year under review.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
4 (6)	Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources	COMPLIANT Non-executive directors' professional qualifications background and their experience in the finance sector have provided them with the ability to bring forth an objective judgment to bear on issues of strategy, performance & resources.
4 (7)	A meeting of the Board shall not be duly constituted, unless at least one half of the no. of directors that constitute the quorum are non-executive directors.	COMPLIANT The Company has complied with this requirement in all the board meetings and the quorum is 2 where at least 1 non-executive director should be present at the meetings.
4 (8)	The independent non-executive directors to be identified as such in all corporate communications containing the names of directors. Disclosure to be made of the board composition in the annual corporate governance report.	COMPLIANT Company has properly disclosed the information required on board composition in its Annual Report. Independent non-executive directors have been identified as such in corporate communications.
4 (9)	Availability of formal, considered and transparent procedure for the appointment of new directors to the Board. Also to contain procedures for the orderly succession to the Board.	COMPLIANT The Articles of Association of the company states the procedure applicable to the selection & appointment of directors of the company. Formal announcement are made to the Central Bank & the Colombo Stock Exchange in this regard. Appointments are only made once Central Bank approval is obtained.
4 (10)	Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment	COMPLIANT This requirement has been complied with in the year under review.
4 (11)	Resignations/ removals of directors & reasons thereto, to be announced to shareholders and notification given to the Director of the Dept. of Supervision of Non-Bank Financial Institutions of the Central Bank.	COMPLIANT There was one resignation during the year under review & formal notice of this was given to the Colombo Stock Exchange and to the Central Bank.
Criteria to assess the fitness and propriety of directors		
5 (1)	A person over the age of 70 years shall not serve as a director.	COMPLIANT All directors are below age of 70. Hence requirement is complied with.
5 (2)	A director shall not hold office as a director or any other equivalent position in more than 20 entities	COMPLIANT As per the declaration made by the Directors, all directors are within the limit of 20 companies to hold directorship.
Delegation of functions		
6 (1)	The Board shall not delegate any matters to a board committee, CEO, executive directors or KMPs, to an extent that such delegation would significantly hinder or reduce the ability of the Board to discharge its functions	COMPLIANT Board has not delegated to an extent that such delegation would significantly hinder or reduce the ability of the board as a whole to discharge its functions.

CORPORATE GOVERNANCE DISCLOSURES Contd.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
6 (2)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant	COMPLIANT Periodic reviews of the delegation process are in place to ensure that they remain relevant to the needs of the finance company.
The Chairman and the Chief Executive Officer		
7 (1)	The roles of chairman and chief executive officer shall be separated	COMPLIANT The roles of the Chairman and the Chief Executive Officer are separate.
7 (2)	The chairman shall be a non-executive director. Where the chairman is not an independent non-executive director, an independent non-executive director is to be designated as the Senior Director. The Senior Director shall be disclosed in the Annual Report.	COMPLIANT The chairman is a non-executive director but not an independent non-executive director. Hence board has designated an independent non – executive director (Mr. Chris Corea) as the senior director with suitably documented Terms of Reference. This designation has been disclosed in the annual report.
7 (3)	Names of the chairman and the CEO & the nature of any relationship between them and any relationships among members of the board are to be disclosed.	COMPLIANT Board has a process to identify any relationship between the parties and it has been found that there are no material relationships between the chairman / CEO &/or other members of the Board, which will impair their respective roles.
7 (4)	The chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively & discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.	COMPLIANT The role of the chairman has been expressly stated and the board has established a self – evaluation process and this includes the evaluation of the effectiveness of the role played by the chairman.
7 (5)	Primary responsibility in the preparation of the board meeting agenda is to be with the chairman, but it could be delegated to the company secretary.	COMPLIANT The chairman has delegated the function of preparing the board meeting agenda to the company secretary. This agenda is approved by the chairman before circulation.
7 (6)	The chairman shall ensure that all directors are informed adequately & in a timely manner of the issues arising at each Board meeting	COMPLIANT Directors are informed adequately & in a timely manner about the issues arising at Board meetings through a continuous process through the company secretary.
7 (7)	The chairman shall encourage each director to make a full & active contribution to the Board's affairs & take the lead to ensure that the Board acts in the best interests of the company	COMPLIANT The agenda is approved by the chairman and he ensures that all directors actively contribute to the board's affairs and also ensures that the board acts in the best interests of the company. Also, the board has implemented an annual self–assessment on its performance in the discharge of its key responsibilities.
7 (8)	The chairman shall facilitate the effective contribution of non-executive directors in particular & ensure constructive relationships between executive & non-executive directors.	COMPLIANT The chairman ensures that constructive relationships are built between executive & non-executive directors and that substantial contribution comes from non-executive directors. Also, the board has implemented an annual self–assessment on its performance in the discharge of its key responsibilities.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
7 (9)	The chairman shall not engage in activities involving direct supervision of KMPs or any other executive duties.	COMPLIANT The Board has delegated this responsibility to the CEO who leads the Corporate Management team in making and executing operational decisions. No direct supervision of KMPs or any other executive duties are handled by the chairman.
7 (10)	The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	COMPLIANT Through the AGM and other meetings, the chairman ensures that the company's progress & strategy are effectively communicated to the shareholders & processes are in place to communicate through the company secretary, any shareholder concerns to the board.
7 (11)	The CEO shall function as the apex executive-in-charge of the day-to-day-management of the operations.	COMPLIANT The CEO functions as the primary executive in charge of the day-to-day activities of the company.
Board appointed Committees		
8 (1)	It is mandatory to have at least an Audit Committee and an Integrated Risk Management Committee directly reporting to the board and each are to have a secretary, functioning under the committee chairman. The board is to present a report on each committee at the AGM	COMPLIANT Board appointed committees include the Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Credit Committee, IT Steering Committee and the Related Party Transactions Review Committee. Each committee has a secretary who functions under the supervision of the committee chairman. A report on each of these committees is presented in the annual report.
Audit Committee		
8 (2)(a)	The chairman of the committee shall be a non-executive director who possesses qualifications & experience in accountancy &/ or audit	COMPLIANT The Chairman of the committee, Mr. C.J.E. Corea, is an independent non-executive director who is a member of Chartered Institute of Management Accountants (UK).
8 (2)(b)	The Board members appointed to the committee shall be non-executive directors	COMPLIANT The Audit Committee contains 4 non-executive directors.
8 (2)(c)	Responsible to make recommendations with regard to the: (i) Appointment of the external auditor (ii) Implementation of CBSL guidelines issued to auditors (iii) Application of relevant accounting standards (iv) Service period, audit fee & resignation/ dismissal of the auditor	COMPLIANT During the period under review, the audit committee has monitored & reviewed the external auditor's independence, objectivity & the effectiveness of the audit process taking in to account relevant professional & regulatory requirements. i) Committee has made recommendations in the appointment of the external auditor. ii) Committee monitors any issuing of CBSL guidelines with regard to auditors. Internal Auditors have carried out a compliance review in relation to central bank guidelines. iii) The Audit Committee oversees the application of accounting standards (SLFRS and LKAS) by the Company. iv) Committee monitors and is responsible for the service period, audit fee & resignation/ dismissal of the auditor.

CORPORATE GOVERNANCE DISCLOSURES Contd.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
8 (2)(d)	Reviewing & monitoring the external auditor's independence & objectivity & the effectiveness of the audit processes in accordance with applicable standards & best practices	COMPLIANT The committee regularly reviews & monitors the external auditor's independence, objectivity & the effectiveness of the audit processes.
8 (2)(e)	Responsibility of the Audit Committee to develop & implement a Board approved policy on the engagement of an external auditor for non-audit services, as per the criteria laid out in this rule.	COMPLIANT In the context of the criteria laid out in this rule, the committee has approved the engagement of the external auditor to provide non audit services.
8 (2)(f)	Responsibility of the committee to discuss & finalise with the external auditors, the nature & scope of the audit, in line with the requirements under this rule.	COMPLIANT The committee has discussed the audit approach & relevant procedures including matters relating to the scope & nature of the audit & the time plan for the audit.
8 (2)(g)	Responsibility of the committee to review the financial information in order to monitor the integrity of the financial statements, its annual report, accounts & periodical reports prepared for disclosure, & the significant financial reporting judgments contained therein, as per the criteria in this rule.	COMPLIANT The Audit committee has reviewed the company's annual report including financial statements, accounting policies (and changes therein) & significant adjustments arising from the audit & quarterly financial statements before the submission to the board for approval. Further, the committee considers the going concern assumption & compliance with relevant accounting standards & other legal requirements.
8 (2)(h)	The committee shall discuss issues, problems & reservations arising from the interim & final audits & any matters the auditor may wish to discuss.	COMPLIANT The committee has met the external auditors at the planning stage of the audit & at the final stage of the audit. At the planning stage, the auditors debrief the committee regarding the audit plan. At the final meeting with the Audit Committee, the auditors present the concerns they come up during the audit.
8 (2)(i)	The committee shall review the external auditor's management letter & the management's response thereto.	COMPLIANT Audit committee has reviewed the applicable management letter & the responses thereto with the external Auditor & the corporate Management team.
8 (2)(j)	The committee is responsible to take the following steps with regard to the internal audit function: (i) Review the adequacy of the scope, functions & resources of the internal audit dept. (ii) Review the internal audit programme & results of the internal audit process (iii) Review any appraisal or assessment of the performance of the head & senior staff members of the internal audit dept. (iv) Recommend any appointment or termination of the head, senior staff members & outsourced service providers to the internal audit function (v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit dept. including the chief internal auditor & any outsourced service providers. (vi) Ensure that the internal audit function is independent of the activities it audits	COMPLIANT i) The scope & the functions & resources of the internal audit department are set out in the Internal Audit department charter and have been reviewed. ii) Based on the presentation made by the Head of Internal Audit, the committee reviews the internal audit programs, results of the internal audit process & ensures that appropriate actions are taken on the recommendations of the internal audit. iii) The Committee has reviewed the performance appraisal of the head of internal audit & the senior staff members of the internal audit dept. iv) The Committee has recommended appointments of the head & senior staff members of the internal audit function. v) No resignations of the head of internal audit or any senior staff members happened during the year. In the event of such a resignation, they are afforded the opportunity to submit reasons for resigning. vi) The Internal Audit Dept. is independent from the activities it audits.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
8 (2)(k)	The committee shall consider the major findings of internal investigations & management's responses thereto	COMPLIANT Findings of the internal audits completed during the year & the internal audit dept.'s evaluation of the company's internal controls were reviewed by the Audit Committee in monthly meetings.
8 (2)(l)	Statement regarding those who can normally attend meetings and those who can attend by invitation. Once in 6 months, the committee is to meet with the external auditors without the presence of the executive directors.	COMPLIANT Criteria regarding those who can normally attend meetings & those who can attend by invitation have been followed. The committee has met the external auditors twice without the presence of any executive director (At the planning stage of the audit and at the final phase).
8 (2)(m)	The committee shall have: (i) authority to investigate any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; & (iv) authority to obtain external professional advice & to invite outsiders with relevant experience to attend.	COMPLIANT The Audit Committee is guided by its terms of reference which sets out authority & responsibility of the said Committee & these requirements have been represented in the terms of reference.
8 (2)(n)	The committee shall meet regularly, with due notice of issues to be discussed & shall record its conclusions in discharging its duties & responsibilities	COMPLIANT During the year under review, the committee has met 11 times & due notice of issues to be discussed were given & records kept regarding matters discussed & action taken.
8 (2)(o)	Annual Report to contain (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; & (iii) details of attendance of each individual member at such meetings.	COMPLIANT These details have been disclosed in the annual report in the audit committee report.
8 (2)(p)	The secretary to the committee shall keep detailed minutes of the committee meetings	COMPLIANT The company secretary, who acts as the secretary of this committee, maintains detailed minutes of all meetings.
8 (2)(q)	The committee shall review arrangements by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	COMPLIANT During the period under review, the Company has established a formal whistle blowing policy. Further, the audit committee reviews issues relating to breach of ethics if any & arrangements by which the staff may in confidence, raise concerns about possible improprieties.
Integrated Risk Management Committee		
8 (3)(a)	The committee shall consist of at least one non-executive director, CEO & KMPs supervising broad risk categories. Duty of the committee is to work with KMPs closely & make decisions on behalf of the Board within its assigned framework of authority.	COMPLIANT The committee comprises of 3 non-executive directors, the CEOs and officers supervising different risk categories. The terms of reference of this committee encompasses the duties assigned to it by this direction.

CORPORATE GOVERNANCE DISCLOSURES Contd.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
8 (3)(b)	The committee is to assess all risks on a monthly basis through appropriate risk indicators & management information.	COMPLIANT The Committee assesses & reviews on monthly basis, risk in terms of liquidity, credit, operational and strategic risk by variance reports. Also ensures that appropriate measures have been taken to mitigate any risks that are envisaged.
8 (3)(c)	The committee shall review the adequacy & effectiveness of all management level committees such as the credit committee & the asset-liability committee	COMPLIANT Through specified quantitative & qualitative parameters, the committee monitors the credit committee & the assets & liability committee.
8 (3)(d)	The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee.	COMPLIANT The committee has reviewed risk indicators which have gone beyond the specified quantitative and qualitative parameters and taken adequate, prompt action.
8 (3)(e)	The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	COMPLIANT The committee met quarterly in the period under review and has assessed and reviewed relevant detailed Management Information System reports.
8 (3)(f)	The committee shall take appropriate actions against the officers responsible for failure to identify specific risks & take prompt corrective actions as recommended by the committee	COMPLIANT 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. During the period under review, there were no such incidents reported.
8 (3)(g)	The committee shall submit a risk assessment report within a week of each meeting to the Board	COMPLIANT The proceedings of the Board appointed Integrated Risk Management Committee are reported to the Board.
8 (3)(h)	The committee shall establish a compliance function to assess the company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls & approved policies on all areas of business operations. A dedicated compliance officer selected from KMPs, to carry out the compliance function.	COMPLIANT A dedicated compliance officer has been appointed to overlook regulatory and other requirements. Any non – compliance / breaches will be directly reported to the CEO & the committee to take appropriate action depending on the type of breach committed.
Related Party Transactions		
9 (2)	The board is responsible to take necessary steps to avoid any conflicts of interest that may arise from any transaction between the company and a 'related party', as specified in this rule.	COMPLIANT In line with the criteria specified in this rule, steps have been taken by the Board to avoid any conflict of interest that may arise, in transacting with related parties as per the definition of this direction. Further the board ensures that the no related party benefits from favourable treatment & the terms of such transactions are similar to the usual terms between the company & any unrelated customer.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
9 (3)	The types of transactions with related parties, to which this Direction applies, are laid out in this rule.	COMPLIANT The Board has established a Related Party Transactions Review Committee to review related party transactions like the ones laid out in this rule
9 (4)	The Board shall ensure that the company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" (as defined in this rule) than that is accorded to other similar constituents of the company.	COMPLIANT A process is in place to review related party loans and advances, borrowings & deposits through a board paper and get it approved from the related party transactions review committee. This committee is mandated to ensure that such transactions do not involve "more favourable treatment" as stated in the direction.
Disclosures		
10 (1)	The Board shall ensure that: (a) annual audited financial statements & periodical financial statements are prepared & published as per the formats prescribed by the regulatory & supervisory authorities & applicable accounting standards, & that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil & English.	COMPLIANT The financial statements (final & periodical) are in conformity with all rules & regulatory requirements & the financial statements have been published in the newspapers in all three languages.
10 (2)	The Board is to ensure that the following disclosures are made in the Annual Report	
10 (2)(a)	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards & regulatory requirements, inclusive of specific disclosures.	COMPLIANT Compliance with applicable accounting standards and regulatory requirements has been reported in the "Management Responsibility for the Financial Statements" section in the audit report in the Annual Report.
10 (2)(b)	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, & that the preparation of financial statements has been done in accordance with relevant accounting principles & regulatory requirements.	COMPLIANT The report by the board on the company's internal control mechanism and other requirements as per this rule has been disclosed in the annual report.
10 (2)(c)	The external auditor's certification on the effectiveness of the internal control mechanism.	COMPLIANT The company has disclosed the fact that external auditors have issued a report on the effectiveness of the internal control mechanism.
10 (2)(d)	Details of directors, including names, transactions with the company	COMPLIANT Details of the directors are disclosed in the annual report. The Directors' transactions with the company and their remuneration have been disclosed in notes to the financial statements.
10 (2)(e)	Fees/remuneration paid by the company to the directors in aggregate.	COMPLIANT This has been disclosed in the notes to the financial statements in the annual report.

CORPORATE GOVERNANCE DISCLOSURES Contd.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
10 (2)(f)	Total net accommodation outstanding in respect of each category of related parties & the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	COMPLIANT These have been disclosed in Note No: 36 in the Notes to the Financial Statements in the annual report.
10 (2)(g)	Aggregate values of remuneration paid by the company to its KMPs & the aggregate values of the transactions of the company with its KMPs during the financial year	COMPLIANT The aggregate values of remuneration for the company's KMPs & the transactions with the company's KMPs have been disclosed in the financial statements in Note No: 36 in the Notes to the Financial Statements.
10 (2)(h)	A report setting out details of the compliance with prudential requirements, regulations, laws & internal controls & measures taken to rectify any non-compliance.	COMPLIANT The corporate governance report set out in the annual report contains details of compliance with applicable laws, regulations, the code of best practices on corporate governance issued by the ICASL & SEC & internal controls.
10 (2)(i)	A statement of the regulatory & supervisory concerns on lapses in the company's risk management, or non-compliance with the Finance Business Act & rules & directions that have been directed by the Monetary Board to be disclosed to the public.	COMPLIANT There were no regulatory/ supervisory concerns on lapses in the company's risk management or non-compliance with applicable laws & regulations that have been directed by the Central Bank as requiring disclosure to the public.
10 (2)(j)	External auditor's certification of the compliance with the Act, Rules & Directions.	COMPLIANT The external auditors have not stated any material inconsistencies or non-compliances with applicable acts, rules & directions.
11	Transitional Provisions – The company has complied with these transitional provisions.	

Level of compliance with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka

Ref No:	Guiding Principle	Degree of Compliance
Section 1:- The Company		
<i>A.1. The Board:- Every public company should be headed by an effective Board, which should direct, lead and control the company</i>		
A.1.1.	The Board should meet regularly, at least once every quarter in a financial year	During the year, the Board met 12 times, generally on a monthly basis.
A.1.2.	The Board's role and responsibilities	
	Ensuring the formulation and implementation of a sound business strategy	The Board sets the strategy of the company and drives and constantly monitors the company's 3 year strategic action plan. The various Board committees also play an important role in monitoring the execution of company strategy.
	Ensuring that the CEO and the management team possess the skills, experience and knowledge to implement the said strategy	The CEO and the senior management team possess the requisite skills and expertise in the industry and in business to drive the strategy in place. The management committee profiles are provided in pages 34 to 35
	Ensuring the adoption of an effective CEO and KMP succession strategy	The Board has implemented a structured approach towards succession planning of the senior management team & has developed a succession plan.
	Ensuring effective systems to secure integrity of information, internal controls, business continuity & risk management	The Board has in place a set of internal control and risk management policies and techniques to ensure business continuity and integrity. The internal audit, risk management and compliance departments additionally ensure that the requisite CBSL requirements in this regard are also implemented. The Audit Committee and the IRMC constantly monitors the effectiveness of the controls in place.
	Ensuring compliance with laws, regulations & ethical standards	The company's compliance department ensures that the requisite laws, regulations and industry best practices are followed.
	Ensuring all stakeholder interests are considered in corporate decisions	Giving due consideration to various stakeholder interests is a part of the decision making process of the company and how it engages with stakeholders is detailed in the Stakeholder Engagement section from pages 44 to 47
	Recognising sustainable business development in corporate strategy, decisions & activities	In its decision making process, the Board routinely considers the economic, social and environmental impacts that the business has. The "Creating Sustainable Value" section from pages 78 to 81 discusses this in detail.
	Ensuring that the company's values and standards are set, with emphasis on adopting appropriate accounting policies & fostering compliance with financial regulations	The company's Code of Business Ethics mandates the strict compliance to all laws and regulations. The company's accounting policies are reviewed annually and are in line with the applicable standards. The Independent Auditor's Report in page 142 subscribes to this fact.

CORPORATE GOVERNANCE DISCLOSURES Contd.

Ref No:	Guiding Principle	Degree of Compliance
	Fulfilling such other Board functions as are vital, given the scale, nature & complexity of the business concerned	The Board has expertise in diverse areas of business to more than adequately address any issue that could arise, given the nature of the industry that the company is in.
A.1.3.	The Board collectively and Directors individually must act in accordance with the applicable laws & a procedure agreed by the Board of Directors should be in place, to obtain independent professional advice, at the company's expense.	The Board has collectively and individually acted in accordance with all applicable laws and regulations and a procedure exists for the Directors to obtain independent advice.
A.1.4.	All Directors should have access to the advice and services of the Company Secretary. Any question of the removal of the Company Secretary should be a matter for the Board as a whole.	All Directors have direct access to the Company Secretary and both the appointment and removal of the Company Secretary is decided by the Board.
A.1.5.	All Directors should bring independent judgement to bear on issues of strategy, performance, resources & standards of business conduct.	All Directors bring forth independent judgement when assessing matters before it and always act in the best interest of the company.
A.1.6.	Every Director should dedicate adequate time and effort to matters of the Board and the company, to ensure that the duties and responsibilities owed to the company are satisfactorily discharged.	All Directors, whether Executive or Non-Executive dedicate adequate time and effort to ensure that their obligations pertaining to the functioning of the company are satisfactorily executed. The company ensures that the Directors receive the Board papers well in advance for effective review.
A.1.7.	Every Director should receive appropriate training when first appointed to the Board of a company, and subsequently as necessary. The Board should regularly review and agree on the training and development needs of the Directors.	Continuous self-development is decided upon by the Directors and executed. The Board is kept constantly updated on all industry and regulatory changes and their effects on company operations.
A.2. Chairman and the CEO:- There are two key tasks at the top of every public company –		
Conducting of the business of the Board, and facilitating executive responsibility for management of the company's business. There should be a clear division of responsibilities at the head of the company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.		
A.2.1.	A decision to combine the posts of Chairman and CEO in one person should be justified and highlighted in the Annual Report.	The posts of the Chairman and CEO are held by separate persons.
A.3. Chairman's Role: - The Chairman's role in preserving good Corporate Governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of the Board functions.		
A.3.1.	The Chairman should conduct Board proceedings in a proper manner with the effective participation of all members of the Board	The Chairman ensures that there is effective participation by all members of the Board and encourages and gives the opportunity for all members to be heard. A conducive atmosphere for healthy debate is created.
A.4. Financial Acumen		
	The Board should ensure the availability within it, of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	The Board has amongst its membership, 3 qualified accountants who provide the necessary financial acumen and guidance on matters of finance to the Board. Further, there are also 4 experienced bankers on the Board.

Ref No:	Guiding Principle	Degree of Compliance
A.5. Board Balance: - The Board is to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-making.		
A.5.1.	The Board should include Non-Executive Directors of sufficient calibre and number for their views to carry significant weight in the Board's decisions. The Board should include at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one third of total number of Directors, whichever is higher.	The Board contains 5 Non-Executive Directors who are highly experienced professionals in their respective fields. More than half of the Board's composition is made up of Non-Executive Directors.
A.5.2.	Where the constitution of the Board of Directors includes only two Non-Executive Directors, both such Non-Executive Directors should be 'independent'. In all other instances two or one third of Non-Executive Directors appointed to the Board of Directors whichever is higher should be 'independent'.	The Board consists of three Independent Non-Executive Directors and amounts to one third of the Board.
A.5.3.	For a Director to be deemed independent such Director should be independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.	The Independent Non-Executive Directors of the company fulfil this criteria and are in a position to exercise unfettered and independent judgement.
A.5.4.	Each Non-Executive Director should submit a signed and dated declaration annually of his independence or non-independence	The requisite declaration has been submitted by the Non-Executive Directors.
A.5.5.	The Board should make a determination annually as to the independence or non-independence of each Non-Executive Director based on such a declaration made and other information available to the Board and should set out in the Annual Report the names of Directors determined to be 'independent'.	The requisite determination has been made by the Board based on the declarations submitted and as per the applicable regulatory criteria. The names of the Independent Non-Executive Directors are set out in page 136 of the Annual Report.
A.5.6.	Appointment of an alternate director by a non-executive independent director.	No alternative Directors were appointed during the year under review.
A.5.7.	In the event the Chairman and CEO is the same person, the Board should appoint one of the independent Non-Executive Directors to be the 'Senior Independent Director' (SID) and disclose this appointment in the Annual Report.	The Chairman and the CEO are separate persons. The company does have a separate Senior Independent Director appointed as per the Finance Companies (Corporate Governance) Directions.
A.5.8.	The Senior Independent Director should make himself available for confidential discussions with other Directors who may have concerns which they believe have not been properly considered by the Board as a whole and which pertain to significant issues that are detrimental to the Company.	The Senior Independent Director is available for confidential discussions as necessary.
A.5.9.	The Chairman should hold meetings with the Non- Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	The Chairman consults the Non-Executive Directors to obtain their assessments on matters of importance as and when the need arises.

CORPORATE GOVERNANCE DISCLOSURES Contd.

Ref No:	Guiding Principle	Degree of Compliance
A.5.10	Where Directors have concerns about the matters of the company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board minutes.	The Directors always exercise independent, unfettered judgement when expressing their views during meetings and their concerns when matters cannot be unanimously resolved, are recorded in the Board minutes.
A.6. Supply of Information: - The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.		
A.6.1.	Management has an obligation to provide the Board with appropriate and timely information. The Chairman should ensure all Directors are properly briefed on issues arising at Board meetings.	The management ensures that the Board is provided with Board papers well in advance of the meetings and the Chairman ensures that all Directors are adequately briefed in all arising issues.
A.6.2.	The minutes, agenda and papers required for a Board meeting should ordinarily be provided to Directors at least seven (7) days before the meeting.	All necessary material for a Board meeting is normally provided to the Board, at least seven days before the meeting.
A.7. Appointments to the Board:- There should be a formal and transparent procedure for the appointment of new Directors to the Board.		
A.7.1.	A Nomination Committee should be established to make recommendations to the Board on all new Board appointments.	Even though the company does not have a separate Nomination Committee, the Nomination Committee of its holding company makes adequate recommendations when necessary, with regard to Board appointments.
A.7.2.	The Nomination Committee or in the absence of a Nomination Committee, the Board should annually assess board composition to ascertain whether the knowledge & experience of the Board matches the strategic demands facing the company.	The Board does an annual self-assessment of its performance and knowledge and decides upon whether it is strategically geared to face future challenges.
A.7.3.	Upon the appointment of a new Director to the Board, the company should disclose such appointment and the relevant details of the Director to shareholders.	All new appointments are immediately disclosed to the shareholders through the disclosures to the Colombo Stock Exchange.
A.8. Re-election:- All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.		
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and their reappointment should not be automatic.	The Board makes appointments of Non-Executive Directors in line with the Finance Companies (Corporate Governance) Directions and all Directors are subject to re-election as per the Articles of Association.
A.8.2	All Directors including the Chairman of the Board should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years.	The Articles of Association which specifies the timing and procedure for election and re-election of all Directors is in line with this principle.
A.9. Appraisal of Board Performance: - Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.		
A.9.1.	The Board should annually appraise itself on its performance	The Board has in place a system of self-assessment and appraisal.
A.9.2.	The Board should also undertake an annual self-evaluation of its own performance and that of its committees.	The Board undertakes annual self-evaluations of its own performance and that of its committees.

Ref No:	Guiding Principle	Degree of Compliance
A.9.3.	The Board should state how such performance evaluations have been conducted, in the Annual Report.	The Board has a system of performance evaluation that has been developed as per the Finance Companies (Corporate Governance) Directions.
A.10. Disclosure of Information in respect of Directors: - Shareholders should be kept advised of relevant details in respect of Directors.		
A.10.1.	Details with regard to each Director to be disclosed in the Annual Report.	The Directors' profiles are stated in pages 30 to 31
A.11. Appraisal of the CEO:- The Board should be required, at least annually, to assess the performance of the CEO.		
A.11.1	The Board in consultation with the CEO should set out the short, medium & long-term objectives of the company and reasonable financial and nonfinancial targets that should be met by the CEO.	The Board has set out financial and non-financial targets and short, medium and long term objectives that need to be achieved by the CEO.
A.11.2.	The performance of the CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets set by the Board have been achieved and if not, whether the failure to meet such targets was reasonable in the circumstances.	This is an ongoing process and performance at the end of the financial year is assessed by comparing company performance with budgeted targets.
B. Directors' Remuneration		
B.1. Remuneration Procedure:- Companies should establish a formal and transparent procedure for developing a policy on executive remuneration		
B.1.1.	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board, within agreed terms of reference, on the company's framework of remunerating Executive Directors.	A Remuneration Committee has been set up and its report is in page 126 of the Annual Report.
B.1.2.	Remuneration Committees should consist exclusively of Non-Executive Directors & should have a Chairman, who should be appointed by the Board.	The Remuneration Committee consists entirely of Non-Executive Directors and two out of the three Non-Executive Directors are Independent.
B.1.3.	The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year.	The members of the Remuneration Committee and its Chairman are listed in page 139 Of the Annual Report.
B.1.4.	The Board as a whole, should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association.	The Board decides upon the remuneration of the Non-Executive Directors and the Non-Executive Directors do not play a part in the determination of their own remuneration. This process is conducted as per the Articles of Association of the company.
B.1.5.	The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors and have access to professional advice	As per the terms of reference of the Remuneration Committee, it has access to professional advice and is free to consult the Chairman and/ or CEO as it feels fit.
B.2. The level & make-up of remuneration: - Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully.		
B.2.1.	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors of the quality required but should avoid paying more than is necessary for this purpose.	The remuneration policy of the company is structured in a manner to attract and retain high calibre professionals as Executive Directors, in line with industry standards.

CORPORATE GOVERNANCE DISCLOSURES Contd.

Ref No:	Guiding Principle	Degree of Compliance
B.2.2.	The Remuneration Committee should judge where to position levels of remuneration of the Company, relative to other companies.	Industry standards and trends are taken into consideration by the Remuneration Committee when deciding upon levels of remuneration and links are made between remuneration levels and performance.
B.2.3.	The Remuneration Committee should be sensitive to remuneration & employment conditions elsewhere in the company or group of which it is a part, especially when determining annual salary increases.	The Remuneration Committee takes into consideration the remuneration levels elsewhere in the group when determining remuneration levels and increments.
B.2.4.	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the company.	The performance related elements of remuneration have been designed in a way that individual performance and increases in company performance are positively linked.
B.2.5.	Executive share options should not be offered at a discount save as permitted by the Listing Rules of the CSE.	No executive share options exist in this company.
B.2.6.	In designing schemes of performance related remuneration, Remuneration Committees should follow the provisions set out in Schedule E of this code.	The Remuneration Policy of the company encapsulated the guidelines provided in Schedule E of the code.
B.2.7.	Remuneration Committee should consider what compensation commitments (including pension contributions) their Directors' contracts of service, if any, entail in the event of early termination.	These have been adequately considered when determining remuneration.
B.2.8.	Where the initial contract does not explicitly provide for compensation commitments, Remuneration Committee should, within legal constraints, tailor their approach in early termination cases to the relevant circumstances.	The Remuneration Policy of the company has been designed to be in line with all applicable legal requirements.
B.2.9.	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their role, taking into consideration market practices. Remuneration for Non-Executive Directors should not normally include share options.	The time, commitment and the responsibilities that the role entails are taken into consideration when determining the remuneration of Non-Executive Directors. Remuneration for Non-Executive Directors do not include share options.
B.3. Disclosure of remuneration:- The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole and a specimen of a remuneration committee report followed by schedule D		
B.3.1.	The Annual Report should set out the names of Directors comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.	The names of the Directors comprising the Remuneration Committee have been set out in page 139 The remuneration policy has been set out in page 126 The aggregate remuneration has been set out in page 191
C. Relations with shareholders		
C.1. Constructive use of the AGM & conduct of general meetings:- Boards should use the AGM to communicate with shareholders and should encourage their participation		
C.1.1.	Companies should count all proxy votes & should indicate the level of proxies lodged on each resolution & the balance for & against the resolution & withheld, after it has been dealt with on a show of hands, except where a poll is called.	The company has a mechanism in place to count all proxy votes and indicate the level of proxies lodged on each resolution, the balance for and against and withheld for each resolution.

Ref No:	Guiding Principle	Degree of Compliance
C.1.2.	Companies should propose a separate resolution at the AGM on each substantially separate issue & should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	A separate resolution is proposed for each separate resolution at the AGM and this applies to the adoption of the Annual Report of the Board of Directors and the accounts.
C.1.3.	The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	All the chairmen of the respective committees are available to answer any questions at the AGM.
C.1.4.	Companies should arrange for the Notice of the AGM & related papers to be sent to shareholders as determined by statute, before the meeting.	The notice of the AGM and the Annual Report are dispatched to shareholders in compliance with the applicable regulations.
C.1.5.	Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at General Meetings.	A summary of the procedures governing the voting at the AGM are given in the Notice of the AGM itself and circulated to all shareholders.
C.2. Communication with Shareholders:- The Board should implement effective communication with Shareholders		
C.2.1.	There should be a channel to reach all shareholders of the Company in order to disseminate timely information	The channels the company uses to reach all shareholders are the AGM, the Annual Report, Quarterly Financial Statements, Disclosures to the Colombo Stock Exchange, notices in newspapers and the company website.
C.2.2.	The company should disclose the policy and methodology for communication with shareholders	The company's policy with regard to the communication with shareholders is as per applicable statutory requirements and adopted best practices. This involves the utilisation of a variety of effective and formal channels to ensure that accurate information is given in a timely manner.
C.2.3.	The company should disclose how they implement the above policy and methodology	The implementation of this policy is done as through the utilisation of a variety of channels mentioned in C.2.1.
C.2.4.	The company should disclose the contact person for such communication	The contact person for shareholder communication is the Company Secretary.
C.2.5.	There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the company	All major shareholder issues and concerns are discussed at Board Meetings. During the period under review, there were no such concerns raised that required such discussion.
C.2.6.	The company should decide the person to contact in relation to Shareholder's matters. The relevant person with statutory responsibilities to contact in relation to Shareholder's matters is the company secretary.	The contact person for shareholder communication is the Company Secretary.
C.2.7.	The process for responding to shareholder matters should be formulated by the Board & disclosed.	Appropriate responses and action, if any, are decided upon by the Board and then the company secretary communicates this to the shareholders in the most appropriate manner depending on the circumstances.

CORPORATE GOVERNANCE DISCLOSURES Contd.

Ref No:	Guiding Principle	Degree of Compliance
C.3. Major & material transactions: - Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the company's net assets base.		
C.3.1.	Directors' responsibility to disclose the details of major & material transactions to shareholders for their approval, prior to entering into them.	There were no major or material transactions during the year that required shareholder approval, as prescribed by this Code.
D. Accountability and Audit		
D.1. Financial Reporting: - The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.		
D.1.1.	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	The company has prepared and published quarterly, interim and annual financial statements as per the applicable financial standards and within the statutorily prescribed time periods. The company has complied with all applicable statutory disclosures and financial reporting.
D.1.2.	Annual Report of the Board of Directors to contain declarations by Directors.	Refer page 135 to 139 for the Annual Report of the Board of Directors and page 121 for the Directors' Statement on Internal Controls.
D.1.3.	The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements, together with a statement by the Auditors about their reporting responsibilities. Further, the Annual Report should contain a Statement on Internal Controls.	Refer the Annual Report of the Board of Directors from page 135 to139 The statement issued by the Auditors is in page142 The Statement of Directors Responsibilities is in page134 The Statement on Internal Controls is in page 121 to 122
D.1.4.	Annual Report should contain a Management Discussion & Analysis	The Management Discussion & Analysis is from page 60 to 90
D.1.5.	The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.	Refer the Annual Report of the Board of Directors from page 135 to139 in this regard.
D.1.6.	Requirement to summon an EGM in the event the net assets of the company fall below 50% of the value of the company's shareholders' funds.	This situation did not arise in the year under review.
D.1.7.	The Board should adequately and accurately disclose the related party transactions in its Annual Report	The related party transactions are reported in page 191 to195
D.2. Internal Controls: - The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the company's assets.		
D.2.1.	The Directors should, at least annually, conduct a review of the risks facing the company and the effectiveness of the system of internal controls.	The company has in place a system of Board approved internal control and risk management mechanisms. Continuous monitoring is done in this regard by the internal audit and risk management departments. Refer to the Audit Committee report in page 123 to124 and the Integrated Risk Management Committee report in page 133.
D.2.2.	The company should have an Internal Audit function	The company has a separate Internal Audit department that reports directly to the Audit Committee

Ref No:	Guiding Principle	Degree of Compliance
D.2.3.	The Board should require the Audit Committee to carry out reviews of the process & effectiveness of risk management & internal controls & to document to the Board.	The Audit Committee carries out regular reviews of the processes and internal controls in place, through the Internal Audit department and reports to the Board of its assessments.
D.2.4.	Responsibilities of Directors in maintaining a sound system of internal control & the contents of the Statement of Internal Control	Refer the Annual Report of the Board of Directors, page138 and the Statement of Internal Control in pages 121 to 122
D.3. Audit Committee: - The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the company's Auditors.		
D.3.1.	The Audit Committee should be comprised of a minimum of two independent Non-Executive Directors (in instances where a company has only two directors on its Board) or exclusively by Non- Executive Directors, a majority of whom should be independent, whichever is higher. The Committee chairman should be a Non-Executive Director.	The Audit Committee contains only Non-Executive Directors and there are four of them. The committee chairman is an Independent Non-Executive Director.
D.3.2.	The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors.	These duties to here are encapsulated in the terms of reference of the Audit Committee.
D.3.3.	The Audit Committee should have a written "Terms of Reference", dealing clearly with its authority and duties.	The Audit Committee contains a written "Terms of Reference" clearly defining its authority and duties as per the applicable CBSL directions.
D.3.4.	The names of Directors comprising the Audit Committee should be disclosed in the Annual Report. The Committee should also make a determination of the independence of the Auditors and should disclose the basis of such determination in the Annual Report. The Annual Report should contain a report by the Audit Committee.	Refer the Audit Committee report in page 123 to124
D.4. Code of Business Conduct & Ethics:- Companies must adopt a Code of Business Conduct and Ethics for Directors & KMPs and must promptly disclose any waivers of the Code for Directors or others.		
D.4.1.	Requirement to make disclosures on the availability of a Code of Business Conduct & Ethics.	The company has in place a Code of Business Conduct and Ethics.
D.4.2.	The Chairman must affirm in the Company's Annual Report that he is not aware of any violation of any of the provisions of the Code of Business Conduct and Ethics.	Refer the Annual Report of the Board of Directors from page135 to 139
D.5. Corporate Governance Disclosures:- Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.		
D.5.1.	The Directors should include in the Company's Annual Report a Corporate Governance Report, setting out the manner and extent to which the Company has complied with the principles and provisions of this Code.	This report demonstrates the way in which the company has adopted this Code.

CORPORATE GOVERNANCE DISCLOSURES Contd.

Ref No:	Guiding Principle	Degree of Compliance
Section 2:- Shareholders		
E. Institutional Investors		
<i>E.1. Shareholder Voting: - Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.</i>		
E.1.1.	A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.	The Annual General Meeting serves as the forum for the shareholders to express their views. Further, they can raise any issues to the Board through the Company Secretary.
E.2.	Evaluation of governance disclosures:- When evaluating the company's governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.	The Annual Report contains all the necessary governance disclosures applicable to this company. Institutional investors are at liberty to give due weight to the relevant resolutions when exercising their voting rights.
F. Other Investors		
F.1.	Investing/divesting decision: - Individual shareholders, investing directly in shares of the company should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	Individual investors are at liberty to carry out adequate analysis or seek independent advice with regard to their investing/ divesting decisions.
F.2.	Shareholder voting:- Individual shareholders should be encouraged to participate in General Meetings of the company and exercise their voting rights.	Individual shareholders are encouraged to participate in General Meetings and exercise their voting rights. The relevant notice of meeting is dispatched to all shareholders as per the statutory requirements.
G. Sustainability Reporting		
G.1.1.	Economic sustainability	Refer "Financial Review" in page 60 to 63 and "Economic Contribution" in page 79.
G.1.2.	The environment	Refer "Environmental Contribution" in page 81
G.1.3.	Labour practice	Refer "Human Capital Management" in page 69 to 72
G.1.4.	Society	Refer "Creating Sustainable Value" in page 78 to 81
G.1.5.	Product responsibility	Refer "Customer Capital Management" in page 64 to 65
G.1.6.	Stakeholder identification, engagement and effective communication	Refer "Stakeholder Identification & Engagement" in page 44 to 47
G.1.7.	Sustainable reporting and disclosure should be formalised as part of the company's reporting processes and take place on a regular basis.	Refer "Our Reporting Philosophy" in page 07

GOVERNANCE REPORTS

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 Softlogic Finance PLC's (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 processes 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 centres, 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 page 123 to 124.

Directors' Statement on Internal Controls Contd.

- In assessing the internal control system, identified officers of the Company collate 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 out 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 and regulatory requirements of the Central Bank of Sri Lanka.

External Auditors' Certification

The external auditors have issued a certification on the effectiveness of internal controls over the financial reporting process.

By order of the Board,

(Sgd.)

A K Pathirage

Chairman

(Sgd.)

N H G Wijekoon

CEO / Director

29 June 2016

Report of the Audit Committee

Composition

The Board Audit Committee comprised the following Non-Executive Directors of the Company

Mr. C J E Corea (Chairman)-	Independent Non Executive Director
Mr. D T C Soza	- Independent Non Executive Director
Mr. B H S Jayawardena	- Non-Executive Director
Mr. S N P Palihena	- Independent Non Executive Director

Role of the Board Audit Committee

The Board 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 Financial Reporting 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 Financial Reporting Standards and regulatory requirements.
- 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 Board 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.

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

Report of the Audit Committee Contd.

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 department.

Meetings

The audit committee met eleven times during the year 2015/16. The attendance of the members at audit committee meetings is as follows.

Member	Status	No. of Meetings
Mr. C J E Corea (Chairman)	Independent Non-Executive Director	11/11
Mr. D T C Soza	Independent Non-Executive Director	09/11
Mr. B H S Jayawardena	Non-Executive Director	11/11
Mr. S N P Palihena	Non-Executive Director	11/11

On the invitation of the Committee the Chief Executive Officer, DGM Finance other officers and external auditors may attend the meetings. Softlogic Corporate 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.)

C J E Corea

Chairman

Board Audit Committee

29 June 2016

Report of the IT Steering Committee

Term of reference

Purpose:

To provide a decision-making forum (reporting to the board) for the planning and management of IT investments/solutions and monitoring and review of IT policy and procedure, practices and guidelines of IT services/solutions with regard to Softlogic Finance

Composition

The committee consists of following executive/non-executive directors and senior management of the company

- Mr. D.T.C Soza (Chairman) – Independent Director
- Mr. C.T.E Corea – Independent Director
- Mr. N.H.G Wijekoon – Director/CEO
- Ms. I.N.B.P Fernando – COO
- Mr. Vindya Solangarachchi – Group IT Head

Invitee

- Channa De Silva – Head of IT - Softlogic Finance

Terms of Reference:

- To monitor the implementation of the IT Strategic Plan for Softlogic Finance
- Guide, review and approve any new investments with regard to software to the front and back end.
- Guiding, monitoring, reviewing the automation of front end and back end system of the company
- Guiding the automation team with the roll out of the software
- Overlooking the issues/concerns brought before the SC to ensure proper solutions are arrived at
- Review all change requests to the system
- Review and guide IT general, application and data base controls
- To monitor the service levels set by IT department
- To review, recommend and approve the company's IT policy/Procedures
- To report to the board on IT strategy matters
- Promote best practices on IT procedures

(Sgd.)
D T C Soza
Chairman
Board IT Steering Committee

29 June 2016

Report of the Remuneration Committee

The Remuneration Committee is appointed by the Board of Directors of the Company.

Members of the Remuneration Committee

1. Mr A K Pathirage – Non-executive Director (Chairman)
2. Mr D T C Soza – Independent Non-executive Director
3. Mr C J E Corea – Independent Non-executive Director

The Committee meets at least once a year.

Terms of Reference

- a. The Committee operates within Board approved terms of reference and assists the Board of Directors in ensuring that remuneration arrangements in the Company align reward with performance.
- b. The Committee is empowered by its terms of reference to review the structure, size and composition of the Company and make recommendations to the Board with regard to any changes that needs to be introduced.
- c. Terms of reference of the Committee precludes its members from participating in decisions relating to his/her own appointment.

Authority of the Committee

The Committee has the authority to discuss issues under its purview and report back to the Board with recommendations, enabling the Board to take a final decision on the matter. The Committee is authorised by the Board to seek appropriate professional advice inside and outside the Company as and when it considers this necessary.

Remuneration Policy

The Company's reward strategies and remuneration structure is designed to attract, motivate and retain high calibre people at all levels of the organisation, in a highly-competitive environment. Accordingly, the salaries and other benefits are reviewed periodically taking into account the performance of the individual, comparisons with peer group companies, institutional guidelines and reports from specialist consultants. The skills, experience of the individual and his/her level of responsibility are also taken into account in deciding on the remuneration.

The Company's remuneration strategy is:

- Remuneration is commensurate with each employee's expertise and contribution and is aligned with the business' performance and long term shareholder returns.
- There is no discrimination against employees based on diversity or physical differences.
- Remuneration structures encourage a focus on achieving agreed deliverables and behaviours.
- Individual performance appraisals identify talent at all levels in the organisation, enabling fair and competitive remuneration.

(Sgd.)

Mr A K Pathirage

Chairman

Board Remuneration Committee

29 June 2016

Report of the Related Party Transactions Review Committee

Introduction

Pursuant to the requirements of the Code of Best Practices on Related Party Transactions 2013 and thereafter as per Section 9 of the Listing Rules of the Colombo Stock Exchange, this Committee was formed as a Board Committee by the Board of Directors of Softlogic Finance PLC.

Composition of the Committee

As per the requirements of Section 9.2.2 of the Listing Rules, the Board has appointed the following Directors to this Board Committee:

Name of Director	Nature of the Directorship	Status in the Committee
Mr. C.J.E. Corea	Independent Non-Executive Director	Chairman of the Committee
Mr. N.H.G. Wijekoon	Director/CEO	Member
Mr. T.M.I. Ahamed	Executive Director	Member
Mr. D.T.C. Soza	Independent Non-Executive Director	Member
Mr. B.H.S. Jayawardena	Non-Executive Director	Member

Softlogic Corporate Services (Pvt) Ltd, Secretaries of the company function as the Secretary to the Related Party Transactions Review Committee.

Terms of Reference

The terms of reference of this committee lays out its purpose, scope, authority and operating guidelines. These terms of reference comprehensively cover all the relevant aspects stated in the Listing Rules. The Board has approved the Terms of Reference of the Related Party Transactions Review Committee.

The Terms of Reference of this Committee are as follows:

- The broad purpose is to ensure that the interests of shareholders as a whole are taken into consideration by the company when entering into related party

transactions. Further, this committee is mandated with providing safeguards to prevent directors or substantial shareholders from taking advantage of their positions.

- This committee should review in advance, all proposed related party transactions, with the exception of those that specifically fall within the ambit of the exceptions stated in Section 9.5 of the Listing Rules. Any review should be done prior to that transaction, or if it is conditional on such review, prior to the completion of that transaction.
- Any director who is a related party to a proposed related party transaction is not to participate in any related discussion and not vote on that matter. Such a director is to only participate, only to provide information regarding the related party transaction to the committee at the request of the committee.
- The Committee is to decide whether the related party transactions reviewed by them, require the approval of the Board or the Shareholders of the company.
- During committee meetings, the management is to update the committee on any prospective material changes to any previously reviewed related party transactions and seek committee approval for such changes before those transactions are completed.
- This committee can recommend the creation of a Special Committee to review and approve any related party transaction, if the Committee deems it necessary due to potential conflicts. If it is deemed necessary, approval for a particular related party transaction can be obtained from the Board itself and such approval is to be obtained before that transaction is entered into.
- Directors of the committee should ensure that they have or have access to enough knowledge or expertise to assess all aspects of proposed related party transactions and where necessary, they should obtain appropriate professional and expert advice from an appropriately qualified person.
- The Committee shall meet at least once a quarter.
- For ongoing related party transactions, the Committee is to formulate guidelines for the senior management to follow in continuing transactions with the related parties. In this regard, the committee is to annually

Report of the Related Party Transactions Review Committee Contd.

review and assess the continuous dealings with related parties to decide on compliance with the set guidelines and whether these continuing related party transactions are appropriate.

- This committee is to ensure that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules and regulations are made in a timely and detailed manner.

Policies and Procedures

The company identifies all persons and entities who are to be recognised as “related parties”, as per the respective definitions set out in Section 9 of the Listing Rules. Self-declarations are obtained from each of the key management personnel, in order to identify parties related to them.

Thereafter, based on these self-declarations, the Company identifies potential related party transactions, as per the guidelines set out in Section 9 of the Listing Rules and forwards them to be reviewed by this committee.

Meetings of the Committee

With regard to the year under review, this committee met on one occasion.

Related Party Transactions during the 2015/16 Financial Year

During the year under review, there were no non-recurrent or recurrent related party transactions that surpassed the thresholds specified in Section 9 of the Listing Rules. With regard to the other related party transactions entered into by the company during the year, they are disclosed under Note 36 in the Notes to the Financial Statements section.

Declaration

The Annual Report of the Board of Directors on the Affairs of the Company contains a declaration by the Board of Directors that no related party transaction falling within the scope of the Listing Rules was entered into by the company during the year under review.

(Sgd.)

Mr. C.J.E. Corea

Chairman

Related Party Transactions Review Committee

29 June 2016

Report of the Credit Committee

1. The Composition of the Credit Committee

The initial composition of the Credit Committee shall be appointed by the Board of Directors (BOD) and the present membership of the Credit Committee is as follows:

- Mr. S.N.P. Palihena - (Chairman / Independent Non Executive Director)
- Mr. T.M.I. Ahamed - (Executive Director)
- Mr. N.H.G. Wijekoon - (CEO / Director)
- Mr. B.H.S.Jayawardene - (Non Executive Director)
- Mr.H.K.M. Perera - (Executive Director)

A Independent Non Executive Director of the BOD shall be the Chairman of the Credit Committee and shall from time to time appoint other Directors to serve. The Credit Committee shall comprise of at least 4 voting members and comprise of at least one Independent Non Executive Director. The CEO and other Directors, Corporate Management members inclusive of the Head of Credit (i.e. Currently the AGM-Credit) would take part in Credit Committee meetings on an invitation. The Secretary (non-voting) of the Credit Committee shall be the Personal Assistant to the CEO & Directors.

2. Credit Committee Duties & Responsibilities

These duties and responsibilities should be reviewed at the end of each financial year. The duties and the responsibilities of the Credit Committee include:

- Meet twice a week or more frequently as required by the volume of business referred to Credit Committee for decision and review
- Review applications for loans and make decisions upon such applications within the authority delegated to the committee. All the decisions must be based on the direction and compliance with applicable local law(s)

- Provide financial counseling to members in the wise use of credit
- Act upon the request of a member with respect to amendment of the terms and conditions of a loan provided that such amendment falls within the policy
- Review and evaluate performance of the Credit Department lending performance quarterly and compare it to past periods by reviewing the breakdown of the number and the rupee amount of loans outstanding by purpose and collateral, total number and amount of loans approved and declined, the total number of borrowers, the average loan size, the delinquent (PAR & NPL) loan to total loan ratio, the provision of bad debts/average loan ratio, and bad debt written off/average loan ratio etc.
- Monthly review and monitoring in controlling of existing product/s portfolio/s with regard to portfolio growth, return, pricing, default, delinquency rate, collections and provisioning
- Evaluation of the requests for new product/s and services and sanction of approval
- Review, recommend and revise the Credit and Recovery Policy as and when necessary from time to time to improve the quality of of underwriting, lending, monitoring and recovery efforts
- Prepare and present a report at the Board Meeting summarising the loan activities for the month/year.

Upon reaching their job duties and responsibilities, each potential Credit Committee member should date and sign that they have read the Terms of Reference. Their signatures implies that they will perform the duties and responsibilities to the best of their abilities.

Report of the Credit Committee Contd.

3. Delegation of the Lending Authority

Approving Authority [Credit Facilities, Leases & Hire Purchases (HP)]	Single Approval	Entity Exposure Balance O/S as at date
Credit Department - Head of Credit (AGM/DGM - Credit) and Chief Manager (Credit)	All categories of Loans, HP & Leasing Up to Rs.2.0 Mn	Up to Rs.2.0 Mn
Note: Credit facilities above Rs.2.0 Mn will be referred to the Risk Department for comments by the Head of Credit Risk		
CEO	All categories of Loan, HP & Leasing Facilities above Rs.2.0 Mn and up to Rs. 5.0 Mn	Up to Rs.5.0 Mn
Credit Committee	Above Rs.5.0 Mn - Rs. 20.0 Mn	Up to Rs.20.0 Mn
Note: HP/Leasing facilities up to Rs.10 Mn could obtain a covering approval/concurrent approval from 2 Members of the CC in facilitating the need of the urgent customer requests		
Board of Directors	Rs.20 Mn or higher than Rs.20 Mn and less than the Single Borrower Limit	Less than the Single Borrower Limit

4. Credit Committee Approval Process

The quorum for Credit Committee meeting could be three (3) members and should include the Chairman or in his absence a member appointed by the Chairman. Credit Committee approval must be a simple majority vote of those attending the meetings. The Chairman may exercise a casting vote where a majority vote cannot be obtained for a decision.

Where the Chairman attends a meeting, he should be among the assenting votes or a decision to be approved by majority votes. When the Chairman does not take part in a meeting, a unanimous decision of other members attending the meeting is needed for approval of a credit decision. If unanimous approval is not granted, it would be mandatory to refer such decisions for the approval of the Chairman or in his absence for a long period, to the Board of Directors.

(Sgd.)

S N P Palihena

Chairman

Board Credit Committee

29 June 2016

Report of the Assets and Liability Committee

Assets and Liability (ALM) Definition

ALM is a key Financial and Risk Management Discipline. ALM concerns the management of the company On-and-Off Balance Sheet Positions in such a way that the company is able to offer competitively priced products and services to customers whilst maintaining an appropriate risk/reward profile that creates shareholder value.

ALM Scope

ALM comprises the financial risk management of a financial institution. This includes risk assessment in all dimensions.

- Policy setting.
- Structuring of the company's re-pricing and maturity schedules.
- Undertaking financial hedge positions.
- Capital budgeting.
- Internal profitability measurement.

ALM further includes contingency planning by analysing the various impacts of unexpected changes in the environment i.e.

- Interest rates
- Competitive conditions
- Economic fundamentals

Also deals with how the company will respond to those changes.

Primary purpose of the ALM process

The primary purpose would be to actively manage the company's balance sheet whilst complying with regulatory requirements to maximise the risk adjusted returns to shareholders over the long-term.

Role of the ALCO and its Duties and Responsibilities

The ALCO which operates within the ALM scope defined above, would more specifically look at:

- Balance sheet size and behaviour.
- Product pricing for deposits & loans.
- Management of investment portfolio.
- Local fund transfer pricing (FTP).
- Local liquidity risk.
 - Key liquidity providers
 - Contingency liquidity buffer
 - Contingency liquidity plan
- Regulatory compliance
- Interest rate risk/Exchange rate risk
- Analysing Economic and Political factors
- Analysing present status of strategies

The ALCO process is established as follows,

Establish Policy Framework

- Risk Philosophy
- Risk Appetite
- Risk Policies & Limits

Obtain Information to Measure Position

- Profitability
- Risk Profile
- Risk Limits

Formulate Economic Outlook

- Growth & Demand
- Interest Rates
- Exchange Rates

Take Action

- Defensive Risk Reduction
- Aggressive Strategic Positions
- Product Development & Pricing

Report of the Assets and Liability Committee contd.

Members of the ALCO and Frequency of Meetings

It is proposed that the company's ALCO is structured in the following manner:

Meeting once a month

Permanent Members

Chief Executive Officer - Head of ALCO

Deputy Chairman

Executive Director

Chief Operating Officer

Sector Head of Treasury

Head of Fixed Deposits

Head of Finance

Senior Manager – Finance - MIS

Manager - Treasury

The Quorum of ALCO should consist of the following members:

Chief Executive Officer

Deputy Chairman or Chief Operating Officer

Sector Head of Treasury

Head of Fixed Deposits

Head of Finance or Senior Manager Finance

Manager - Treasury

Proposed Agenda for the ALCO

1. Approval of minutes of previous ALCO meeting
2. Items arising from the previous meeting
3. Overview of current economic situation and projections on:
 - i. Interest Rates
 - ii. Exchange Rates
4. Status of current strategies
 - i. Balance Sheet evolution – to be measured through Dynamic Gap
 - ii. Variance analysis – to be measured through variance report of Assets/Liabilities
 - iii. Ratio analysis – Liquidity, Capital & Reserve
 - iv. Peer-group analysis
5. Budgets and growth assumptions
6. Pricing consideration

7. Overview of Asset & Liability Management

- i. Interest Rate Risk
 - ii. Liquidity Risk
 - iii. Foreign Exchange Risk
 - iv. Capital Adequacy/or Compliance Reporting
- Measured through Liquidity, IRR & Market reports

8. Strategic objectives/targets

9. General

ALCO Reports

The following reports are to be prepared by Finance Dept for discussion at the main ALCO. The reports will be circulated to the members of ALCO at least 5 working days prior to the main meeting.

1. MCO Liquidity Report
2. IRR Report
3. Weighted Average Asset/Liability Profile
4. IRR Risk Report

The specific formats for the above reports have been formulated in agreement with Finance Dept and Treasury.

Market Reports

Treasury will prepare the following market reports for discussion at ALCO.

1. Yield curve shift – T/Bill & T/Bonds
2. Money market movement
3. Competitor deposit rates survey

(Sgd.)

N.H.G. Wijekoon

Chairman

Board Assets and Liability Committee

29 June 2016

Report of the Integrated Risk Management Committee

The Board has delegated its authority to integrated risk management committee which is responsible for developing and monitoring Company's risk management policies.

Meetings of IRMC are held quarterly, and the Board of Directors is duly updated of its activities.

Its main responsibilities are;

- A. Review the risk identification and management process developed by management to confirm it is consistent with the Company strategy and business plan.
- B. Review management's assessment of risk at least annually and provide an update to the Board in this regard.
- C. Inquire of management and the independent auditor about significant business, financial and control risks or exposure to risk.
- D. Oversee and monitor management's documentation of the material risks that the Company faces and update as events change and risks shift.
- E. Assess the steps management has implemented to manage and mitigate identifiable risk, including the insurance.
- F. Oversee and monitor management's review, at least annually, and more frequently if necessary, of the Company's policies for risk assessment and risk management (the identification, monitoring, and mitigation of risks)
- G. Review the following with management, with the objective of obtaining reasonable assurance that financial risk is being effectively managed and controlled:
 - (a) Management's tolerance for financial risks
 - (b) Management's assessment of significant financial risks facing the Company
 - (c) The Company's policies, plans, processes and any proposed changes to those policies for controlling significant financial risks.

The members of the committee are:

Mr S N P Palihena	- Independent Non-executive Director (Chairman)
Mr N H G Wijekoon	- Director/CEO
Mr B H S Jayawardena	- Non-executive Director
Mr T M I Ahamed	- Executive Director
Mr D T C Soza	- Independent Non-executive Director
Mr H K M Perera	- Executive Director

(Sgd.)

S N P Palihena
Chairman
Board Integrated Risk Management Committee
29 June 2016

Statement of Directors' Responsibilities

The responsibilities of the Directors, in relation to the financial statements of the Company differ from the responsibilities of the Auditors, which are set out in the Report of the Auditors on page 142.

The Companies Act No. 07 of 2007 stipulates that the Directors are responsible for preparing the Annual Report and the financial statements. Company law requires the Directors to prepare financial statements for each financial year, giving a true and fair view of the state of affairs of the Company at the end of the financial year, and of the statement of comprehensive income of the Company for the financial year, which comply with the requirements of the Companies Act.

The Directors consider that, in preparing financial statements set out on pages 143 to 197 of the Annual Report, appropriate accounting policies have been selected and applied in a consistent manner and supported by reasonable and prudent judgments and estimates, and in compliance with the Sri Lanka Accounting Standards (SLFRSs / LKASs), Companies Act No. 07 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 confirm that they have justified in adopting the going concern basis in preparing the financial statements since adequate resources are available to continue operations in the foreseeable future.

The Directors are responsible for keeping proper accounting records, which disclose reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure the financial statements comply with the Companies Act No. 07 of 2007.

They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. In this regard, the Directors have instituted an effective and comprehensive system of internal control.

The Directors are required to prepare financial statements and to provide the external auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their independent audit opinion.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

Compliance Report

The Directors confirm that, to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and other known statutory dues as were due and payable by the Company as at the date of the statement of financial position have been paid or, where relevant provided for, in arriving at the financial results for the year under review.

For and on behalf of the Board of Softlogic Finance PLC

(Sgd.)

Softlogic Corporate Services (Pvt) Ltd

Secretaries

29 June 2016

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

The Board of Directors of Softlogic Finance PLC have pleasure in presenting to the members their Annual Report together with the Audited Financial Statements of the Company for the year ended 31 March 2016.

General

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

On 14 July 2005 the name of the Company was changed to "Capital Reach Leasing Limited". The Company was re-registered under the Companies Act No. 07 of 2007 on 29 September 2008 under Registration No. PB 641 PQ.

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

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

Softlogic Finance PLC is a licensed 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 SME working capital loans, business loans, lease and hire purchase facilities, group personal loans, consumer loans, gold loans, other credit facilities, acceptance of fixed deposits and the 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 Message on pages 16-17.

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

Financial Statements

Section 168 (1b) of the Companies Act requires that the Annual Report of the Directors includes the financial statements of the Company, in accordance with Section 151 of the Act. The requisite financial statements of the Company are given on pages 143 to 197 of the Annual Report.

The complete financial statements of the Company prepared in accordance with 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 143-197.

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 affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Companies Act No. 07 of 2007 and the Sri Lanka Financial Reporting Standards. A statement in this regard is given on page 134

	2015/16 Rs. '000	2014/15 Rs. '000
Total operating income	2,114,045	1,891,527
Profit before income tax	429,675	220,661
Income tax expense	(60,714)	(4,172)
Net profit for the year	368,961	216,490

Annual Report of the Board of Directors on the Affairs of the Company Contd.

Auditors' Report

The Report of the Auditors on the Financial Statements of the company is given on page 142.

Accounting Policies

The financial statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards and the policies adopted thereof are given on pages 147-160. 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 pages 30-31.

Executive Directors

Mr. G L H Premaratne - Deputy Chairman
 Mr. N H G Wijekoon - Director/CEO
 Mr. T M I Ahamed - Director
 Mr. H K M Perera - 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 N P Palihena - Director*

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

** Senior Director in terms of Finance Companies (Corporate Governance) Direction No.3 of 2008

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, offers himself for re-election.

Mr. T M I Ahamed 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, offers himself for re-election.

Mr. H K M Perera was appointed as an Executive Director to the Board with effect from 15 March 2016. He will retire in terms of Article 97 of the Articles of Association and being eligible, offers himself for re-election

Mr. B H S Jayawardena resigned from his directorship with effect from 7th July 2016 as he has attained the age of 70 years.

Interests Register

The Company maintains an Interest Register in terms of the Companies Act No. 07 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 31 March 2016 and 31 March 2015 are as follows:

	Shareholding as at 31/03/2016	Shareholding as at 31/03/2015
Mr. A K Pathirage	228,000	288,000
Mr. G L H Premaratne	Nil	Nil
Mr. N H G Wijekoon	13,118	13,118
Mr. T M I Ahamed	Nil	58,720
Mr. B H S Jayawardena	Nil	Nil
Mr. C J E Corea	Nil	Nil
Mr. D T C Soza	Nil	Nil
Mr. H K M Perera	Nil	Nil
Mr. S N P Palihena	Nil	Nil

Messrs A K Pathirage, G L H Premaratne and T M I Ahamed are Directors of Softlogic Capital PLC, which held 40,429,635 shares as at 31 March 2016. Messrs A K Pathirage and G L H Premaratne are also Directors of Softlogic Holdings PLC which held 779,969 shares in Softlogic Finance PLC as at 31 March 2016.

Remuneration of Directors

The Directors' remuneration is disclosed under transactions with key managerial personnel in Note 36.1.3 to the Financial Statements on page 191.

Related Party Transactions with the Company

Transactions of related parties (as defined in LKAS 24 – Related Parties Disclosure) with the Company are set out in Note 36 to the Financial Statements.

There are no related party transactions which exceed the threshold of 10% of the equity or 5% of the total assets, whichever is lower in relation to non-recurrent related party transactions or 10% of the gross revenue in relation to recurrent related party transactions. The Company has complied with the requirements of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions.

Auditors

Messrs PricewaterhouseCoopers, Chartered Accountants served as the Auditors during the year under review. 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. 1,029,971/- is payable by the Company to the Auditors for the year under review as audit fees.

Stated Capital

The Stated Capital of the Company as at 31 March 2016 was Rs. 1,692,615,435/- represented by 59,070,988 ordinary shares. The stated capital of the Company was increased from Rs. 1,404,523,150/- representing 50,830,362 ordinary shares to Rs. 1,692,615,435/- representing 59,070,988 during the year under review with the conclusion of the issue of 8,240,626 shares to Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) by way of a private placement.

Major Shareholders, Distribution Schedule and Other Information

Information on the twenty (20) 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 pages 200-202 under Investor Information.

Reserves

The movements of reserves during the year are given under the Statement of Changes in Equity on page 145.

Property, Plant & Equipment

Details and movements of Property, Plant and Equipment owned by the Company are given in Note 21 to the Financial Statements on pages 170-172.

Land Holdings

The Company owns freehold land worth Rs. 120,000,000/-

Investments

Details of quoted and unquoted investments made by the Company as at 31 March 2016 are given in Note 14 to the Financial Statements on pages 164-165.

Dividend

The Directors recommend to the shareholders that the interim dividend of Rs. 1.25 per share be considered as the final dividend for the year ended 31 March 2016.

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

Annual Report of the Board of Directors on the Affairs of the Company Contd.

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 the 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 123 - 124.

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 82-90 sets out the processes currently practiced by the Company to identify and manage the risks.

Contingent Liabilities

Except as disclosed in Note 33 to the Financial Statements on page 191, there were no material contingent liabilities as at the date of the Financial Position of the Company.

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 date of the Statement of Financial Position, have been paid or, where relevant, provided for.

Events occurring after the Reporting Period

No circumstances have arisen and no material events have occurred after the date of the Statement of Financial Position, which would require adjustments to, or disclosure in the accounts other than those disclosed in Note No: 34 to the Financial Statements.

Corporate Governance

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

The Board, in the discharge of its responsibilities, has 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 92-139.

An Audit Committee, Remuneration Committee, Related Party Transaction Review Committee, Credit Committee, IT Steering Committee and Integrated Risk Management Committee function as Board Sub Committees with Directors who possess the requisite qualifications and experience. In addition to the Directors, certain key management personnel also serve on the Integrated Risk Management Committee and the Credit Committee. The composition of the said committees is as follows:

Audit Committee

Mr. C J E Corea	- Independent Non-Executive Director (Chairman)
Mr. D T C Soza	- Independent Non-Executive Director
Mr. B H S Jayawardena	- Non-Executive Director
Mr. S N P Palihena	- Independent Non-Executive Director

Remuneration Committee

Mr. A K Pathirage	- Non-Executive Director (Chairman)
Mr. D T C Soza	- Independent Non-Executive Director
Mr. C J E Corea	- Independent Non-Executive Director

Credit Committee

Mr. S N P Palihena	- Independent Non-Executive Director (Chairman)
Mr. G L H Premaratne	- Deputy Chairman
Mr. N H G Wijekoon	- Director/CEO
Mr. B H S Jayawardena	- Non-Executive Director
Mr. T M I Ahamed	- Executive Director
Mr. H K M Perera	- Executive Director

Integrated Risk Management Committee

Mr. S N P Palihena	- Independent Non-Executive Director (Chairman)
Mr. N H G Wijekoon	- Director/CEO
Mr. T M I Ahamed	- Executive Director
Mr. D T C Soza	- Independent Non-Executive Director
Mr. B H S Jayawardena	- Non-Executive Director
Mr. H K M Perera	- Executive Director

IT Steering Committee

Mr. D T C Soza	- Independent Non-Executive Director (Chairman)
Mr. N H G Wijekoon	- Director/CEO
Mr. C J E Corea	- Independent Non-Executive Director
Ms. I Fernando	- Chief Operating Officer
Mr. D V Solangaarachchi	- Group Head of IT

Related Party Transaction Review Committee

Mr. C J E Corea	- Independent Non-Executive Director (Chairman)
Mr. N H G Wijekoon	- Director/CEO
Mr. T M I Ahamed	- Executive Director
Mr. D T C Soza	- Independent Non-Executive Director
Mr. B H S Jayawardena	- Non-Executive Director

Annual General Meeting

The Annual General meeting will be held on 29 August 2016 at the Auditorium of the Central Hospital Limited (4th Floor), No. 114, Norris Canal Road, Colombo 10 at 10.30 a.m. The Notice of the Annual General Meeting appears on page 204 of the Annual Report.

Acknowledgement of the content of the Report

As required by Section 168(1)(k) of the Companies Act No. 07 of 2007, this report is signed on behalf of the Board of the Company by two Directors and the Secretaries of the Company.

Signed for and on behalf of the Board of Directors by

(Sgd.)

A K Pathirage
Chairman

(Sgd.)

N H G Wijekoon
Director/CEO

(Sgd.)

Softlogic Corporate Services (Pvt) Ltd
Secretaries
29 June 2016

SUCCESS



**WE ALWAYS
STRIVE
TO BE THE
BEST IN OUR
BUSINESS
AND POSSESS
THE WILL TO
WIN.**

FINANCIAL STATEMENTS

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Independent auditor's report

To the shareholders of Softlogic Finance PLC

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 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 2 to 37.

Management's Responsibility for the Financial Statements

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

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

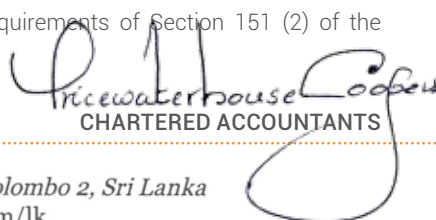
Opinion

4 In our opinion, the financial statements give a true and fair view of the financial position of Softlogic Finance PLC as at 31 March 2016, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

5 These financial statements also comply with the requirements of Section 151 (2) of the Companies Act, No. 07 of 2007.

29 June 2016
COLOMBO


PRICEWATERHOUSE COOPERS
CHARTERED ACCOUNTANTS

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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, T.U. Jayasinghe 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 Lankan Rupees)

Year ended 31 March	Notes	Year ended 31-Mar-16 Rs.	Year ended 31-Mar-15 Rs.
Income		4,134,891,652	3,972,902,400
Interest income	3	3,612,022,476	3,545,703,949
Interest expenses	4	(2,020,846,266)	(2,081,375,319)
Net interest income		1,591,176,209	1,464,328,630
Fee and commission income	5	487,124,764	267,430,294
Net trading income	6	16,049,419	41,258,983
Other operating income	7	19,694,993	118,509,174
Total operating income		2,114,045,385	1,891,527,081
Impairment (charge)/reversal for loans and other losses	8	(405,207,113)	(522,295,525)
Net operating income		1,708,838,272	1,369,231,556
Operating expenses	9		
Personnel costs	9.1	(499,767,998)	(403,299,879)
Depreciation of property, plant and equipment	21.1	(74,342,567)	(68,254,322)
Amortisation of intangible assets	20	(10,322,277)	(5,959,780)
Other operating expenses	9.2	(605,764,329)	(620,783,830)
Operating profit before value added tax on financial services		518,641,101	270,933,746
VAT & NBT on financial services		(88,966,052)	(50,272,501)
Profit before income tax		429,675,049	220,661,245
Income tax expense	10	(60,714,267)	(4,171,605)
Profit for the year		368,960,782	216,489,640
Other comprehensive income/(expenses)			
Other comprehensive income to be reclassified to profit or loss			
Loss/(gain) arising on remeasuring available for sale financial investments	29	(50,657,400)	47,223,634
Gain arising on revaluation of land and building	29	58,265,408	Nil
Other comprehensive income not to be reclassified to profit or loss			
Actuarial gain on post employment benefit obligations	26	4,388,764	3,973,564
Net change in fair value on derivative financial instruments		Nil	30,540,342
Other comprehensive income for the year, net of tax		11,996,772	81,737,540
Total comprehensive income for the year, net of tax		380,957,554	298,227,180
Basic earnings per share	11	7.04	5.44

The Accounting policies and notes from pages 147 to 197 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

(All amounts in Sri Lankan Rupees)

As at 31 March	Notes	2016 Rs.	2015 Rs.
ASSETS			
Cash and cash equivalents	13	2,495,230,517	1,078,468,881
Financial investments - available for sale	14	179,848,200	60,730,332
Financial investments - held for trading	15	Nil	118,296,000
Financial investments - held to maturity	16	Nil	1,480,769,217
Lease and hire purchase receivables	17	1,590,794,925	3,097,313,645
Loans and receivables	18	15,266,653,864	12,601,500,647
Other non financial assets	19	848,959,412	1,209,289,868
Intangible assets	20	37,431,036	33,661,754
Property, plant & equipment	21	373,351,729	333,803,481
Total assets		20,792,269,684	20,013,833,825
LIABILITIES			
Due to banks	22	888,402,016	488,177,074
Due to customers	23	14,055,571,848	12,363,570,592
Other borrowed funds	24	3,188,118,082	5,093,560,167
Other non financial liabilities	25	89,536,870	84,517,517
Retirement benefit obligations	26	14,855,344	14,263,852
Deferred tax liabilities	27	13,345,834	20,109,228
Total liabilities		18,249,829,994	18,064,198,431
SHARE HOLDERS' FUNDS			
Stated capital	28	1,692,615,435	1,404,523,150
Statutory reserve fund	29	193,060,124	119,267,968
Retained earnings		649,156,123	425,844,276
Revaluation reserve	29	58,265,408	Nil
Available for sale reserve	29	(50,657,400)	Nil
Total shareholders' funds		2,542,439,690	1,949,635,394
Total liabilities and share holders' funds		20,792,269,684	20,013,833,825
Net asset value per share		43.04	38.36

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

(Sgd.)
N.M.K.Ranasinghe
Deputy 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 29 June 2016.

(Sgd.)
A.K.Pathirage
Chairman

(Sgd.)
N.H.G.Wijekoon
CEO / Director

The Accounting policies and notes from pages 147 to 197 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

(All amounts in Sri Lankan Rupees)

	Stated Capital	Retained earnings	Available for sale reserve	Revaluation reserve	Statutory reserve Fund	Investment fund reserve	Total
Balance as at 01 April 2014	1,003,230,820	142,204,832	12,209,113	Nil	75,970,040	75,933,826	1,309,548,631
Profit for the year	Nil	216,489,640	Nil	Nil	Nil	Nil	216,489,640
Other comprehensive income for the year	Nil	34,513,906	47,223,634	Nil	Nil	Nil	81,737,540
Total comprehensive income for the year	Nil	251,003,546	47,223,634	Nil	Nil	Nil	298,227,180
Dividends paid	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Rights issue of shares	401,292,330	Nil	Nil	Nil	Nil	Nil	401,292,330
Transferred to income statement on disposal of available for sale financial investments	Nil	Nil	(59,432,747)	Nil	Nil	Nil	(59,432,747)
Transferred to/(from) during the year	Nil	32,635,898	Nil	Nil	43,297,928	(75,933,826)	Nil
Balance as at 31 March 2015	1,404,523,150	425,844,276	Nil	Nil	119,267,968	Nil	1,949,635,394
Balance as at 1 April 2015	1,404,523,150	425,844,276	Nil	Nil	119,267,968	Nil	1,949,635,394
Profit for the year	Nil	368,960,782	Nil	Nil	Nil	Nil	368,960,782
Other comprehensive income for the year	Nil	4,388,764	(50,657,400)	Nil	Nil	Nil	(46,268,636)
Total comprehensive income for the year	Nil	373,349,546	(50,657,400)	Nil	Nil	Nil	322,692,146
Dividends paid	Nil	(76,245,543)	Nil	Nil	Nil	Nil	(76,245,543)
Issue of shares for convertible debts	288,092,285	Nil	Nil	Nil	Nil	Nil	288,092,285
Gain on revaluation of land and buildings	Nil	Nil	Nil	58,265,408	Nil	Nil	58,265,408
Transferred to/(from) during the year	Nil	(73,792,156)	Nil	Nil	73,792,156	Nil	Nil
Balance as at 31 March 2016	1,692,615,435	649,156,123	(50,657,400)	58,265,408	193,060,124	Nil	2,542,439,690

The Accounting policies and notes from pages 147 to 197 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

(All amounts in Sri Lankan Rupees)

For The Year Ended March 31, 2016	Notes	Year ended 31-Mar-16 Rs.	Year ended 31-Mar-15 Rs.
Cash flows from operating activities			
Profit before income tax		429,675,049	220,661,245
Adjustments for			
Depreciation	21.1	74,342,567	68,254,322
Amortisation of intangible assets	20	10,322,277	5,959,780
(Profit)/loss on disposal of property, plant and equipment		(12,497,650)	(1,248,348)
(Profit)/loss from sale of vehicles & real estate	6	1,878,014	429,582
(Gain)/loss from disposal of available for sale investments	7	Nil	(59,432,747)
Impact on Derivative financial instruments		Nil	19,056,000
Impairment charge bad and doubtful debts	8	405,207,113	522,295,525
Provision for defined benefit plans	26	6,643,902	6,678,382
Interest expenses	4	2,020,846,266	2,081,375,319
Operating profit before working capital changes		2,936,417,538	2,864,029,059
(Increase)/Decrease in lease and hire purchase receivables		1,101,311,607	1,382,973,156
(Increase)/Decrease in other loans & receivables		(2,665,153,217)	(6,427,081,720)
(Increase)/Decrease in financial investments - Held for trading		(12,879,000)	(33,103,800)
(Increase)/Decrease in other investments		1,480,769,217	Nil
(Increase)/Decrease in other non financial assets		207,397,067	32,148,985
(Decrease)/Increase in amounts due to customers		1,692,001,256	2,764,310,834
(Decrease)/Increase in other non financial liabilities		81,264,896	(491,776,929)
Cash generated from/(used in) operations		4,821,129,364	91,499,585
Interest paid	4	(2,020,846,266)	(2,081,375,319)
Taxes paid		Nil	(55,391,744)
Defined benefit plan costs paid	26	(1,663,646)	(10,408,700)
Proceeds from sale of vehicles & real estate		8,891,224	5,800,000
Net cash generated from/(used in) operations		2,807,510,676	(2,049,876,178)
Cash flows from investing activities			
Purchase of property, plant and equipment	21.1	(82,874,325)	(119,732,871)
Proceeds from disposal of property, plant and equipment		25,623,364	1,473,157
(Purchase)/proceeds from available for sale investments (net)		(40,127,678)	1,501,961,493
Net cash (used in)/generated from investing activities		(97,378,639)	1,383,701,778
Cash flows from financing activities			
Proceeds from rights issue of shares		Nil	401,292,330
Dividends paid		(76,245,543)	Nil
Proceeds from long term borrowings		1,258,888,820	200,000,000
Repayment of long term borrowings		(832,084,294)	(1,401,523,555)
Proceeds from debenture issue	24	Nil	1,400,000,000
Repayment of other borrowed funds		(1,617,349,800)	(1,378,705,597)
Net cash (used in) / generated from financing activities		(1,266,790,817)	(778,936,822)
Net increase/(decrease) in cash and cash equivalents		1,443,341,220	(1,445,111,222)
Cash and cash equivalents at the beginning of the year		837,833,807	2,282,945,029
Cash and cash equivalents at the end of the year		2,281,175,028	837,833,807
Reconciliation of cash and cash equivalents			
Cash, bank balance and short term investments	13	2,495,230,517	1,078,468,881
Bank overdrafts	22	(214,055,489)	(240,635,073)
		2,281,175,028	837,833,807

SIGNIFICANT ACCOUNTING POLICIES

1 Corporate information

1.1 General

Softlogic Finance 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. 13, De Fonseka Place, Colombo 4. 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, SME loans, group personal loans, business loans, other credit facilities, pawning, accepting fixed deposits and operation of savings accounts.

1.3 Parent enterprise and ultimate parent enterprise

The Company's parent undertaking is Softlogic Capital PLC. 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 2016 were authorised for issue in accordance with a resolution of the board of directors on 29 June 2016.

2 Basis of preparation and summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

2.1 Basis of preparation

The financial statements of the Company have 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).

These financial statements have been prepared under the historical cost convention except for financial assets, financial liabilities and land and buildings which are measured at fair value. The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Company's financial statements are disclosed in note 2.2 to the financial statements.

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 New accounting standards, amendments and interpretations adopted in 2015/2016

- (a) The following standards have been adopted by the Company for the first time for the financial year beginning on or after 1 April 2015 and have a material impact on the Company:

(i) SLFRS 13, 'Fair Value Measurement', confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial. SLFRS 13 also clarifies that the portfolio exception in the standard (measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of LKAS 39 'Financial Instruments: Recognition and Measurement'.

(ii) LKAS 16, 'Property, Plant and Equipment' and LKAS 38, 'Intangible Assets', clarify how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amounts.

(iii) LKAS 24, 'Related Party Disclosures', clarifies that the amounts incurred by the entity to obtain key management personnel services that are provided by a separate management entity (the "management entity") shall be disclosed as a related party transaction, but not the compensation paid or payable by the management entity to its employees or directors.

SIGNIFICANT ACCOUNTING POLICIES Contd.

(iv) LKAS 19, 'Employee Benefits', clarifies the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employee's working lives.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 April 2015 are not material to the Company.

- (b) New standards, amendments and interpretations issued but not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

(i) SLFRS 9 'Financial Instruments', retains but simplifies the mixed measurement model in LKAS 39 'Financial Instruments: Recognition and Measurement' and establishes a single model that has only three primary classification categories for financial assets: amortised cost, fair value through profit or loss and fair value through Other Comprehensive Income ("OCI") for certain financial assets that are debt instruments. Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value. All fair value movements on financial assets are taken through the profit or loss, except for equity investments that are not held for trading, which may be recorded in the profit or loss or in reserves without subsequent recycling to the profit or loss. For

financial liabilities, the standard retains most of the LKAS 39 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in OCI rather than the profit or loss, unless this creates an accounting mismatch. The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. Further, SLFRS 9 introduces a new expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in LKAS 39. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. SLFRS 9 also introduces expanded disclosure requirements and a change in presentation. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

(ii) SLFRS 15, 'Revenue from Contracts with Customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service, and a new five-step process must be applied before revenue can be recognised. SLFRS 15 replaces LKAS 18 'Revenue' and LKAS 11 'Construction Contracts' and related interpretations. The standard was originally effective for annual periods beginning on or after 1 January 2017. However, the International Accounting Standard Board ("IASB") deferred the effective date of SLFRS 15 by one year to 1 January 2018 in September 2015. Entities will have a choice of full retrospective application, or prospective application with additional disclosures and earlier application is permitted.

(iii) Amendments to LKAS 16, 'Property, Plant and Equipment' and LKAS 38, 'Intangible Assets', clarify that a revenue-based method of depreciation or amortisation is generally not

appropriate. The amendments are effective for accounting periods beginning on or after 1 January 2016.

(iv) Amendments to SLFRS 5, 'Non-current Assets Held for Sale', clarify when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such. The amendments are effective for accounting periods beginning on or after 1 January 2016.

(v) Amendments to SLFRS 7, 'Financial Instruments: Disclosures', provide specific guidance for transferred financial assets to help management to determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for derecognition. It further clarifies that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by LKAS 34 'Interim Financial Reporting'. The amendments are effective for accounting periods beginning on or after 1 January 2016.

(vi) Amendments to LKAS 19, 'Employee Benefits', clarify that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise. The amendments are effective for accounting periods beginning on or after 1 January 2016.

(vii) Amendments to LKAS 1, 'Presentation of Financial Statements', amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including: materiality, disaggregation and subtotals, notes to the financial statements and OCI arising from investments accounted for under the equity method. The amendments are effective for accounting periods beginning on or after 1 January 2016.

(viii) The impact of SLFRS 9 'Financial Instruments' and SLFRS 15 'Revenue from Contracts with Customers' are still being assessed. Apart from SLFRS 9 and SLFRS 15, the adoptions of amendments to published standards are not expected to have a material

impact to the financial statements of the Company.

There are no other standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact to the Company.

2.1.3 Statement of compliance

The Company prepared its financial statements in accordance with Sri Lanka Accounting Standards.

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

SIGNIFICANT ACCOUNTING POLICIES Contd.

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. Deferred 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 capitalised 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.

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 recognised 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

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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 derecognised 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 recognised 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 recognised 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 statement and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income statement 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 initial 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 the statement of comprehensive income is recognised in the statement of comprehensive income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale areas recognised in the statement of comprehensive income statement. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income statement 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 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 remeasured 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. The company designates certain derivatives either,

- (a) Hedges of the fair value of recognised assets or liabilities or a firm commitment (Fair value hedge)
- (b) Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (Cash flow hedge)
- (c) Hedges of a net investment in a foreign operation (Net investment hedge)

The group documents at the inception of the transaction the relationship between hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking various hedging transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Fair values of various derivative instruments used for hedging purposes are disclosed in note 21. Movements on the hedging reserve on other comprehensive income (OCI) are shown in the

same note. The fair value of a hedging derivative is classified as a non current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI . The gain or loss in relation to ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction ultimately recognised in the income statement. When the forecast transaction is no longer to expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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.

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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 30.

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 deferred 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 equipment 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. Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment charged subsequent to the date of the revaluation. Where land and buildings are subsequently revalued, the entire class of such assets is revalued at fair value on the date of revaluation. The Company has adopted a policy of revaluing land and buildings by professional valuers at least every 3 years.

Any revaluation surplus is recognised in the Statement of Other Comprehensive Income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income Statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the Income Statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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.

Subsequent measurement

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

Building	5%
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.

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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 the expense category Comprehensive Income in consistent with the function of the intangible asset.

Amortisation

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 of computer software is capitalised 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

Company has individually assessed all legal cases related lease and HP receivables and stipulated threshold limits exceeded facilities for impairment.

The criteria used to determine whether there is objective evidence of impairment include:

- 01) Past due contractual payments of either principal or interest.
- 02) Probability of Bankruptcy of the customer.
- 03) Breach of loan covenants or conditions.

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 income statement. 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 income statement. 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 income statement.

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 realisation 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.

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

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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 in a 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	11.8%
Rate of salary increase	8.0%
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.

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

The 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 recognised on a straight line basis over the term of hire and operating leases.

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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 recognised 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

However, in compliance with the new guideline issued under the letter No. 24/10/001/0004/001 by Central Bank, the operation of Investment fund reserve has ceased with effect from October 1, 2014 and the balance has been transferred to retained earnings.

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 Lankan Rupees)

3. Interest income

	2016	2015
Interest income from lease and hire purchase		
Finance leasing	268,206,917	421,879,681
Hire purchases	369,023,416	1,309,290,865
Interest income from loans and advances		
Income on hire	5,699,486	8,813,468
Personal loans	769,675,861	678,769,022
Pawning	112,369,615	84,981,512
Revolving loans	127,960,039	118,129,869
SME loans	1,705,570,574	662,796,398
Consumer loans	55,848,066	58,956,595
Other lending & investments	197,668,502	202,086,541
	3,612,022,476	3,545,703,949

4. Interest expenses

	2016	2015
Due to customers		
Interest on time deposits	1,445,129,302	1,324,862,947
Interest on certificate of deposits	782,111	1,722,095
Interest on savings deposits	5,060,461	4,910,725
Due to banks		
Interest on bank borrowings	93,734,395	177,423,928
Interest on finance lease	501,713	371,843
Other borrowed funds		
Interest on securitisation	6,637,338	101,993,079
Interest on commercial papers	195,156,343	270,778,932
Interest on debentures	273,844,605	199,311,769
	2,020,846,266	2,081,375,319

5. Fee and commission income

	2016	2015
Documentation & processing fees	475,631,311	236,392,584
Sundry income	11,493,454	31,037,710
	487,124,764	267,430,294

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

6. Trading income

	2016	2015
Dividend income	5,048,432	8,735,408
Gain from remeasuring investments held for trading	12,879,000	33,103,800
Loss from sale of real estates	(8,776)	(150,643)
Loss from sale of vehicles	(1,869,238)	(429,582)
	16,049,419	41,258,983

7. Other operating income

	2016	2015
Profit on disposal of property, plant and equipment	12,497,650	1,248,348
Gain from disposal of available for sale investments	Nil	59,432,747
Notional interest reversal on individually impaired receivables	6,051,283	4,858,890
Capital gain on treasury bonds	1,146,060	52,969,190
	19,694,993	118,509,174

8. Impairment charge for loans and other losses

	2016	2015
Lease & hire purchases	104,384,153	222,974,526
Loans and receivables	244,287,301	185,808,930
Other receivables	25,996,205	27,366,412
Repossessed vehicle stock	30,539,454	86,145,656
	405,207,113	522,295,525

9. Operating expenses

Operating expenses include the following;

9.1 Personnel costs

	2016	2015
Defined contribution plan costs - EPF & ETF	39,990,431	36,312,413
Defined benefit plan costs	6,643,902	6,678,382
Directors' remuneration	33,182,329	18,160,930
Salaries and other staff related expenses	419,951,336	342,148,154
	499,767,998	403,299,879

9.2 Other operating expenses

	2016	2015
Loss in fair value on derivative financial instruments	Nil	19,056,000
Auditors' remuneration	1,029,971	1,308,921
Secretarial fees	1,614,730	1,703,923
Other overhead expenses	603,119,628	598,714,986
	605,764,329	620,783,830

10. Income tax expenses

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

	2016	2015
Current income tax		
Current income tax charge	71,649,265	16,160,448
Reversal of income tax over provision in 2015/2016	(4,171,605)	(8,986,915)
Deferred income tax		
Deferred tax reversal	(6,763,393)	(3,001,928)
Income tax expense reported in the statement of comprehensive income	60,714,267	4,171,605

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

	2016	2015
Accounting profit before income tax	429,675,049	220,661,245
At the statutory income tax rate of 28% (2015 : 28%)	120,309,014	61,785,149
Deductible expenses	(198,402,664)	(65,749,016)
Non deductible expenses	138,807,917	8,135,473
At the effective income tax rate of 13.52% (2015 : 1.89%)	60,714,267	4,171,605

11. Basic earnings per share

11.1 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.

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

	2016	2015
Profit for the year	368,960,782	216,489,640
Number of ordinary shares used as the denominator		
Weighted average number of ordinary shares	52,388,179	39,783,494
Basic earnings per share	7.04	5.44

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

12. Dividends paid and proposed

	2016	2015
Declared and paid during the year	Nil	Nil
Dividends on ordinary shares:	Nil	Nil
Proposed for dividends declaration by Directors (Rs.1.25 per share)	73,838,735	76,245,543
Dividends on ordinary shares:	73,838,735	76,245,543

13. Cash and cash equivalents

	2016	2015
Cash at bank and in hand	436,305,737	678,468,880
Other deposits and investments - original maturity less than 3 months	2,058,924,780	400,000,000
	2,495,230,517	1,078,468,881

14. Financial investments - available for sale

	2016	2015
Securities available for sale		
Equity securities at fair value - Listed (Note 14.1)	80,517,600	Nil
Equity securities at cost - Unlisted	99,330,600	50,030,600
Treasury bills and bonds investments	Nil	10,699,732
	179,848,200	60,730,332

14.1 Quoted shares investments

	No. of Shares 31 March 2016	Cost of investment 31 March 2016 Rs.	Market value 31 March 2016 Rs.	No. of Shares 31 March 2015	Cost of investment 31 March 2015 Rs.	Market value 31 March 2015 Rs.
Financial investments - available for sale						
National Development Bank	477,000	53,901,000	80,517,600	Nil	Nil	Nil

15. Financial investments - Held for trading

15.1 Quoted shares investments

	No. of Shares 31 March 2016	Cost of investment 31 March 2016 Rs.	Market value 31 March 2016 Rs.	No. of Shares 31 March 2015	Cost of investment 31 March 2015 Rs.	Market value 31 March 2015 Rs.
Financial investments- Held for trading						
National Development Bank	Nil	Nil	Nil	477,000	53,901,000	118,296,000

16. Financial investments - Held to maturity

	2016	2015
Placements with banks and financial institutions more than 3 months	Nil	289,517,546
Investments in government securities more than 3 months	Nil	1,191,251,671
	Nil	1,480,769,217

17. Lease & hire purchase receivables

	2016	2015
Gross investment in leases & hire purchases	1,994,552,792	3,988,988,473
(-) Rentals received in advance	(1,177,300)	(2,289,650)
(-) Unearned income	(269,044,239)	(802,977,420)
Total gross investment in lease & hire purchases	1,724,331,253	3,183,721,403
(-) Allowance for impairment		
Allowance for specific impairment	(18,404,121)	(10,220,024)
Allowance for collective impairment	(115,132,206)	(76,187,733)
Net lease and hire purchases	1,590,794,925	3,097,313,645
Lease & hire purchase rentals receivable within one year		
Lease & hire purchase rentals receivable within one year	1,409,438,611	1,692,716,980
(-) Unearned income	(172,911,596)	(338,691,445)
Total rentals receivable within one year	1,236,527,015	1,354,025,536
Lease & hire purchase rentals receivable within one to five years		
Lease and hire purchase rentals receivable within 1-5 years	583,936,881	2,293,981,846
(-) Unearned income	(96,132,643)	(464,285,976)
Gross rentals receivable within one to five years	487,804,238	1,829,695,870

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

17.1 Net lease, hire purchase and loans receivables

	2016	2015
Gross investment in leases and hire purchases		
Leases	1,039,584,970	2,031,126,763
Hire purchase contracts	954,967,823	1,957,861,709
(-) Unearned income		
Leases	(151,293,308)	(406,208,721)
Hire purchase contracts	(117,750,931)	(396,768,700)
(-) Rentals received in advance		
Leases	(1,177,300)	(2,289,650)
Leases net before impairment allowance	887,114,362	1,622,628,392
HP net before impairment allowance	837,216,892	1,561,093,010
(-) Allowance for impairment		
Allowance for specific impairment		
Leases	9,592,390	4,214,008
Hire purchase contracts	8,811,732	6,006,016
Allowance for collective impairment		
Leases	40,761,126	33,938,983
Hire purchase contracts	74,371,081	42,248,750
Net investment in leases and hire purchases		
Leases	836,760,846	1,584,475,401
Hire purchase contracts	754,034,079	1,512,838,244
	1,590,794,925	3,097,313,645

17.2 Movement in Impairment allowance for leases and hire purchases

	2016	2015
Balance as at the beginning of the year	102,629,978	83,361,671
Net impairment charge for the year	182,932,758	222,974,526
Recoveries during the year	128,044,598	54,465,995
Write offs during the year	(257,797,478)	(258,172,215)
Balance as at end of the year	155,809,856	102,629,978
Reversal of notional interest for the year	(22,273,503)	(16,222,220)
Balance as at the end of the year after notional interest adjustment	133,536,353	86,407,758

Movement in specific impairment allowance for leases and hire purchases

	2016	2015
Balance as at the beginning of the year	26,442,244	36,822,810
Net impairment charge for the year	143,988,285	193,325,654
Recoveries during the year	128,044,598	54,465,995
Write offs during the year	(257,797,478)	(258,172,215)
Balance as at end of the year	40,677,649	26,442,244
Reversal of notional interest for the year	(22,273,503)	(16,222,220)
Balance as at the end of the year after notional interest adjustment	18,404,146	10,220,024

Movement in collective impairment allowance for leases and hire purchases

	2016	2015
Balance as at the beginning of the year	76,187,733	46,538,861
Net impairment charge for the year	38,944,473	29,648,872
Balance as at end of the year	115,132,206	76,187,733

18. Other loans and receivables

	2016	2015
Loans and receivable	17,952,997,991	15,171,805,955
(-) Unearned income	(2,207,752,325)	(2,291,923,005)
Gross loans and receivables	15,745,245,666	12,879,882,949
(-) Allowance for specific impairment	(103,989,804)	(81,512,922)
(-) Allowance for collective impairment	(374,601,998)	(196,869,380)
Net loans and receivable	15,266,653,864	12,601,500,647

18.1 Product wise analysis of loans and receivables

		2016	2015
Short term loans receivable		Nil	143,256
Revolving loans receivable		677,752,248	549,685,488
Consumer loans receivable	120,040,131		
(-) Unearned income	(12,343,738)	107,696,393	289,942,425
Personal loans receivable	4,152,035,488		
(-) Unearned income	(1,019,106,501)	3,132,928,988	2,948,779,619
Pawning receivable		610,384,558	401,572,520
SME & mortgage loans receivable	12,392,785,565		
(-) Unearned income	(1,176,302,087)	11,216,483,478	8,689,759,641
Allowance for impairment (Note 18.2)		(478,591,802)	(278,382,302)
		15,266,653,864	12,601,500,647

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

18.2 Product wise analysis - allowance for impairment for other loans and receivables

	2016	2015
Revolving loans receivable	41,071,529	28,673,634
Consumer loans receivable	29,881,919	19,020,691
Personal loans receivable	160,897,416	102,220,843
Pawning receivable	59,359	1,747,871
SME & mortgage loans receivable	246,681,579	126,719,263
	478,591,802	278,382,302

18.3 Movement in impairment allowance for other loans and receivables

	2016	2015
Balance as at the beginning of the year	278,382,302	150,748,625
Net impairment charge for the year	244,011,490	185,808,930
Write offs during the year	Nil	(3,264,732)
Set offs during the year	(43,801,990)	(54,910,520)
Balance as at end of the year	478,591,802	278,382,302

18.4 Movement in specific impairment allowance for other loans and receivables

	2016	2015
Balance as at the beginning of the year	81,512,922	93,769,560
Net impairment charge for the year	22,476,882	45,918,615
Write offs during the year	Nil	(3,264,732)
Set offs during the year	Nil	(54,910,520)
Balance as at end of the year	103,989,804	81,512,922

18.5 Movement in collective impairment allowance for other loans and receivables

	2016	2015
Balance as at the beginning of the year	196,869,380	56,979,065
Net impairment charge for the year	221,534,609	139,890,315
Set offs during the year	(43,801,990)	Nil
Balance as at end of the year	374,601,998	196,869,380

19. Other non financial assets

	2016	2015
Prepayments and other receivable (19.1)	348,853,461	586,330,118
Vehicle stock (19.3)	73,217,136	262,584,742
Real estate stock	426,888,815	356,885,276
Gold stock	Nil	3,489,732
	848,959,412	1,209,289,868

19.1 Prepayments and other receivable

	2016	2015
Advance, deposits and prepayments	97,123,662	87,076,499
Receivable from inland revenue	44,002,765	116,097,854
Other receivable (19.2)	265,913,472	419,607,081
Impairment for other receivable	(58,186,438)	(36,451,315)
	348,853,461	586,330,118

19.2 Other receivable

	2016	2015
Insurance debtors	42,141,096	157,534,595
Others	223,772,376	262,072,486
	265,913,472	419,607,081

19.3 Vehicle stock

	2016	2015
Trading vehicle stock	13,618,968	24,388,206
Repossessed vehicle stock	107,003,981	333,383,470
Impairment allowance on repossessed vehicle stock	(47,405,813)	(95,186,935)
	73,217,136	262,584,742

20. Intangible assets

Computer software

	Balance as at 01 April 2015	Additions 1 April 2015 to 31 March 2016	Disposals 1 April 2015 to 31 March 2016	Balance as at 31 March 2016
Gross carrying amount	54,154,518	14,091,558	Nil	68,246,076
Accumulated depreciation	(20,492,764)	(10,322,277)	Nil	(30,815,040)
Net book values	33,661,754	3,769,282	Nil	37,431,036

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

	Balance as at 01 April 2014	Additions 1 April 2014 to 31 March 2015	Disposals 1 April 2014 to 31 March 2015	Balance as at 31 March 2015
Gross carrying amount	24,457,095	29,697,423	Nil	54,154,518
Depreciation	14,532,984	5,959,780	Nil	20,492,764
Net book values	9,924,111	23,737,643	Nil	33,661,754

Intangible assets includes fully amortised assets of Rs. 11,085,193 as at 31 March 2016 which are still in use.
(2015 - Rs. 8,585,367)

21. Property plant and equipment

21.1 Gross carrying amount

	Land	Building	Office Equipment	Furniture and Fittings	Motor Vehicles	Office Partitioning	Motor Vehicles - given out on hire agreements	Total
Cost								
Balance at 1 April 2014	62,181,178	60,691,222	145,344,777	67,737,721	17,788,338	60,818,015	40,332,284	454,893,535
Additions	Nil	20,327,539	38,893,115	4,404,185	5,773,402	20,637,208	Nil	90,035,449
Disposals	Nil	Nil	(283,200)	(78,606)	Nil	Nil	Nil	(361,806)
Balance at 31 March 2015	62,181,178	81,018,761	183,954,692	72,063,300	23,561,740	81,455,223	40,332,284	544,567,178
Additions	Nil	9,397,839	19,775,451	6,388,130	8,888,820	24,292,526	Nil	68,742,767
Revaluations	57,818,822	(7,666,599)	Nil	Nil	Nil	Nil	Nil	50,152,223
Disposals	Nil	Nil	Nil	(387,254)	(13,246,640)	Nil	(24,535,714)	(38,169,608)
Balance at 31 March 2016	120,000,000	82,750,000	203,730,143	78,064,177	19,203,920	105,747,749	15,796,569	625,292,559
Accumulated depreciation								
Balance at 1 April 2014	Nil	252,880	69,561,787	29,875,575	14,954,654	20,337,217	7,664,257	142,646,369
Depreciation	Nil	3,485,633	31,389,040	9,556,869	4,258,307	10,709,518	8,854,955	68,254,321
Depreciation on disposals	Nil	Nil	(99,180)	(37,813)	Nil	Nil	Nil	(136,993)
Balance as 31 March 2015	Nil	3,738,513	100,851,647	39,394,631	19,212,961	31,046,734	16,519,211	210,763,697
Depreciation	Nil	4,374,672	35,379,233	9,962,102	2,997,813	14,057,450	7,571,297	74,342,567
Depreciation on revaluation	Nil	(8,113,185)	Nil	Nil	Nil	Nil	Nil	(8,113,185)
Depreciation on disposals	Nil	Nil	Nil	(387,254)	(13,246,640)	Nil	(11,418,356)	(25,052,250)
Balance at 31 March 2016	Nil	Nil	136,230,880	48,969,479	8,964,134	45,104,184	12,672,152	251,940,829
Written down value								
Balance at 31 March 2015	62,181,178	77,280,248	83,103,045	32,668,669	4,348,779	50,408,489	23,813,073	333,803,481
Balance at 31 March 2016	120,000,000	82,750,000	67,499,263	29,094,697	10,239,786	60,643,565	3,124,417	373,351,729

21.2 The Company fixed assets consists of bellow leased assets

	Balance as at 01 April 2015	Additions 1 April 2015 to 31 March 2016	Revaluations 1 April 2015 to 31 March 2016	Disposals 1 April 2015 to 31 March 2016	Balance as at 31 March 2016
Cost					
Furniture and fittings	3,590,487	Nil	Nil	Nil	3,590,487
Motor vehicles - given out on hire agreements	3,631,213	Nil	Nil	Nil	3,631,213
Motor vehicles	10,221,275	8,888,820	Nil	(10,221,275)	8,888,820
Office equipment	707,000	Nil	Nil	Nil	707,000
Total value of depreciable assets	18,149,975	8,888,820	Nil	(10,221,275)	16,817,520
Depreciation					
Furniture and fittings	3,590,486	Nil	Nil	Nil	3,590,486
Motor vehicles - given out on hire agreements	3,629,040	Nil	Nil	Nil	3,629,040
Motor vehicles	10,221,310	1,296,286	Nil	(10,221,275)	1,296,321
Office equipment	707,000	Nil	Nil	Nil	707,000
Total depreciation	18,147,836	1,296,286	Nil	(10,221,275)	9,222,847
Total carrying amount of leased assets	2,139	7,592,534	Nil	Nil	7,594,673

21.3 Property plant and equipment includes fully depreciated assets which are still in use of Rs. 39,648,746/- as at 31 March 2016. (2015- Rs. Rs.21,310,350/-)

21.4 The details of freehold land and buildings which are stated at valuation are as follows;

Freehold land

Location	Land extent	Method of Valuation	Date of the Valuation	Valuer	Revalued Amount (Rs.)
No. 13, De Fonseka place, Colombo 4.	0A-0R-12.6P	Direct Capital Comparison method	31st March 2016	Mr. P.B. Kalugalgedara (Chartered Valuation Surveyor)	120,000,000

Freehold buildings

Location	Square feet	Method of Valuation	Date of the Valuation	Valuer	Revalued Amount (Rs.)
No. 13, De Fonseka place, Colombo 4	16,850	Direct Capital Comparison method	31st March 2016	Mr. P.B. Kalugalgedara	82,750,000

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

21.5 Net gain on revaluation of land and building

	Land	Building	Total
Revaluation surplus	57,818,822	446,586	58,265,408

21.6 If land and buildings were stated at historical cost, the amounts would have been as follows

	Land	Building
Cost	62,181,178	90,416,599
Accumulated depreciation	Nil	(8,113,185)
Carrying value	62,181,178	82,303,415

21.7 Fair Value Hierarchy

The fair value of the Land & Buildings was determined by an external independent property valuer, having appropriate recognised professional qualifications and experience in the category of the property being valued. The valuer provides the fair value of the property. Fair value measurements of the property has been categorised as a Level 3 fair value based on the valuation techniques used.

Valuation Techniques and Significant Unobservable Inputs

The following tables show the valuation techniques used in measuring fair values, as well as the significant unobservable inputs.

Description	Effective Date of valuation	Valuation Technique	Significant Unobservable Inputs	Interrelationship between key unobservable inputs and Fair value measurements
Freehold land				
No. 13, De Fonseka place, Colombo 4.	31st March 2016	Open market value	Market value per Perch	Positive correlated sensitivity
Freehold buildings				
No. 13, De Fonseka place, Colombo 4.	31st March 2016	Direct capital comparison method	Capital expense per square feet	Positive correlated sensitivity

22. Due to banks

	2016	2015
Bank overdrafts	214,055,489	240,635,073
Bank loans (22.3)	666,488,591	245,610,229
Finance lease creditors (22.2)	7,857,936	1,931,772
	888,402,016	488,177,074

22.1 Maturity of due to banks

	2016			2015		
	Payable within one year	Payable after one year	Total	Payable within one year	Payable after one year	Total
Bank overdrafts	214,055,489	Nil	214,055,489	240,635,073	Nil	240,635,073
Bank loans (22.3)	327,979,091	338,509,500	666,488,591	245,610,229	Nil	245,610,229
Finance lease creditors (22.2)	1,559,335	6,298,601	7,857,936	1,931,772	Nil	1,931,772
	543,593,915	344,808,101	888,402,016	488,177,074	Nil	488,177,074

22.2 Finance lease creditors

	As at 31 March 2016	Not later than 1 year	Later than 1 year and not later than 5 years
Gross liability	9,469,862	2,185,353	7,284,509
Finance charge allocated to future periods	(1,611,926)	(626,018)	(985,908)
Net liability	7,857,936	1,559,335	6,298,601

22.3 Analysis of bank facilities

Bank	Type of the loan	Amortised cost	Interest rates	Securities pledged
Commercial Bank of Ceylon	Term Loan	218,740,000	AWPLR+1.25%	Nil
HNB Bank	Term Loan	200,000,000	AWPLR+1%	Nil
Seylan Bank	Term Loan	244,791,500	AWPLR+1.5%	250,000,000
Commercial Bank of Ceylon	Finance Lease	7,857,936	8.58%	8,888,820

Seylan bank facility has been pledged on Company's lease, hire purchase, loan receivable book.

23. Due to customers

	2016		2015		2016	2015
	Payable within one year	Payable after one year	Payable within one year	Payable after one year		
Time deposits	12,461,285,795	1,521,942,995	10,052,432,856	2,211,419,588	13,983,228,789	12,263,852,444
Savings deposits	68,188,626	Nil	85,145,827	Nil	68,188,626	85,145,827
Certificate of deposits	4,154,432	Nil	11,696,132	2,876,189	4,154,432	14,572,321
	12,533,628,853	1,521,942,995	10,149,274,815	2,214,295,777	14,055,571,848	12,363,570,592

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

24. Other borrowed funds

	2016	2015
Securitisation (24.3)	Nil	206,812,763
FMO Loan (24.2)	311,727,460	555,493,541
Commercial papers	860,582,454	2,321,292,722
Debentures (24.4)	2,015,808,168	2,009,961,140
	3,188,118,082	5,093,560,167

24.1 Maturity of other borrowed funds

	2016			2015		
	Payable within one year	Payable after one year	Total	Payable within one year	Payable after one year	Total
Securitisation	Nil	Nil	Nil	206,812,763	Nil	206,812,763
FMO Loan	Nil	311,727,460	311,727,460	Nil	555,493,541	555,493,541
Commercial papers	860,582,454	Nil	860,582,454	2,321,292,722	Nil	2,321,292,722
Debentures	500,000,000	1,515,808,168	2,015,808,168	Nil	2,009,961,140	2,009,961,140
	1,360,582,454	1,827,535,628	3,188,118,082	2,528,105,485	2,565,454,681	5,093,560,167

24.2 FMO Loan

Bank	Type of the loan	Amortised cost	Interest rates	Securities pledged
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	Convertible Debt	253,980,000	LIBOR+7%	Nil

24.3 Securitisation (at amortised cost)

	2016	2015
Trust 14	Nil	5,824,222
Trust 17	Nil	22,187,513
Trust 19	Nil	16,415,638
Trust 20	Nil	42,526,067
Trust 21	Nil	77,150,844
	Nil	164,104,285

24.4 Debentures

During the financial year 2013/14 company issued debentures as follows:

Listed debentures

Debenture category	Annual interest rate	Interest payment frequency	Allotment date	Maturity date	Amortised cost
Type A -	17%	Annually	28-Aug-13	27-Aug-16	217,840,000
Type B -	16.5%	Semi Annually	28-Aug-13	27-Aug-16	100,160,000
Type C -	16%	Monthly	28-Aug-13	27-Aug-16	182,000,000
					500,000,000

Unsecured, unlisted, subordinated, redeemable debentures

	Annual interest rate	Interest payment frequency	Issued date	Maturity date	Amortised cost
Debentures	15.5%	Quarterly	29-Nov-13	28-Nov-18	65,000,000
					65,000,000

During the financial year 2014/15 company issued debentures as follows:

Listed debentures

Debenture category	Annual interest rate	Interest payment frequency	Allotment date	Maturity date	Amortised cost
Type A -	10.00%	Quarterly	29-Aug-14	28-Aug-19	949,870,000
Type B -	Three (03) Months Net Treasury Bill Rate plus 1.50%	Quarterly	29-Aug-14	28-Aug-19	450,130,000
					1,400,000,000

25. Other non financial liabilities

	2016	2015
Accrued expenses	23,473,269	22,032,172
Other payables	66,063,601	62,485,345
	89,536,870	84,517,517

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

26. Retirement benefit obligations

	2016	2015
At beginning of year	14,263,852	21,967,734
Transitional liability	Nil	1,411,602
Current service cost	5,146,198	4,152,093
Interest cost	1,497,704	2,526,289
Actuarial losses/(gains)	528,426	(5,385,166)
Losses due to changes in assumptions	(4,917,190)	Nil
Contributions paid	(1,663,646)	(10,408,700)
At end of the year	14,855,344	14,263,852

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

Current service cost	5,146,198	4,152,093
Interest cost	1,497,704	2,526,289
	6,643,902	6,678,382

Amounts recognised in the other comprehensive income are as follows

Liability (gain) /losses due to changes in assumptions	(4,917,190)	Nil
Liability experience (gain)/losses during the year	528,426	(5,385,166)
*Transitional liability / (asset) recognised during the year	Nil	1,411,602
	(4,388,764)	(3,973,564)

* With effect from 01 April 2013 company adopted the revised LKAS 19, Employee benefits. Accordingly the accounting policy has been changed to reflect the new requirement under the revised standard. The effect of recognising the entire actuarial gain or losses as a result was not material to the financial statements. Hence the transitional effect has been accounted full in the current year.

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 actuary as of 31 March 2016. The principal assumptions used for this purpose are as follows:

	2016	2015
Discount rate per annum	11.8%	10.5%
Annual salary increments rate	8%	10%
Retirement age	55	55

27. 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 assets and liabilities are attributable to the following originations of temporary differences;

Taxable / (Deductible) Temporary Differences

	2016	2015
Property, Plant & Equipment	151,528,731	198,696,709
Lease Capital Balance	229,666,494	147,935,715
Taxable Temporary Differences	381,195,225	346,632,424
Retirement benefit obligations	(14,855,344)	(14,263,852)
Unclaimed Impairment Provisions	(283,247,780)	(174,346,989)
Unclaimed Tax Losses	(35,428,408)	(86,202,913)
Total Taxable Temporary Differences (net)	47,663,693	71,818,670
Applicable Tax Rate	28%	28%
Net Deferred Tax Liabilities / (Assets)	13,345,834	20,109,228

	2016		2015	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
Deferred Tax Liabilities				
At beginning of the year	346,632,424	97,057,079	284,866,683	79,762,671
Originating/(reversing) during the year	34,562,801	9,677,584	61,765,741	17,294,407
At the end of the year	381,195,225	106,734,663	346,632,424	97,057,079
Deferred Tax Asset				
At beginning of the year	274,813,754	76,947,851	118,447,468	33,165,291
Originating during the year	58,717,778	16,440,978	156,366,286	43,782,560
At the end of the year	333,531,532	93,388,829	274,813,754	76,947,851

	2016	2015
Net deferred tax liability		
At beginning of the year	20,109,228	46,597,380
Income statement release	(6,763,394)	(3,001,928)
Impact on reclassification	Nil	(23,486,225)
At the end of the year	13,345,834	20,109,228

28. Stated capital

	2016		2015	
	Number	Rs.	Number	Rs.
Issued and fully paid ordinary shares	59,070,988	1,692,615,435	50,830,362	1,404,523,150
No. of shares at the beginning of the year	50,830,362		37,453,951	
Shares issued during the year (Rights issue)	Nil		13,376,411	
Shares issued during the year for convertible debts (FMO Loan)	8,240,626		Nil	
No of shares at the ending of the year	59,070,988		50,830,362	

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(All amounts in Sri Lankan Rupees)

29. Reserves

	Statutory reserve fund	Investment fund reserve	Revaluation reserve	Available for sale reserve	Total
As at 01 April 2014	75,970,040	75,933,826	Nil	12,209,113	164,112,978
Transfers during the year	43,297,928	(75,933,826)	Nil	Nil	(32,635,898)
Net loss on available for sale assets	Nil	Nil	Nil	(12,209,113)	(12,209,113)
As at 31 March 2015	119,267,968	Nil	Nil	Nil	119,267,968
Transfers during the year	73,792,156	Nil	Nil	Nil	73,792,156
Gain on revaluation of land and building	Nil	Nil	58,265,408	Nil	58,265,408
Net loss on available for sale assets	Nil	Nil	Nil	(50,657,400)	(50,657,400)
As at 31 March 2016	193,060,124	Nil	58,265,408	(50,657,400)	200,668,132

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

However, in compliance with the new guideline issued under the letter No. 24/10/001/0004/001, the operation of Investment fund reserve has ceased with effect from October 1, 2014 and the balance has been transferred to retained earnings.

30. Financial risk management

Introduction and overview

The Company has exposed to the following risks from financial instruments.

- 01) Market Risk
- 02) Credit Risk
- 03) Liquidity Risk
- 04) Operational Risk

Risk management framework

The board of directors has overall responsibility for the establishment and oversight of the company's risk management framework. The Board discharges its governance responsibility through the Board Integrated Risk Management Committee and the Audit Committee. Board Integrated Risk Management Committee consists of non-executive and executive members who report regularly to the board of directors on their activities. There are several executive management sub committees such as Credit Committee, Asset and Liability Committee (ALCO), IT Steering Committee, which focus on specialised risk areas that support the Board Integrated Risk Management Committee.

The company's risk management policies are established to identify and analyse the risks faced by the company, to

set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the company's risk management policies and procedures. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Objectives and policies

Integrated Risk Management Committee (IRM) with the ultimate objective of to deliver superior shareholder value between risk and return. This Committee consists of two independent non executive directors, one non executive director, two executive directors including CEO, COO, Head of Risk. 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 continually monitor the credit exposure in order to ensure superior credit quality.

The Company's principal financial liabilities comprised of 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 summarised 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 optimising return.

Financial assets subject to market risk

	2016		
	Carrying amount	Trading portfolios	Non trading portfolios
Financial investments - Available for sale	179,848,200	80,517,600	99,330,600
Financial investments - Held for trading	Nil	Nil	Nil
Financial investments - Held to maturity	Nil	Nil	Nil
Lease, hire purchase and loans receivables	1,590,794,925	Nil	1,590,794,925
Other loans and receivables	15,266,653,864	Nil	15,266,653,864
	17,037,296,989	80,517,600	16,956,779,389

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

	2015		
	Carrying amount	Trading portfolios	Non trading portfolios
Financial investments - Available for sale	60,730,332	Nil	60,730,332
Financial investments - Held for trading	118,296,000	118,296,000	Nil
Financial investments - Held to maturity	1,480,769,217	Nil	1,480,769,217
Lease, hire purchase and loans receivables	3,097,313,645	Nil	3,097,313,645
Other loans and receivables	12,155,914,877	Nil	12,155,914,877
	16,913,024,072	118,296,000	16,794,728,072

Financial liabilities subject to market risk

	2016		
	Carrying amount	Trading portfolios	Non trading portfolios
Due to banks	888,402,016	Nil	888,402,016
Due to customers	14,055,571,848	Nil	14,055,571,848
Other borrowed funds	3,188,118,082	Nil	3,188,118,082
	18,132,091,946	Nil	18,132,091,946

	2015		
	Carrying amount	Trading portfolios	Non trading portfolios
Due to banks	488,177,074	Nil	488,177,074
Due to customers	12,363,570,592	Nil	12,363,570,592
Other borrowed funds	5,093,560,167	Nil	5,093,560,167
	17,945,307,833	Nil	17,945,307,833

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.

	31 March 2016	31 March 2015
Fixed interest rate instruments:		
Financial assets	18,916,373,569	17,144,697,472
Financial liabilities	16,992,667,022	16,651,868,620
Floating interest rate instruments:		
Financial assets	Nil	Nil
Financial liabilities	925,369,435	580,699,663

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.

	Changes in basis points	Effect on profit Rs.
2016		
Floating interest rate instruments	+25 b.p	1,658,829
2015		
Floating interest rate instruments	+25 b.p	1,196,822

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 2016.			
Quoted shares – (Colombo Stock Exchange)	10% +/-	Nil	8,051,760
31 March 2015.			
Quoted shares – (Colombo Stock Exchange)	10% +/-	11,829,600	Nil

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.

Management of market risks

The Company separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the company's Treasury Department. Overall authority for market risk is vested in ALCO. The Company employs a range of tools to monitor and limit market risk exposures.

Credit risk

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 is the risk of financial loss to the Company if a customer

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and receivables to customers and investment debt securities. For risk management reporting purposes the Company considers and consolidates all elements of credit risk exposure such as individual obligator default risk and sector risk. For risk management purposes, credit risk arising on trading assets is managed independently and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk, further details are provided in market risk section.

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.

Management of credit risk

The board of directors has delegated responsibility for the oversight of credit risk to its Credit Committee and Credit Risk Committee. Company Credit Risk monitoring Unit reporting to Risk Committee through the Chief Risk Officer who is responsible for management of the company's credit risk, including:

Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting.

Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Heads of Credit, Board Credit Committee or the board of directors as appropriate.

Reviewing and assessing credit risk. Heads of Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer. Refer Concentration of risk.

Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Heads of Credit who may require appropriate corrective action to be taken.

Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

Regular audits of business units and Company Credit processes are undertaken by Internal Audit.

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 2016 Rs.	31 March 2015 Rs.
Bank balances	401,107,631	467,707,261
Lease and hire purchase rental receivables	1,590,794,925	3,097,313,645
Loans and advances	15,266,653,864	12,601,500,647

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 at the reporting date is shown below.

Concentration by sector (Gross)

	2016	2015
Agriculture	947,621,718	549,565,117
Manufacturing	804,222,975	429,681,742
Tourism	2,299,470,916	51,305,594
Transport	694,327,915	579,023,744
Construction	5,197,726,659	1,479,341,052
Trading	649,456,846	6,564,243,613
Services	7,819,515,771	8,316,232,356
Other	1,537,535,499	743,525,790
	19,949,878,299	18,712,919,008

Concentration by location (Gross)

	2016	2015
Western	9,850,414,203	11,449,762,415
Uva	354,968,408	620,759,562
North Western	1,275,605,014	982,134,159
Southern	2,933,811,453	1,797,345,734
Central	2,628,264,038	1,899,462,239
North Central	1,303,791,817	886,019,338
Sabaragamuwa	981,082,192	767,771,716
North	621,939,174	309,663,845
	19,949,876,299	18,712,919,008

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(All amounts in Sri Lankan Rupees)

(a) Credit quality by class of financial assets

	2016	2015
Assets at amortised cost		
Individually impaired		
Net amount	1,702,728,779	1,755,803,336
- allowance for impairment	(122,393,925)	(91,732,947)
Carrying amount	1,580,334,854	1,664,070,390
for the rest of portfolio where collective impairment is applicable		
Net amount	15,766,848,140	16,957,115,672
- allowance for impairment	(489,734,204)	(273,057,113)
Carrying amount	15,277,113,936	16,684,058,559
Total carrying amount	16,857,448,789	18,348,128,949

Age analysis of facilities considered for collective impairment

	2016	2015
Category		
Not due/ current	14,338,933,012	14,502,503,364
Overdue:		
Less than 30 days	201,529,142	533,567,174
31 - 60 days	122,968,858	485,353,000
61 - 90 days	92,016,976	284,520,573
91 - 120 days	74,365,669	144,964,898
121 - 150 days	64,666,068	118,628,500
151 - 180 days	59,793,744	151,760,892
181 - 365 days	304,416,241	272,602,355
above 365 days	508,158,431	463,214,916
	15,766,848,140	16,957,115,672

(b) Credit quality by class 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:

31 March 2016	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
Cash and cash equivalents	2,495,230,517	Nil	Nil	2,495,230,517
Financial investments - Available for sale	179,848,200	Nil	Nil	179,848,200
Financial investments - Held for trading	Nil	Nil	Nil	Nil
Financial investments - Held to maturity	Nil	Nil	Nil	Nil
Lease, hire purchases (net)	875,260,702	708,869,517	140,201,034	1,724,331,253
Other Loans and receivables (net)	13,463,672,310	719,045,611	1,562,527,745	15,745,245,666
Total financial assets	17,014,011,729	1,427,915,128	1,702,728,779	20,144,655,636

31 March 2015	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
Cash and cash equivalents	1,078,468,881	Nil	Nil	1,078,468,881
Financial investments - Available for sale	60,730,332	Nil	Nil	60,730,332
Financial investments - Held for trading	118,296,000	Nil	Nil	118,296,000
Financial investments - Held to maturity	1,480,769,217	Nil	Nil	1,480,769,217
Lease, hire purchases (net)	2,338,617,357	453,518,586	305,177,702	3,097,313,645
Other Loans and receivables (net)	7,050,257,248	4,255,481,837	1,295,761,562	12,601,500,647
Total financial assets	12,127,139,036	4,709,000,423	1,600,939,264	18,437,078,723

Fair value of financial instruments carried at amortised cost

The table below shows a comparison of the carrying amounts, as reported on the statement of financial position, and fair values of the financial assets and liabilities carried at amortised cost.

Fair values is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The estimated fair values are based on relevant information. There are various limitations inherent in this fair value disclosure particularly where prices may not represent the underlying value due to dislocation in the market. Not all of the company's financial instruments can be exchanged in an active trading market. The company obtains the fair values of investment securities from quoted market prices where available, the company obtains the fair values by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity.

Given below is the methodologies and assumptions used in fair value estimates.

Cash and cash equivalents

The carrying amount of cash and cash equivalents, approximate their fair value as those are short term in nature and are receivable on demand.

Loans and receivables (Including Lease and HP)

Approximately 70% of the total lending portfolio has a remaining maturity of less than one year. Therefore fair value of lending portfolio approximates to the carrying value as at the reporting date. All loans are granted with a fixed interest rate term.

Liabilities

Due to banks

Approximately 61% of the amounts due to banks (Inclusive of overdraft facilities) as at the reporting date have a remaining contractual maturity of less than one year. Majority of the balance amounts comprised of floating rate instruments. Therefore fair value of amounts due to banks approximates to the carrying value as at the reporting date.

Due to customers

Approximately 89% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of premature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

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(All amounts in Sri Lankan Rupees)

Other borrowed funds

44% of other borrowed funds mainly includes commercial papers with a contractual maturity of less than one year which approximately equals to its fair value. Further all securitisation payable with a contractual maturity of less than one year also approximately equals to its fair value.

Financial assets and liabilities

	2016	
	Carrying Value	Fair Value
Cash and cash equivalents	2,495,230,517	2,495,230,517
Loans and receivables (Including lease and HP)	16,857,448,789	16,857,448,789
Due to banks	888,402,016	888,402,016
Due to customers	14,055,571,848	14,055,571,848
Other borrowed funds	3,188,118,082	3,188,118,082

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

At 31 March 2016	Less than 3 months Rs.	More than 3 and less than 12 months Rs.	More than 1 year and less than 3 years Rs.	More than 3 years Rs.	Total Rs.
Financial assets					
Cash and cash equivalents	436,305,737	2,058,924,780	Nil	Nil	2,495,230,517
Financial investments - Available for Sale	179,848,200	Nil	Nil	Nil	179,848,200
Financial investments - Held for Trading	Nil	Nil	Nil	Nil	Nil
Lease and hire purchase	717,470,141	386,114,709	429,762,015	57,448,060	1,590,794,925
Loans and receivables	4,493,012,282	6,583,868,506	3,291,854,217	897,918,858	15,266,653,864
Total financial assets	5,826,636,360	9,028,907,995	3,721,616,232	955,366,919	19,532,527,506

At 31 March 2016	Less than 3 months Rs.	More than 3 and less than 12 months Rs.	More than 1 year and less than 3 years Rs.	More than 3 years Rs.	Total Rs.
Financial liabilities					
Bank overdrafts	214,055,489	Nil	Nil	Nil	214,055,489
Due to customers	7,235,165,953	5,298,462,900	872,766,599	649,176,396	14,055,571,848
Due to banks	34,589,774	294,948,652	253,601,757	91,206,344	674,346,527
Other borrowed funds	778,495,696	690,642,386	65,000,000	1,653,980,000	3,188,118,082
Total financial liabilities	8,262,306,912	6,284,053,939	1,191,368,356	2,394,362,740	18,132,091,946
	(2,435,670,551)	2,744,854,056	2,530,247,876	(1,438,995,821)	1,400,435,560

The key measure used by the company for managing liquidity risk is the ratio of liquid assets to deposits from customers and other liabilities. For this purpose liquid assets are considered as including cash and cash equivalents and investment for which there is an active and liquid market. Details of the reported ratio of net liquid assets to the liabilities from customers at the reporting date and during the year were as follows:

As at 31 March	2016	2015
Average for the year	12.91%	14.46%
Maximum for the year	13.53%	22.34%
Minimum for the year	11.87%	10.79%

Components of the Company's liquid assets used for the purpose of calculating the Statutory Liquid Asset Ratio as at 31st March is given below:

	2016	2015
Cash in Hand & Bank Balances	436,305,737	678,468,880
Deposits in Commercial Banks free from lien	339,179,272	289,517,546
Sri Lanka Government Treasury Bills and Treasury Bonds, maturing within one year, free from any lien or charge	1,683,789,500	1,441,251,672
Total Liquid Assets as at end of March	2,459,274,509	2,409,238,098

The table below sets out the availability of financial assets held by the company on the basis of being encumbered or unencumbered.

	2016		2015	
	Encumbered	Unencumbered	Encumbered	Unencumbered
Cash and cash equivalents	Nil	2,495,230,517	Nil	1,078,468,881
Financial investments - Available for sale	Nil	179,848,200	Nil	60,730,332
Financial investments - Held for trading	Nil	Nil	Nil	118,296,000
Lease and hire purchase receivables	250,000,000	1,340,794,925	505,552,730	2,591,760,914
Loans and receivables	Nil	15,266,653,864	Nil	12,601,500,647
Other non financial assets	Nil	848,959,412	Nil	1,209,289,868
Intangible assets	Nil	37,431,036	Nil	33,661,754
Property, plant & equipment	8,888,820	373,351,729	Nil	333,803,481

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

* Encumbered- Pledged as collateral in borrowings

Analysis of commitment and contingencies 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.	More than 3 years Rs.	Total Rs.
Guarantees issued to banks and other institutions	1,500,000	3,150,000	Nil	Nil	4,650,000
	1,500,000	3,150,000	Nil	Nil	4,650,000

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 2015 and 31 March 2016.

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 2016 Rs.	31 March 2015 Rs.
Due to banks	888,402,016	488,177,074
Due to customers	14,055,571,848	12,363,570,592
Other borrowed funds	3,188,118,082	5,093,560,167
Less cash and cash equivalents	(2,495,230,517)	(1,078,468,881)
Net debt	15,636,861,429	16,866,838,952
Total capital	2,542,439,690	1,949,635,394
Capital and net debt	18,179,301,118	18,816,474,346
Gearing ratio	86.01%	89.64%

31. 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:

	Level 1	Level 2	Level 3	Total Balance
As at 31 March 2016				
Assets				
Financial investments - Held for trading	Nil	Nil	Nil	Nil
Financial investments - Available for sale	80,517,600	Nil	99,330,600	179,848,200
	80,517,600	Nil	99,330,600	179,848,200
Liabilities				
Financial liabilities at fair value through profit or loss - Derivative financial instrument	Nil	Nil	Nil	Nil
	Nil	Nil	Nil	Nil
As at 31 March 2015				
Assets				
Financial investments - Held for trading	118,296,000	Nil	Nil	118,296,000
Financial investments - Available for sale	10,699,732	Nil	50,030,600	60,730,332
	128,995,732	Nil	50,030,600	179,026,332
Liabilities				
Financial liabilities at fair value through profit or loss	Nil	Nil	Nil	Nil
	Nil	Nil	Nil	Nil

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 maximise 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.

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

32. Financial instruments by category

(a) Financial instruments

31 March 2016	Loans and receivables	Fair value through profit or loss	Available for sale	Held to maturity Investments	Total
Assets as per the statement of financial position					
Financial investments - Available for sale	Nil	Nil	179,848,200	Nil	179,848,200
Financial investments - Held for trading	Nil	Nil	Nil	Nil	Nil
Lease and hire purchase	1,590,794,925	Nil	Nil	Nil	1,590,794,925
Loans and receivables	15,266,653,864	Nil	Nil	Nil	15,266,653,864
Cash and bank balances	2,495,230,517	Nil	Nil	Nil	2,495,230,517
	19,352,679,306	Nil	179,848,200	Nil	19,532,527,506

31 March 2016	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities as per the statement of financial position			
Due to banks	Nil	888,402,016	888,402,016
Due to customers	Nil	14,055,571,848	14,055,571,848
Other borrowed funds	Nil	3,188,118,082	3,188,118,082
	Nil	18,132,091,946	18,132,091,946

31 March 2015	Loans and receivables	Fair value through profit or loss	Available for sale	Held to maturity Investments	Total
Assets as per the statement of financial position					
Financial investments - Available for sale	Nil	Nil	60,730,332	Nil	60,730,332
Financial investments - Held for trading	Nil	118,296,000	Nil	Nil	118,296,000
Financial investments - Held to maturity	Nil	Nil	Nil	1,480,769,217	1,480,769,217
Lease and hire purchase	3,097,313,645	Nil	Nil	Nil	3,097,313,645
Loans and receivables	12,601,500,647	Nil	Nil	Nil	12,601,500,647
Cash and bank balances	1,078,468,881	Nil	Nil	Nil	1,078,468,881
	16,777,283,173	118,296,000	60,730,332	1,480,769,217	18,437,078,723

31 March 2015	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities as per the statement of financial position			
Due to banks	Nil	488,177,074	488,177,074
Derivative financial instruments	Nil	Nil	Nil
Due to customers	Nil	12,363,570,592	12,363,570,592
Other borrowed funds	Nil	5,093,560,167	5,093,560,167
	Nil	17,945,307,833	17,945,307,833

33. Commitments and contingencies

	2016	2015
Guarantees issued and in force	4,650,000	12,250,000
	4,650,000	12,250,000

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

34. Events after the balance sheet date

The Directors have recommended the payment of an interim dividend of Rs 1.25 per share for the financial year 2015/2016. No other circumstances have arisen since the balance sheet date, which would require adjustments to or disclosure in the financial statements.

35. Transfer of financial assets (Lease and HP receivable)

Under the securitisation arrangement, the 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	2016	2015
Lease, hire purchase and loans rental receivable	250,000,000	505,552,730
Securitisation payable	Nil	164,104,285

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

Nature of assets	2016	2015
Lease, hire purchase and loans rental receivable	250,000,000	505,552,730
Government securities	Nil	Nil
	250,000,000	505,552,730

36. Related party transactions

Details of significant related party disclosures are as follows:

36.1 Transactions with key managerial personnel (KMPs)

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

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

	2016	2015
Deposits	77,117,364	44,212,192

36.1.3 Remuneration to key managerial personnel amounted to Rs. 33,182,329/- for the year ended 31 March 2016. (2015 - Rs. 18,160,930)

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

36.2 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, advances and Investments	Borrowings/ deposits	Income earned	Amounts owed by group companies	Expenses incurred
Softlogic Capital PLC	Parent Company	2016 Mar	Nil	Nil	Nil	Nil	39,418,403
		2015 Mar	Nil	Nil	Nil	Nil	36,734,688
Softlogic Corporate Services (Pvt) Ltd	Affiliated Company	2016 Mar	Nil	Nil	Nil	Nil	1,701,666
		2015 Mar	Nil	Nil	Nil	Nil	Nil
Softlogic Retail (Pvt) Ltd	Affiliated Company	2016 Mar	Nil	12,292,349	Nil	Nil	3,052,205
		2015 Mar	Nil	5,319,459	445,341	Nil	4,435,492
Softlogic Communications (Pvt) Ltd	Affiliated Company	2016 Mar	Nil	Nil	Nil	Nil	15,371
		2015 Mar	Nil	Nil	955,613	Nil	14,739
Softlogic Computers (Pvt) Ltd	Affiliated Company	2016 Mar	Nil	Nil	Nil	Nil	982,630
		2015 Mar	Nil	Nil	Nil	Nil	963,894
Softlogic Information Technologies (Pvt) Ltd	Affiliated Company	2016 Mar	Nil	Nil	Nil	Nil	11,240,279
		2015 Mar	Nil	Nil	953,973	Nil	10,782,216
Softlogic Stock Brokers (Pvt) Ltd	Affiliated Company	2016 Mar	10,379	51,068,750	10,649	Nil	3,550,325
		2015 Mar	Nil	15,091,424	Nil	Nil	937,281

Plant & equip. purchased	Guarantees obtained	Net accommodations as a % of capital funds	Nature & terms of the transaction	The rationale for entering into the transaction
Nil	Nil	0.0%	Technical & management fees, corporate guarantee fees	To manage working capital requirement of the Company
Nil	700,000,000	0.0%	Technical & management fees, Providing guarantee for bank facilities obtained	To manage working capital requirement of the Company
Nil	Nil	0.0%	Providing secretarial services	Normal business activity of the Company
Nil	Nil	0.0%	Not applicable	Not applicable
5,756,552	Nil	0.0%	Fixed deposit accepted - Interest rate @ 11% to 9% p.a / Period : 12 months, Fixed assets and computer repairing items purchases and depreciation on all purchased fixed assets	Working capital requirement of the Company & normal business activity of the Company
2,507,162	Nil	0.0%	Fixed deposit accepted - Interest rate @ 9% p.a / Period : 12 months, Fixed assets and computer repairing items purchases and depreciation on all purchased fixed assets	Working capital requirement of the Company & normal business activity of the Company
Nil	Nil	0.0%	Depreciation on all purchased fixed assets	Normal business activity of the Company
Nil	Nil	0.0%	Interest income on loan granted, Fixed assets purchasing and depreciation on all purchased fixed assets	Normal business activity of the Company
1,963,494	Nil	0.0%	Fixed assets purchases and depreciation on all purchased fixed assets	Normal business activity of the Company
954,750	Nil	0.0%	Fixed assets purchases and depreciation on all purchased fixed assets	Normal business activity of the Company
16,403,455	Nil	0.0%	Fixed assets purchasing and computer repairing items purchases and depreciation on all purchased fixed assets	Normal business activity of the Company
10,190,421	Nil	0.0%	Interest on loans granted @ 20% p.a / period :60 months (Fully settled during the year), Fixed assets purchasing and computer repairing items purchases and depreciation on all purchased fixed assets	Normal business activity of the Company
Nil	Nil	0.0%	Fixed deposit accepted - Interest rate @ 10% p.a / Period : 3 months, Loans granted and outstanding - interest rate @ 20%	Working capital requirement of the Company
Nil	Nil	0.0%	Fixed deposit accepted - Interest rate @ 8% p.a / Period : 3 months	Working capital requirement of the Company

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

	Relationship		Loans, advances and Investments	Borrowings/ deposits	Income earned	Amounts owed by group companies	Expenses incurred
Asian Alliance Insurance PLC	Affiliated Company	2016 Mar	Nil	80,000,000	14,304,920	Nil	24,448,962
		2015 Mar	150,462,397	80,000,000	36,622,348	Nil	15,259,795
Softlogic Trading (Pvt) Ltd	Affiliated Company	2016 Mar	Nil	Nil	Nil	Nil	1,751,079
		2015 Mar	Nil	Nil	Nil	Nil	2,758,220
Softlogic Automobiles (Pvt) Ltd	Affiliated Company	2016 Mar	7,088,937	Nil	14,607,655	Nil	7,602,941
		2015 Mar	9,856,923	Nil	10,283,246	Nil	8,587,500
Softlogic BPO Services (Pvt) Ltd	Affiliated Company	2016 Mar	Nil	Nil	Nil	Nil	22,046,075
		2015 Mar	Nil	Nil	Nil	Nil	Nil
Softlogic Brands (PVT) LTD	Affiliated Company	2016 Mar	Nil	Nil	Nil	Nil	254,341
		2015 Mar	Nil	Nil	Nil	Nil	Nil

Plant & equip. purchased	Guarantees obtained	Net accommodations as a % of capital funds	Nature & terms of the transaction	The rationale for entering into the transaction
Nil	Nil	0.0%	Commercial paper investment income at 9.50% & loans interest income at rate @ 30% & 32% p.a / period :36 months, debentures issued @ the rate of 16%, 17% for 36 months, Purchasing insurance policies for the Company	Working capital requirement of the Company & normal business activity of the Company
Nil	Nil	7.7%	Commercial paper investment at 9% and 9.50% & loans granted and outstanding - interest rate @ 30% & 32% p.a / period :36 months, debentures @ the rate of 16%, 17% for 36 months	Working capital requirement of the Company & normal business activity of the Company
Nil	Nil	0.0%	Depreciation on all purchased fixed assets	Normal business activity of the Company
4,898,445	Nil	0.0%	Fixed assets purchasing and depreciation on all purchased fixed assets	Normal business activity of the Company
Nil	Nil	0.5%	Loans granted & outstanding - interest rate @ 20% p.a / period :60 months and 48 months, Income from hiring vehicles	Normal business activity of the Company
Nil	Nil	0.5%	Loans granted & outstanding - interest rate @ 20% p.a / period :60 months and 48 months, Income from hiring vehicles	Normal business activity of the Company
Nil	Nil	0.0%	Information Technology infrastructure support service fee	Normal business activity of the Company
Nil	Nil	0.0%	Not applicable	Not applicable
4,237,137	Nil	0.0%	Fixed assets purchases and depreciation on all purchased fixed assets	Normal business activity of the Company
Nil	Nil	0.0%	Not applicable	Not applicable

NOTES TO THE FINANCIAL STATEMENTS Contd.

(All amounts in Sri Lankan Rupees)

37. Business segment information

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

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	
	2016 Rs.	2015 Rs.
Revenue		
Interest	268,206,917	421,879,681
Investment Income	Nil	Nil
Fee based income and others	3,451,186	2,865,935
Profit/(Loss) from Dealing Securities	Nil	Nil
Total Revenue	271,658,103	424,745,616
Depreciation of property, plant and equipment	(4,884,230)	(7,297,115)
Amortisation of intangible assets	(678,163)	(637,164)
Profit/(Loss) before tax	28,229,206	23,591,039
Taxation		
Profit after tax		
Segment Assets	1,465,809,117	1,465,809,117
Segment Liabilities	1,286,572,731	1,323,018,217

Hire Purchases and Loans		Other Loans and Receivables		Unallocated		Total	
2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
369,023,416	1,309,290,865	2,777,123,640	1,612,446,863	Nil	Nil	3,414,353,974	3,343,617,408
Nil	Nil	Nil	Nil	197,668,502	202,086,541	197,668,502	202,086,541
2,793,828	23,764,041	469,386,297	209,762,608	34,358,865	98,269,320	509,990,176	334,661,904
Nil	Nil	Nil	Nil	12,879,000	92,536,547	12,879,000	92,536,547
371,817,244	1,333,054,906	3,246,509,937	1,822,209,471	244,906,367	392,892,408	4,134,891,652	3,972,902,400
(6,685,024)	(22,901,836)	(58,370,062)	(31,305,494)	(4,403,252)	(6,749,878)	(74,342,567)	(68,254,322)
(928,199)	(1,999,725)	(8,104,535)	(2,733,510)	(611,380)	(589,381)	(10,322,277)	(5,959,780)
38,637,190	74,039,965	337,359,340	101,208,379	25,449,314	21,821,862	429,675,049	220,661,245
						(60,714,267)	(4,171,605)
						368,960,782	216,489,640
124,985,808	4,953,710,435	15,266,653,864	10,314,478,187	3,934,820,895	3,279,836,086	20,792,269,684	20,013,833,825
109,702,779	4,471,147,760	13,399,876,100	9,309,699,597	3,453,678,385	2,960,332,857	18,249,829,994	18,064,198,431

CORPORATE RESPONSIBILITY



WE CARE FOR THE
COMMUNITY AND
THE ENVIRONMENT,
TAKING THE
RESPONSIBILITY
TO PROTECT THEM.
WE ARE A GOOD
CORPORATE CITIZEN
AND SUPPORT
WORTHY CAUSES
AND CSR PROJECTS.

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INVESTOR INFORMATION

1. General

Stated Capital Rs. 1,692,615,435.00

2. Stock Exchange Listing

The ordinary shares of Softlogic Finance PLC were listed in the Colombo Stock Exchange of Sri Lanka.

3. Shares held by the Public

Shares held by the public was 29.83 % as at 31st March 2016. The number of public shareholders as at 31st March 2016 was 1,507.

4. Distribution of Shareholding as at 31st March 2016

There were 1,512 Registered shareholders as at 31st March 2016.

No. of Shares held		No. of	% of	No. of	% of
From	To	Shareholders	Shareholders	Shares	Shares
1	1,000	971	64.22	291,513	0.49
1,001	10,000	400	26.46	1,593,979	2.70
10,001	100,000	123	8.13	4,133,886	7.00
100,001	1,000,000	13	0.86	3,903,028	6.61
Over 1,000,000		5	0.33	49,148,582	83.20
Total		1,512	100.00	59,070,988	100.00

5. Analysis Report of Shareholders as at 31st March 2016

Category	No. of	% of	No. of	% of
	Shareholders	Shareholders	Shares	Shares
Individual	1,410	93.25	10,574,860	17.90
Institutional	102	6.75	48,496,128	82.10
Total	1,512	100.00	59,070,988	100.00
Resident	1,506	99.60	59,006,788	99.89
Non-resident	6	0.40	64,200	0.11
Total	1,512	100.00	59,070,988	100.00

6. Twenty Major Shareholders as at 31st March 2016

Shareholder	No. of Shares as at 31/03/2016	(%)
Softlogic Capital PLC	28,414,395	48.10
Pan Asia Banking Corporation PLC/Softlogic Capital PLC	12,015,240	20.34
Vanik Incorporation PLC	5,376,068	9.10
L.B. Finance PLC	2,090,000	3.54
Deutsche Bank AG as Trustee to Astrue Alpha Fund	1,252,879	2.12
Softlogic Holdings PLC	779,969	1.32
People's Leasing & Finance PLC/ L. P. Hapangama	587,912	1.00
Waldock Mackenzie Ltd/Hi-Line Trading (Pvt) Ltd	512,495	0.87
First Capital Limited	378,179	0.64
Mr. Pasqual Handi Dayananda Waidyatilaka	248,294	0.42
Mr. A.K. Pathirage	228,000	0.39
Pan Asia Banking Corporation PLC/S.R. Fernando	224,786	0.38
Mr. Wetthinge Jinadasa	204,200	0.35
Seylan Bank Ltd/Govindasamy Ramanan	200,000	0.34
Pan Asia Banking Corporation PLC/L.S.A. Serasinhe	174,449	0.30
Mrs. Pamela Christine Cooray	132,444	0.22
Commercial Credit and Finance PLC	130,000	0.22
D.S.L. Investments (Private) Ltd	102,300	0.17
Mr. Addara Pathirana Somasiri	100,000	0.17
Mr. Sithampalam Abishek	100,000	0.17

7. Share Trading Information

	2015/16
Highest (Rs.)	60.40
Lowest (Rs.)	34.10
Closing (Rs.)	38.30
Turnover (Rs.)	1,228,456,327.00
No. of shares Traded	25,097,678
No. of Trades	8,483

8. Equity Information

	2015/16
Earnings per share (Rs.)	7.04
Dividend per share (Rs.)	Rs.1.25
Dividend pay out	18%
Net Asset Value per share (Rs.)	43.04

9. Debt Information

2013 Debenture Issue: 'BBB-' Lanka Rating

5,000,000 senior, rated, unsecured, redeemable debentures at an issue price of Rs. 100.00 each with maturity of three years were issued on 22nd August 2013

The debentures are listed on the Main Board of the Colombo Stock Exchange.

2014 Debenture Issue: 'AAA' Lanka Rating

14,000,000 senior, rated, secured, redeemable debentures at an issue price of Rs. 100.00 each with maturity of five years were issued on 21st August 2014

The debentures are listed on the Main Board of the Colombo Stock Exchange.

INVESTOR INFORMATION Contd.

Market prices of listed debentures during the year

Debenture Type	Interest Rate	Highest	Lowest	Last Traded
A - CRL-BC-27/08/16 A-17	17.00%	103.35	100.01	103.35
B - CRL-BC-27/08/16 B-16.5	16.50%	103.23	103.23	103.23
C - CRL-BC-27/08/16 C-16	16.00%	103.03	103.03	103.03
A - CRL-BC-29/08/19 A-10	10.00%	-	-	Did not trade during 1st April 2015 to 31st March 2016
B - CRL-BC-29/08/19 B-7.69	3 Month Net Treasury Bill Rate + 1.5%	-	-	Did not trade during 1st April 2015 to 31st March 2016

Yield of debentures during the year

Debenture Type	Interest Rate	Interest Yield	Last Traded Date
A - CRL-BC-27/08/16 A-17	17.00%	9.96	17-Feb-16
B - CRL-BC-27/08/16 B-16.5	16.50%	9.97	17-Feb-16
C - CRL-BC-27/08/16 C-16	16.00%	9.97	17-Feb-16
A - CRL-BC-29/08/19 A-10	10.00%	-	Did not trade during 1st April 2015 to 31st March 2016
B - CRL-BC-29/08/19 B-7.69	3 Month Net Treasury Bill Rate + 1.5%	-	Did not trade during 1st April 2015 to 31st March 2016

Ratios

	2015/16
Debt to Equity Ratio (Times)	7.18
Interest Cover (Times)	1.21
Liquid Assets Ratio / Quick Asset Ratio (%) - Statutory Minimum 10%	14.44

Interest rate of comparable government securities

(Below rates are excluding 10% withholding tax)

	2015/16
3 Year Treasury Bond	11.94%
5 Year Treasury Bond	12.65%

TEN YEAR SUMMARY

(Rs. '000)	2015/16*	2014/15*	2013/14*	2012/13*	2011/12*	2010/11	2009/10	2008/09	2007/08	2006/07
OPERATING RESULTS										
Gross Income	4,134,892	3,972,902	3,338,543	2,277,546	1,534,039	650,610	346,881	309,382	206,663	112,487
Profit Before Tax	518,641	270,934	228,450	233,180	194,928	84,787	26,162	17,761	21,853	17,225
Taxation	149,680	54,444	62,796	69,126	74,101	16,251	2,558	3,862	7,666	6,960
Profit After Tax	368,961	216,490	165,654	164,053	120,827	68,536	23,605	13,899	14,187	10,265
As at 31 March										
ASSETS										
Investments	179,848	1,659,795	1,600,660	193,668	70,486	299,225	105,031	13,232	42,077	33,102
Loans & Advances	15,266,654	12,601,501	3,887,396	3,412,910	1,985,510	283,956	30,793	28,294	46,035	30,510
Lease/HP Rentals Receivables	1,590,795	3,097,314	8,324,788	7,221,967	6,004,641	3,371,328	1,526,854	1,002,663	833,206	602,048
Vehicle Stocks	73,217	262,585	375,798	105,235	10,209	4,855	10,288	10,259	-	-
Real Estate Stocks	426,889	356,885	59,723	37,858	39,258	16,647	15,848	15,355	-	-
Property & Equipment	373,352	333,803	312,247	177,863	176,248	39,587	17,413	23,332	28,260	28,951
Other Assets	2,881,515	1,701,951	3,699,127	2,069,302	1,534,250	298,478	161,481	74,129	75,417	32,453
	20,792,270	20,013,834	18,259,739	13,218,803	10,075,741	4,438,398	1,867,708	1,167,274	1,024,995	627,064
LIABILITY										
Public Deposits	14,055,572	12,363,571	9,312,743	6,956,951	4,681,850	1,584,807	821,816	406,768	225,480	31,573
Borrowings	4,076,520	5,581,737	6,484,267	4,234,833	3,717,284	2,008,094	633,222	453,121	497,749	345,637
Other Liability	117,738	118,891	1,153,180	822,422	568,527	314,311	195,149	93,404	101,684	63,959
	18,249,830	18,064,198	16,950,191	12,014,206	8,967,661	3,907,212	1,650,187	953,293	824,913	441,169
SHAREHOLDERS' FUNDS										
Share Capital/Stated Capital	1,692,615	1,404,523	1,003,231	1,003,231	1,003,231	468,174	200,646	200,646	200,646	200,646
Reserves	849,824	545,112	306,318	201,366	104,849	63,012	16,875	13,335	(564)	(14,751)
	2,542,440	1,949,635	1,309,549	1,204,597	1,108,080	531,186	217,521	213,981	200,082	185,895
SHARE INFORMATION										
Earnings Per Share (Rs.)	7.04	5.44	4.42	3.66	4.38	3.07	1.18	0.69	0.71	0.51
Net Assets Per Share (Rs.)	43.04	38.36	34.96	32.16	29.79	19.86	10.84	10.66	9.97	9.26
Debt Equity Ratio (times)	7.18	9.26	13.18	9.91	8.09	7.36	7.59	4.46	4.12	2.37
OTHER INFORMATION										
No. of Employees	491	521	502	467	550	291	103	48	33	19
Supporting Network	30	18	17	17	16	9	8	8	8	8

*Financial Years 2015/16, 2014/15, 2013/14, 2012/13 and 2011/12 have been prepared based on SLFRSs.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Softlogic Finance PLC will be held at the Auditorium of Central Hospital Limited (4th Floor), No. 114, Norris Canal Road, Colombo 10 on Monday the 29th day of August 2016 at 10.30 a.m. for the following purposes:

- 1) To receive and consider the Annual Report of the Board of Directors and Financial Statements of the Company for the year ended 31 March 2016 together with the Report of the Auditors thereon.
- 2) To ratify the Interim Dividend of Rs. 1.25 per share as the Final Dividend for the year ended 31 March 2016.
- 3) 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.
- 4) To re-elect Mr. T M I Ahamed who retires by rotation in terms of Articles 91 and 92 of the Articles of Association, as a Director of the Company.
- 5) To re-elect Mr. H K M Perera who retires in terms of Article 97 of the Articles of Association, as a Director of the Company.
- 6) To appoint Messrs. Ernst & Young as Auditors of the Company for the ensuing year and to authorise the Directors to determine their remuneration.
- 7) To authorise the Directors to determine and make donations for the year ending 31 March 2017 and up to the date of the next Annual General Meeting.

By Order of the Board

SOFTLOGIC CORPORATE SERVICES (PVT) LTD

(Sgd.)

SECRETARIES

13 July 2016

Colombo

Note:

A member entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a member, to attend on behalf of him/her.

The Form of Proxy is enclosed in this Report.

The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 13, De Fonseka Place, Colombo 04 by 10.30 a.m. on Saturday the 27th day of August 2016 being forty eight (48) hours before the time appointed for the holding of the meeting.

FORM OF PROXY

**I/We of
 being *a member/members of SOFTLOGIC FINANCE PLC, do hereby appoint
 (holder of N.I.C. No.) of
 or failing him*

Mr A K Pathirage	of Colombo or failing him*
Mr G L H Premaratne	of Colombo or failing him*
Mr N H G Wijekoon	of Colombo or failing him*
Mr T M I Ahamed	of Colombo or failing him*
Mr C J E Corea	of Colombo or failing him*
Mr D T C Soza	of Colombo or failing him*
Mr S N P Palihena	of Colombo or failing him*
Mr H K M Perera	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 as *my/our Proxy to represent *me/us and to speak and vote for *me/us on *my/our behalf at the ANNUAL GENERAL MEETING OF THE COMPANY to be held at the Auditorium of Central Hospital Limited, No. 114, Norris Canal Road, Colombo 10 at 10.30 a.m. on Monday the 29th day of August 2016 and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

	FOR	AGAINST
1) To receive and consider the Annual Report of the Board of Directors and the Financial Statements of the Company for the year ended 31st March 2016 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2) To ratify the Interim Dividend of Rs. 1.25 per share declared, as the Final Dividend for the year ended 31 March 2016.	<input type="checkbox"/>	<input type="checkbox"/>
3) To re-elect Mr. A K Pathirage who retires by rotation in terms of Articles 91 & 92 of the Articles of Association, as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4) To re-elect Mr. T M I Ahamed who retires by rotation in terms of Articles 91 & 92 of the Articles of Association, as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5) To re-elect Mr. H K M Perera who retires in terms of Article 97 of the Articles of Association, as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6) To appoint Messrs Ernst & Young, as Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
7) To authorise the Directors to determine and make Donations	<input type="checkbox"/>	<input type="checkbox"/>

.....
 *Signature/s Date

Note:

- 1) *Please delete the inappropriate words.
- 2) Instructions as to completion are noted on the reverse hereof.



INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy after filling in legibly your full name, address and the National Identity Card number and signing in the space provided and filling in the date of signature.
2. A Member entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a member, to attend and vote on behalf of him. Please indicate with an "X" in the boxes provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy in his discretion will vote as he thinks fit.
3. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. In the case of a Corporate Member, the Form of Proxy must be executed in the manner prescribed by the Articles of Association/ Statute.
5. The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 13, De Fonseka Place, Colombo 04 by 10.30 a.m. on Saturday the 27th day of August 2016 being forty eight (48) hours before the time appointed for the holding of the meeting.

Please provide the following details:

Shareholder's N.I.C./ Passport/ Company Registration No.	Shareholder's Folio No.	Number of shares held	Proxy Holder's N.I.C. No. (if not a Director)

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. 42 of 2011.
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 22nd January 2009.
Registered under the Securities & Exchange Commission of Sri Lanka

Act No. 36 of 1987 as Margin Provider

Company Registration Number

PB641 PQ

Tax Payer Identification Number (TIN)

134008350

Accounting Year End

31st March

Registered Office

No.13, De Fonseka Place, Colombo 4

Principal Place of Business

No.13, De Fonseka Place, Colombo 4
Tel : 94-11 - 2359600, 94-11-2359700
Facsimile : 94-11 -2359799
E-mail : info@softlogicfinance.lk
Website : www.softlogicfinance.lk

Board of Directors

Mr. Ashok Pathirage (Chairman)
Mr. Harris Premaratne (Deputy Chairman)
Mr. Nalin Wijekoon (CEO)
Mr. Tuan Ifthikar Ahamed
Mr. Dushan Soza
Mr. Chris Corea
Mr. Baddegama Hevege Sirinimal Jayawardene
Mr. Shanthikumar Nimal Placidus Palihena
Mr. Hiran Kenneth Marcel Perera

Management Committee

Mr. Harris Premaratne - Deputy Chairman
Mr. Nalin Wijekoon - Director/CEO
Mr. Tuan Ifthikar Ahamed - Director
Mrs. Indresh Fernando - COO
Mr. Sanjaya Vithanage - DGM
Mr. Nalinda Ranaraja - DGM
Mrs. Nimali Monika Ranasinghe -DGM
Mr. Fairoze Burah - DGM
Mr. Nalaka De Silva - AGM
Mr. Kumara Kongahawatta - AGM
Mr. Priyan Jayakody - CM
Mr. Ashok Perera - CM
Mr. Channa De Silva - CM
Mr. Shehan Uduwara - SM
Mr. Mark Thirimavithana - SM
Mr. Bharatha Manjula - SM
Mr. Gangadharan Murrilidhar - SM
Mr. Hemantha Silva - SM

Secretaries

Softlogic Corporate Services (Pvt) Ltd

Auditors

Messrs. PricewaterhouseCoopers
Chartered Accountants

Legal Advisors to the Company

Nithya Partners

Bankers

Commercial Bank
Seylan Bank
Hatton National Bank
People's Bank
Pan Asia Banking Corporation
Sampath Bank
Bank of Ceylon
Nations Trust Bank
DFCC Vardhana Bank
Deutsche Bank

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