With you, Every Step

SOFTLOGIC FINANCE PLC | Annual Report 2016/17

Softlogic Finance

Annual report online
www.softlogicfinance.lk

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With you, Every Step

At Softlogic Finance, we treasure the relationships that we have built over the years with our valued customers. Based on a strong foundation of trust and understanding, we have carefully nurtured these relationships into robust partnerships. We take great pride in redefining the traditional realms of service parameters and offering a personalized and flexible service to our customers. This service culture that we have fostered has allowed us to deliver an unconventional value proposition to our customers - a mix of the best elements of a bank and a finance company.

We strive to deliver the best in comprehensive financial solutions beyond traditional norms, whilst embarking on championing mutually beneficial prospects that strengthen our relationship with you. A story of a thousand miles hence unfolds, graced by the assurance that we will be *with you every step of the way...*

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"We have been listening attentively to our stakeholders and steadily delivering on their expectations, as our recipe for success is our mutual journey together"

Chairman
Softlogic Finance PLC

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About Us

Education Loans

Providing you financial support to attain your educational goals... We offer comprehensive and customized financing solutions in order to support the primary, secondary and tertiary education of your children. Our Education loan scheme also financially supports working professionals, providing them with a helping hand for their professional development.

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.

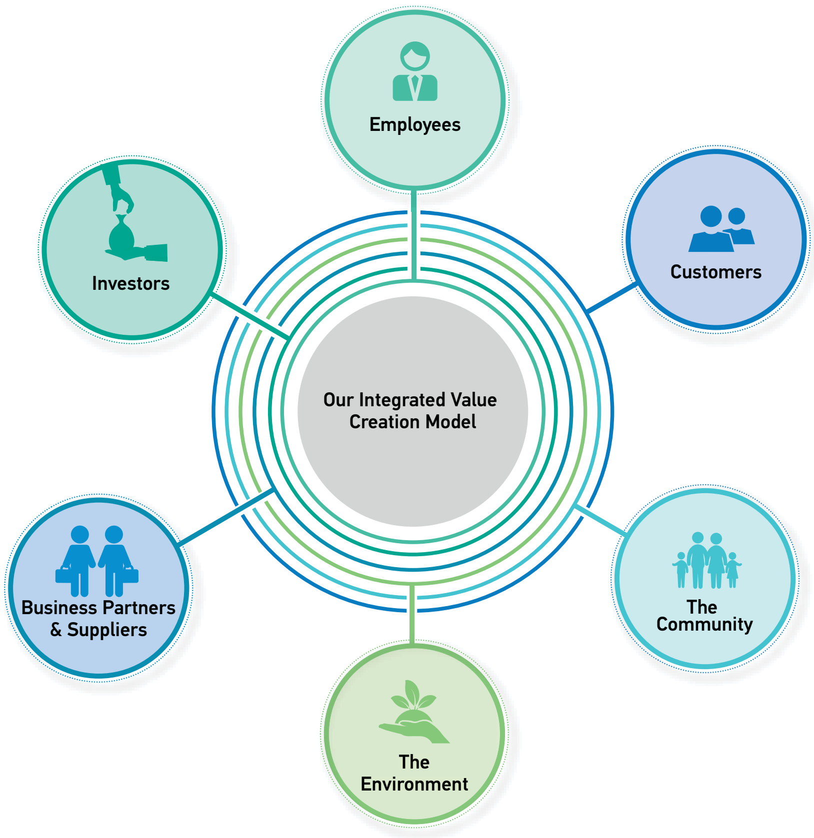
Corporate Responsibility

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 Sustainability *Philosophy*

The purpose of our corporate existence is to build a sustainable business that puts the interests of all our stakeholders at the forefront of our decision making processes.

The integrated value creation process championed by our Business Model ensures that we are geared towards developing and sustaining a holistic growth drive that positively impacts all our stakeholders.



Investors We have ensured that our financial objectives are always aligned with the expectations of our investors so that they receive sustainable returns for their investments. We are committed to providing them with all relevant information in a timely manner so that they are well informed when making investment decisions.

Employees The lifeblood of our company, we focus on professionally developing them so that they would continue to add strategic value to our business. We offer our employees a rewarding, safe and challenging work environment for them to excel in.

Customers The expectations of our customers always take the forefront in our operations. We are committed to continuously reengineering our processes to ensure that the customer service levels we offer are never compromised. In short, the entirety of our business operations is committed to fostering a service culture.

Business Partners & Suppliers We are committed to fostering long term, mutually beneficial relationships with our suppliers and business partners. Our engagement mechanism with them is collaborative and we have committed ourselves to ethical and transparent business practices.

The Environment We continuously take steps to ensure that we operate in an environmentally sustainable manner and invest in environmental conservation initiatives.

The Community We foster long term partnerships and engagements with the communities that we serve and immerse ourselves in community development initiatives so that we have an intimate bond with the communities around us.

Our Reporting *Philosophy*

Reporting Context

Welcome to our second Integrated Annual Report! As a company that is 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 empower 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 could 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, Intellectual and Infrastructure 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 recognize the responsibility that we have during this value creation process to our diverse set of stakeholders. To this end, we have comprehensively discussed and corporate governance and integrated risk management process that provide adequate checks, balances and safeguards, in the context of the myriad interests of our stakeholders.

Reporting Scope

Driven by our responsibility to our stakeholders and the need to address their needs, we have adopted Integrated Reporting to bring focus to the long term sustainability of our value creation process.

In order to do this, we have presented financial and non-financial information that would facilitate the assessment of the financial and operational performance of our business. To this end, 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 the identification of the factors affecting our identified key stakeholders and the sustainability initiatives taken by us, based on the stakeholder identification and 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 2016/2017 ending on 31st March 2017. 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 2017 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) and its amendments 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 has been obtained by Messrs. Ernst and Young and their independent opinion is stated in the Independent Auditor's Report in Page 146.

Our Journey

2012-13

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

2011-12

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

2010-11

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

2013-14

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

2014-15

Asset Base	20 Bn	PAT	216 Mn
Deposit Base	12 Bn	Net Asset Value Per Share	Rs.33.23
Branches	18	EPS	Rs.5.44
Employees	521		

2015-16

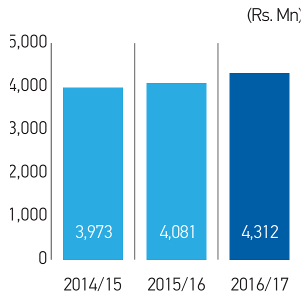
Asset Base	20 Bn	PAT	73 Mn
Deposit Base	14 Bn	Net Asset Value Per Share	Rs. 33.62
Branches	30	EPS	Rs. 1.40
Employees	491		

2016-17

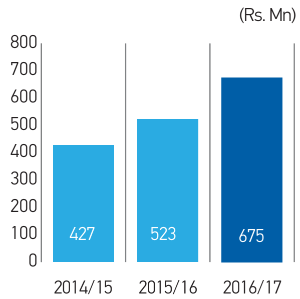
Asset Base	22 Bn	PAT	365 Mn
Deposit Base	16 Bn	Net Asset Value Per Share	Rs. 38.80
Branches	31	EPS	Rs. 6.18
Employees	490		

Financial Highlights

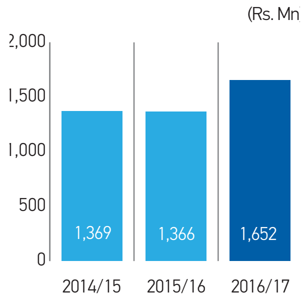
Total Gross Income



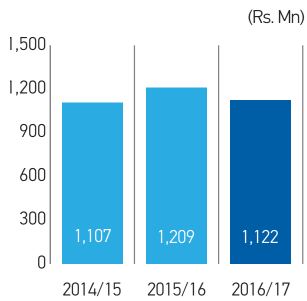
Other Income



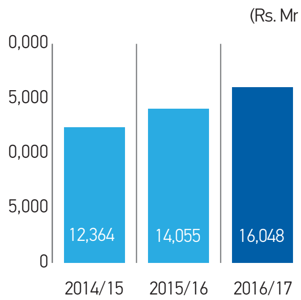
Net Operating Income After Impairment



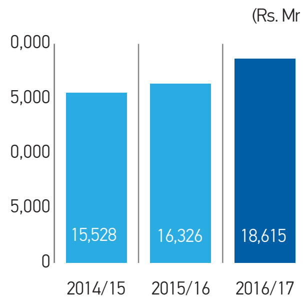
Total Operating Expenses



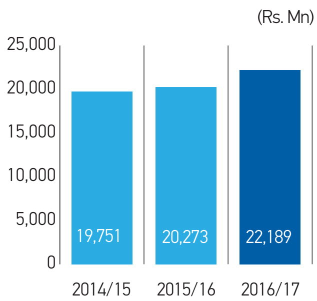
Customer Deposits Base



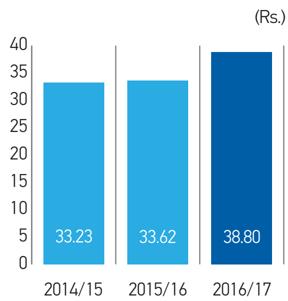
Net Lending Portfolio



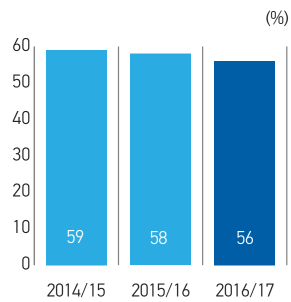
Total Assets



Net Assets Per Share



Cost to Income Ratio



Overview of Financial Performance

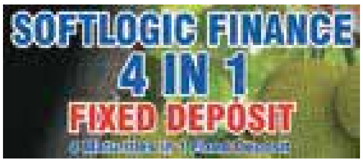
	2016/17	2015/16 Restated	% Change
Financial Results (Rs. Mn)			
Total Gross Income	4,312	4,081	6%
Interest Income	3,637	3,558	2%
Interest Expenses	2,291	2,003	14%
Net Interest Income	1,346	1,556	-13%
Other Income	675	523	29%
Total Operating Income	2,021	2,078	-3%
Total Operating Expenses	1,122	1,209	-7%
Impairment Charges	369	712	-48%
Profit Before Tax (PBT)	530	158	236%
Taxation (Income Tax & VAT & NBT on Financial Services)	165	85	95%
Profit After Tax (PAT)	365	73	399%
Financial Position as at 31st March 2017 (Rs. Mn)			
Total Assets	22,189	20,273	9%
Loans and Receivables	18,615	16,326	14%
Customer Deposits	16,048	14,055	14%
Total Borrowed Funds (Rs.)	3,671	4,077	-10%
Shareholders' Funds (Rs. Bn)	2,292	1,986	15%
Financial Ratios & Indicators			
Net Profit Ratio (%)	8.46%	1.79%	
Operating Profit Margin (%)	12.28%	3.86%	
Cost to Income Ratio (%)	55.53%	58.16%	
Return on Average Assets (ROA) - before tax (%)	2.17%	0.45%	
Return on Average Equity (ROE) - after tax (%)	17.05%	3.98%	
Earnings Per Share (EPS) (Rs.)	6.18	1.40	
Earnings Yield (%)	19.94%	3.66%	
Dividend Per Share (Rs.)	1.25	1.50	
Dividend Yield (%)	4.03%	3.92%	
Net Assets Value Per Share (Rs.)	38.80	33.62	
Market Price Per Share (Closing) (Rs.)	31.00	38.30	
Market Capitalization (Rs.) (Mn.)	1,831	2,262	
Price to Earnings (Times)	5.02	27.36	

Annual Highlights

April 2016

Island-wide launch of the "4 In 1" FD Product

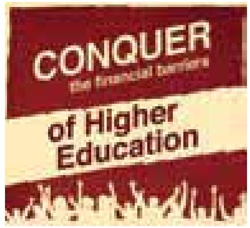
We introduced our groundbreaking new Fixed Deposit product, which was branded as "4 in 1". Further cementing our reputation for delivering customer oriented solutions, this new product allows the customer to uplift his investment within the time periods of 3, 6, 9 & 12 months, without incurring any penalty. A 360° marketing campaign was conducted island-wide, which contributed to the surpassing of the targets we had set.



May 2016

Launch of our Education Loan Product

We introduced our Education Loan product, which provides parents with easy access to financial assistance in order to pay for their children's international school and higher education, whether it is local or foreign. Our product also provides financial assistance to working professionals to finance their academic and professional qualifications.



Staff Beach Party

A beach party was organized by the Recreation Club of Softlogic Finance at Mount Lavinia Beach for our staff members to mingle with each other in a casual setting.

August 2016

Launching of our "Clean Zone" Community Initiative at Lady Ridgeway Hospital

Inspired by the overwhelmingly positive response we received for our groundbreaking "Clean Zone" initiative, we extended it to the Lady Ridgeway Hospital. This was undertaken in order to raise awareness, especially in public spaces, on waste management and the appropriate disposal, segregation and recycling of garbage.

September 2016

Re-launch of our Leasing Product

We re-launched our leasing product as a financial solution that is customizable and flexible to meet any leasing requirement. We introduced the option of tailor made, flexible rentals to suit the income levels of our customers regardless of whether they are running a business or are a regular income earner.

December 2016

07th Anniversary Celebration of our Galle Branch

We celebrated the 07th Anniversary of our Galle Branch, which is one of our top performing branches, with a Gala Dinner for our valued customers. We organized this Gala Dinner as a sign of appreciation for the support and faith extended to us by our customers. The relationship that we have built up with our customers over the years is a testament to the service culture that we have fostered in our organization.

January 2017

June 2016

Extension of our “Clean Zone” Initiative to Ruwanwelisaya

In keeping with our commitment to extend our “Clean Zone” Initiative to public spaces, we launched our “Clean Zone” Initiative in Ruwanwelisaya.

July 2016

Expansion of our “Clean Zone” Initiative to places of worship in Thissamaharama

We continued our efforts of expanding our “Clean Zone” initiative to public spaces like places of worship by launching our “Clean Zone” Initiative in Thissamaharama.

Extending our “Clean Zone” Community Initiative to Matara General Hospital

Continuing our commitment to raise awareness of proper waste management in public spaces, we extended our “Clean Zone” Initiative to Matara General Hospital. Our focus remained on hospitals as we recognized the criticality of cleanliness and effective waste management at highly frequented public spaces like hospitals.

October 2016

Year End Calendar Photography Competition

An internal photography completion was held and the 12 best photographs were selected to be featured in the 2017 Softlogic Finance calendar and greeting cards, which were sent to all our external stake holders as an appreciation from Softlogic Finance.

November 2016

Main Sponsor of the Kurunegala Welanda Sangamaya

Softlogic Finance PLC was the sponsor of the Annual Get Together of the Kurunegala Welandha Sangamaya, where the company’s Chairman, addressed the gathering of distinguished entrepreneurs and shared his own personal insights into his entrepreneurial journey.

February 2017

Opening of Dematagoda Branch

We opened our latest branch in Dematagoda in a very spacious and central location.

March 2017

"Softlogic Finance funded an extensive range of SME initiatives during the year under review across different industries, geographies and ethnic divides"

I am pleased to present to you the Annual Report of Softlogic Finance PLC, for the financial year 2016/17. The company delivered commendable results in the face of many challenges making financial accessibility a pivotal choice for our client base.

An era of fiscal tightening

The past year has been dominated by political and economic uncertainty demonstrating a splintering of consensus around how the country should create headways to become an upper middle income economy by 2020.

Despite a contraction in exports, the GDP growth reached 4.4% by end of 2016, buttressed by a robust development in both industry and service sectors together with the expansion in investment expenditure throughout the year. Inflation was variable within this period but reflected an upward trend of 4.5% by December 2016, attributing to the impact of tax adjustments and supply disruptions due to adverse weather conditions.

Interest rates saw an increase whilst credit growth slightly slowed in the latter part of 2016, in line with the adjustments in the monetary policy by the Central Bank of Sri Lanka. The demand for loans weakened with the increase in interest rates, policy uncertainties, adverse global conditions, supply disruptions in agricultural output and tighter tax regimes especially on the import of motor vehicles and consumer goods.

The country also faced turbulent global headwinds that took a negative toll on the economy causing a drop in exports and remittances. In June 2016, Sri Lanka reached an agreement with the IMF for an Extended Fund Facility (EFF) which earmarked an important milestone, to support the country's foreign reserves and also elevate investor confidence on a platform of sustainable fiscal policy.

Sri Lanka's financial services sector, accounting for 6.4% of GDP, recorded a strong growth of 12.4% in 2016, above the five-year historical average of 12%, and was among the top growth sectors in the country in 2016.

Acquainted with the fact that a combination of increased taxes and tightened regulations was likely to impact overall profitability and growth, Softlogic Finance has positioned itself appropriately in the industry with a stronger cohesion to its customers and other stakeholders in an effort to overcome most hurdles.

Footprints of strength

With focused efforts to drive lending volumes as our top line strategy, Softlogic Finance at the end of the financial year witnessed an encouraging Total Income of Rs. 4.3 Billion, with a Net Profit after Tax for the year being recorded at Rs. 365 Million.

Interest rates saw a sharp increase during the year as liquidity tightened and policy rates increased. This resulted in our Interest Costs rising by 14 % and thus reducing our

Chairman's *Statement*

"The company delivered commendable results in the face of many challenges, making financial accessibility a pivotal choice for our client base"

Chairman's Statement

Net Interest Income by 13 %. However, we were able to compensate for a drop in the aforementioned Net Interest Income by a commendable increase of 29 % of our Non-Interest Income.

As a result of the many cost management and process reengineering initiatives undertaken during the year, we were able to record a drop in our operating costs of 7 % and this led to a drop in the Cost-to Income Ratio from 58.2 % to 55.5 %.

The extensive restructuring undertaken in the context of our collections and recoveries processes ensured a drop in our non-performing loans portfolio along with the impairment charges for the year.

The unfavourable Loan-to-Value ratios imposed for motor vehicle financing, restricted our growth in this sector. However, this set back in the leasing portfolio was largely offset by the success achieved through the company's strategic shift to the non-leasing loan portfolios where we drove impressive growth, penetrating deep into the SME sector of the economy.

Softlogic Finance funded an extensive range of SME initiatives during the year under review across different industries, geographies and ethnic divides; our focused efforts to grow the SME sector heightened by providing access to finance, supporting this sector to facilitate economic and social inclusivity and fueling the sustainable development of Sri Lanka.

Strategic Milestones

As the primary means of funding, Softlogic Finance focused on the growth of its broad-based retail deposits which represented 81 % of the funding mix, thus witnessing an overall growth in deposits by 14 %. This paved the way to building a strong customer covenant with deep-rooted relationships. Looking ahead, in addition to increasing focus on retail term deposits with attractive interest rates; the company will also adopt an aggressive approach in its drive to attract savings deposits.

Our notable growth in loan portfolios was greatly driven by the company's continued commitment to the SME sector, where we are deeply committed to improving financial accessibility and focusing on value creation for entrepreneurs through small business loans and leasing.

In keeping with our pledge to continuously foster a service culture within our organization, Softlogic Finance took its first steps in introducing a core-banking solution that would make our internal processes more efficient, improve the customer experience and ensure that all our customers experience the benefits of our progress in innovation. The company's strategic investments undertaken to harness technology and centralize operations will yield the anticipated dividends in the future in terms of improved productivity in employees and enhanced customer relationship management, paving a path of greater focus on building stronger relationships with our existing customers and attracting new ones.

Meanwhile, amidst the growing risk of cyber security threats, we have increased our commitment to preserve customer privacy and data security. Sound corporate governance and prudent risk management have been embedded into our culture, enabling us to endure resilience during times of macroeconomic challenges, gaining the optimum trade-off between risk and return.

Softlogic Finance has witnessed the early adoption of sustainability principles; product responsibility, financial inclusion, employee development and environmental protection have been a part of our DNA and implementing a comprehensive sustainability agenda has given structure to embed strong principles throughout our corporate culture.

Succession into the Future

We are nonetheless optimistic about the outlook for the financial year 2017/18 and believe that the Sri Lankan economy can be galvanized with proper redirection, in the aftermath of emerging from a period of uncertainty. Fiscal policy directives of the Government raise certain apprehensions about further taxation which may impede credit growth, increase transaction costs and decelerate progress on financial inclusion for formal financial services.

We have key strategic advantages, being amongst the top financial institutions in the country, with an asset base worth over Rs. 22 Billion, along with our proximity to populous growth markets, rich internal competencies, a dynamic workforce and strong brand image. The transitions that have been taking place are fast providing the foundations we need for prosperity and success.

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 of time.

With so many possibilities ahead of us, we look forward to serve this and the next generation, to develop new services and products, to adopt new business models and assure you that we will remain strong, every step of the way.

Appreciation

I would like to convey my sincere appreciation to our valuable customers for their confidence, and loyalty they place in us at all times. My gratitude also goes to the Governor of the Central Bank of Sri Lanka and other regulatory bodies for the vital role they play and their contributions to the Non-Bank Financial Institutions Sector.

My sincere thanks to my Board of Directors who continue to uplift the stature of Softlogic Finance; also to our corporate and senior management teams who provide leadership and their energy to drive our strategies forward for business excellence and each and every member of our team that make up Softlogic Finance.

I also wish to convey my sincere appreciation to all our shareholders, whose confidence in us, contribute significantly to our quest to become the preferred Non-Bank Financial Institution in Sri Lanka.

(Sgd.)
Ashok Pathirage
Chairman

29th June 2017

Deputy Chairman's Statement

"Fostering a well-entrenched service culture has been identified as critical to our sustainable growth."

Deputy Chairman's Statement

"We have looked inward in order to consolidate our competitive strengths, hone our operational discipline and position ourselves to make maximum use of the industry opportunities that we continue to harness."

Consolidating Our Strengths

The year 2016/17 has been one of consolidation for our company. We have looked inward in order to consolidate our competitive strengths, hone our operational discipline and position ourselves to make the maximum use of the industry opportunities that we continue to harness. Our introspective approach to business development gave us the opportunity to ask the hard questions, make the tough decisions and discipline ourselves to become a true champion of customer excellence that we aspire to be.

Internal reorganization did not happen in isolation. We went about our operational housekeeping, whilst continuing to make significant headways in business financing where we continued to build ourselves an enviable position in the challenging economic landscape within which we operate in.

Our operating environment continued to test us in many ways. Economic growth was subdued for the most part with the government's fiscal consolidation gathering full steam with tightened monetary and fiscal policies being implemented. This had the effect of stifling industry credit growth towards the end of the year. The industry itself faced some direct challenges in the form of tighter Loan-to-Value ratios in the context of vehicle financing and the rise of policy interest rates, driving up our interest costs.

In this backdrop, our financial performance has indeed been appreciable and I have the utmost confidence that the groundwork that we continue to lay down will spearhead our growth in the medium and long term.

Performing in the Face of Adversity

Despite the tightened Loan-to Value Ratio system stifling the growth of our leasing portfolio, we were able to generate stable revenues as a result of our business financing products, especially our SME loan product, which continued to pay us dividends with its healthy margins and high asset quality. Despite increased competition from other Licensed Finance Companies moving into SME financing, we were able to consistently maintain our disbursements through superior customer service, seamless internal processes and the attractive interest rates that we offer.

Our increased focus on our recovery processes has paid dividends. The revised collections and recoveries structure that we have put in place has helped us to reduce our NPL portfolio and has resulted in a reduced impairment charge for the year. Our continued focus on arrears management and recoveries will no doubt drive this continuing trend of NPL portfolio reduction. Of note is our SME financing loan portfolio, which currently accounts for 58 percent of our total lending portfolio and carries a NPL ratio significantly lesser than the industry NPL ratio.

Owing to the multiple increases in policy interest rates during the year, the company's Interest Costs increased by 14 percent. Even though this negatively affected our Net Interest Income, increases in Non-Interest Income ensured that the overall effects of

Deputy Chairman's Statement

such Interest Cost increases were minimal. Our focus on operational discipline and cost management continued to pay dividends right throughout the year. Through the identification and elimination of operational wastage and the reengineering of processes, we were able to achieve a year-on-year operational cost decrease of 07 percent. This resulted in our Cost –to-Income Ratio reducing from 58.2 percent to 55.5 percent for the year.

Plans are in motion to foster the growth of our other lending portfolios. We have taken an approach of "quality over quantity" towards our Leasing portfolio. Armed with a newly redesigned policy, we are in the process of taking significant strides in building up a sustainable leasing portfolio with minimal NPLs. Our plan is to generate a gradual, organic growth of the portfolio; one that can withstand the challenges of the economic climate around us.

The Consumer and Education loan portfolios will continue to be focused upon as we move forward and their continued growth will be addressed through strategic partnerships and calculated market penetrations. Our Gold Loan product experienced significant growth this year also, with portfolio growth of 35 percent. As we have identified this to be a lucrative product with a growing market, we have set in motion plans to leverage upon our extensive branch and gold loan centre network and marketing strength to grow this portfolio even further.

Our Fixed Deposits portfolio continued to deliver on our expectations with consistent growth this year as well. Registering a 14 percent portfolio increase compared to the previous year, we have been able to construct a sustainable fixed deposits portfolio through our focus on long term investments. Our strategy has been to focus on individual, retail depositors looking to invest for the long term. Through our extensive branch reach, we have been able to tap into to rural depositors looking for long term investments and stable returns. Therefore, we have the luxury of not having to attract funds by offering high rates for short periods of time. Coupled with a stable base and flexible bank credit lines, we have been able to maintain a strong liquidity position throughout the year.

Perfecting our Internal Performance Drivers

Fostering a well-entrenched service culture has been identified as critical to our sustainable growth. In order to consolidate the strengths of our branch network and realise optimum returns, we have taken steps to review our operational workflows and processes and reengineer them as required so as to ensure that service delivery is streamlined, seamless and customer centric. Efforts to entrench this customer centric approach have not been restricted to our sales and marketing staff. All our back office staff too are been trained on the importance of adopting a customer-first attitude.

We have identified that internal operational excellence cannot be achieved in isolation. To this end, our operational risk management function, the Management Committee, the Integrated Risk Management Committee and the Board collectively provide the necessary checks and balances to move this exercise forward.

Significant investments have been made with regard to the training and development of our employees. Our passion to foster a learning culture within our organization serves as the foundation for the internal training programs that are being conducted almost every month by subject matter experts, senior officer and unit heads of our organization. Ultimately, all our training and development initiatives are linked to our eventual goal of entrenching a service culture and achieving service excellence. Further, we make it a point to give our employees career advancement and growth opportunities through internal recruitment, job enhancement and job redesign.

Our flagship CSR program, which is the "Clean Zone" initiative, continues to be expanded to cover public spaces as well, in addition to the vicinity around our branches. We have covered a number of public spaces like hospitals, recreational areas and places of religious worship through our expansion plans. This program will continue to be expanded with the extension of our branch network.

Future Outlook

The company is in the process of implementing a core-banking ERP system that would significantly help us in driving continuous improvement with regard to our customer relationship management processes and our backend support services and management reporting functions. With the full operationalization of this core-banking system, the company will be ideally positioned to launch new products and further refine its internal processes to match world class standards.

This enhanced technological infrastructure would help us to aggressively drive the growth of our Savings product with the addition of ATM facilities.

Appreciation

I take this opportunity to extend my gratitude to our Chairman, Mr. Ashok Pathirage, Director/ Chief Executive Officer, Mr. Nalin Wijekoon and the Board of Directors, for the significant contribution they have made to help the company deliver a solid set of results in the face of a myriad economic and industry challenges.

Further, I would also like to extend my appreciation to the Central Bank of Sri Lanka for the invaluable role they play in maintaining and enforcing prudent practices and regulatory measures across the industry. Moreover, I thank the external auditors, Messrs. Ernst and Young for the vital contributions that they have made to this organization.

Finally, I would like to express my heartfelt gratitude to the Softlogic Finance team for their resilience and their commitment to drive the company's performance in these trying times.

(Sgd.)
Harris Premaratne
Deputy Chairman

29th June 2017

Chief Executive Officer's Statement

"Our strategic transition to business financing products gave us the luxury of having stable income streams even in the face of industry uncertainty."

Chief Executive Officer's Statement

"The 2016/17 Financial Year proved to be a year of many challenges that tested us from many angles. However, I can confidently say that our Softlogic Finance team successfully faced these challenges from the industry and from our competitors head on and emerged with even greater resolve to take our company forward."

An Overview of our Performance

The 2016/17 Financial Year proved to be a year of many challenges that tested us from many angles. However, I can confidently say that our Softlogic Finance team successfully faced these challenges from the industry and from our competitors head on and emerged with even greater resolve to take our company forward.

During the year, the industry witnessed stringent government policies being taken with regard to the Loan-to-Value ratios in operation, in order to reduce credit growth in vehicle financing. Additionally, the increase in tariffs and duties pertaining to motor vehicles and the exchange rate depreciation driving up the motor vehicle prices meant that the core business of finance companies, which is vehicle financing, was adversely affected on many fronts.

Fortunately, we had anticipated this volatility in vehicle financing beforehand and re-engineered our business model in order to make a strategic shift towards business financing. This calculated move to redefine and reposition our product mix led to us moving away from being a traditional finance company. In effect, this strategic transition to business financing products gave us the luxury of having stable income streams even in the face of industry uncertainty. Now our business financing product accounts for 58 percent of our total lending portfolio and also carries a NPL ratio less than the industry average.

The Sri Lankan Economy

Economic growth during 2016 turned out to be sluggish for the most part with GDP growth slowing down to 4.4 percent, compared to the 4.8 percent growth recorded in the previous year. This slow economic growth is primarily as a result of the economy still being in the process of emerging from a lengthy period of uncertainty. With the hopes of stabilizing the economy and managing the inflation at single digit levels, the government continued to tighten its monetary and fiscal policies.

Relatively high levels of inflation were experienced for most parts of the year mainly as a result of adverse weather related economic issues, tax adjustments and rising international commodity prices. For 2016, the average annual inflation rate stood at 4 percent. Further the increasing demand pressures in the domestic market also contributed to inflation remaining at elevated levels. In response to this emerging inflationary situation the Central Bank stepped in to tighten its monetary policy. This intervention resulted in the Central Bank increasing policy interest rates in February and July 2016. Additionally, the Central Bank continued to revise the Loan-to-Value ratios applicable to motor vehicle financing in order to manage the import demand for motor vehicles and the resulting foreign exchange outflows from vehicle imports.

In effect, this tight policy environment that prevailed virtually right throughout 2016, negatively affected consumption expenditure. Moreover, the Central Bank's increase of policy interest rates caused the private sector credit growth to considerably decelerate during the year and growth stood at 21.9 percent by December 2016, which signifies a drop from the previous year. In order to reduce credit growth even further and manage inflation, the Central Bank took measures to further increase the policy interest rates by 25 basis points in March 2017.

With regard to the government's fiscal policy management, there were notable improvements in both the revenue and expenditure fronts. Government revenue increased with the broadening of the tax base and the revision of various taxes and the tax administration structures. Government expenditure was managed at planned levels and the overall budget deficit was restricted to 5.4 percent of the GDP. However, the government debt as a percentage of GDP increased.

During 2016, the various economic sectors showed a mixed bag of results. The Services Sector, which accounts for 56.5 percent of the GDP, grew by 4.2 percent in 2016, compared to 5.7 percent in the previous year. The main contributions to the Services Sector growth came from the financial services industry, insurance, telecommunications,

Chief Executive Officer's Statement

transportation and the retail and wholesale trades. When considering the Industry Sector which represents 26.8 percent of the GDP, it registered a year-on-year growth of 6.7 percent compared to the previous year's growth of 2.1 percent, as a result of contributions from the construction, mining and quarrying industries even though there was a slowdown in the growth in manufacturing activities. Further, the Agricultural Sector contracted by 4.2 percent due to adverse weather conditions affecting paddy, tea and rubber cultivation and thus accounted only for 7.1 percent of the GDP. In comparison, this sector grew by 4.8 percent in the previous year.

The LFC and SLC sectors showed a notable growth in its asset base during the year. It was significant to note that there was a substantial shift into loan products from their traditional core business of vehicle financing, primarily due to the Loan to Value restrictions and the banking sector's increased penetration into the vehicle financing business. It was noted that the growth in the customer asset base was primarily funded through bank borrowings and there was a decrease in dependence on retail deposits.

Operational Performance

During the year, the company adopted a revised methodology for its impairment model used for the impairment of Loans, Leases and Hire Purchase facilities. In order to refine our financial reporting and ensure consistency throughout the reporting periods, we made a number of prior year adjustments to our impairment charges that have already been reported and have restated them this year. The effects of these restatements have been extensively addressed in our Financial Statements and Notes thereto.

When considering the company's top line performance, both the Total Income of Rs. 4.3 billion and the Interest Income of Rs. 3.6 billion were relatively flat this year and only recorded marginal increases of 6 percent and 2 percent respectively, in comparison to the previous year. This situation primarily arose as a result of the Loan-to-Value ratios that are in operation, which substantially stifled our leasing business. Therefore, the main contribution to revenue originated from business financing, especially from working capital financing. In this context, in addition to the SME segment that we have typically focused on, we increasingly paid attention to attracting mid to large sized corporate customers in order to further increase the quality of our customer asset base. Further, our drive to ensuring the quality of our lending assets continued with the review and introduction of new credit policies for our GPL personal financing product and our Leasing product.

The Central Bank's decision to significantly increase policy interest rates during the year meant that our Interest Costs were also adversely affected during the year. However, as we had made a policy decision to mainly focus on individual retail customers investing for periods of more than 1 year, we were able to restrict Interest Cost growth to 14 percent.

During the year, the company continued to maintain its focus on the management of its operational expenses. To this end, the company undertook the review and re-engineering of many of its internal processes and operational workflows to cut down operational wastage and move towards a lean operational system. Further, the company introduced several cost saving and cost management techniques to its operations that our continuously monitored to ensure their effectiveness. Additionally steps were taken to increase employee productivity through job redesign and the restructuring of workflows. In effect, the company was able reduce its Cost-to-Income Ratio from 58.2 percent to 55.5 percent this year. Moreover, the operational cost management initiatives implemented by the management ensured that the company's operational costs reduced by 7 percent, when compared to the previous year.

A major restructuring of the company's collections and recoveries management processes was undertaken in order to ensure their efficient and effective functioning. These steps have helped in the management of the arrears positions and the reduction of the NPLs of the company. This is reflected in the reduction of the impairment charge of the company. Further, through this restructuring exercise, the company put increased attention to the control of arrears so as to minimize facilities from going to the NPL category.

In terms of the company's Total Asset Base growth, by the end of the year, the company was able to achieve a 9 percent growth in Total Assets despite the macroeconomic and industry related challenges that the company had to face. The Total Customer Assets Base of the company grew by 14 percent compared to the previous year. In this context, the company's Total Business Loan portfolio grew by 30 percent. Additionally, it is noteworthy that the company's Gold Loan portfolio also grew by 35 percent, when compared to the previous year.

With regard to the company's Customer Deposits Base, it grew by 14 percent, which is higher than the industry growth rate of 11 percent. The company was able to achieve this growth rate as a result of focusing on investments from individual retail depositors looking to invest for periods longer than 1 year. Effectively the company was able to reduce its dependency on its Top 20 deposit holders and reduce its focus on investors looking for high rates for short periods.

In the short term, the company's branch network expansion will be restricted to the conversion of the existing standalone gold loan centres to branches, as we are unable to undertake any fresh branch expansion plans due to the non-sanctioning of new branches by the Central Bank.

During the year, we significantly increased our investment in the training and development of our staff. Thus we were able to carry out 101 training programs during the year which is the highest number of training programs in the company's history. Our objective is to create a learning culture within our organization. To this end, we continue to organize internal training programs conducted by our senior staff in the areas of credit and operations. Further, we have continuously running quarterly training programs in customer service and customer excellence. Moreover, we continue to ensure that trust and integrity are enforced amongst our staff so that our customers in turn have business confidence in us and can trust and rely on the financial products and the service that we offer. Similar to efforts undertaken by us in the previous years, we continue to take action foster employee engagement within the organization as we have given priority to supporting our staff and giving opportunities to them to build a career with us and grow personally and professionally.

Our flagship CSR program, the 'Clean Zone' Initiative, continues to make strides and positively impact the local communities. This year, in addition to focusing on the areas surrounding our branches, we extended this initiative to cover public spaces as well. This expansion saw our 'Clean Zone' initiative been introduced to the Lady Ridgeway Hospital, the Matara General Hospital and other populous public spaces like railway stations, bus terminals, places of worship and town centres, to name a few. We are very much committed to expanding this ground breaking program that is focused on waste management, as we expand our branch network.

Milestones

As a testament to the transparency with which we conduct our business and the elevated personalized service levels we deliver to our esteemed clientele, we have been bestowed with industry awards and accolades this year also. This is a clear demonstration of our continuously enhancing brand exposure and value.

For the fifth consecutive year, we received an award for compliance in financial reporting at the 52nd Annual Report Awards ceremony from the Institute of Chartered Accountants of Sri Lanka (ICASL) for adhering to financial reporting requirements set out by them.

In the 2017 ranking of the most valuable brands in Sri Lanka carried out by Brand Finance and published by LMD, we were placed at the 72th position in the Top 100 ranking. Further, we were placed in the Top 100 listing of Sri Lanka's Leading Listed Companies by LMD in 2016. This recognition conferred upon us is a testament to the financial strength and stability that we possess and a mark of confidence on the financial potential that we possess.

Future Outlook

We are intrinsically aware of the numerous challenges that we face in these existing macroeconomic and industry conditions. The government's restrictive approach towards the Loan-to-Value ratio system and the high tariffs and duties on motor vehicle imports will mean that the vehicle financing industry will continue to be challenging and volatile. Further many finance companies also are redirecting their focus from vehicle financing and micro financing to business financing, thus resulting in increased competition to us. However, in the face of such challenges, we are confident that we can drive sustainable growth in profitability and asset growth.

In order to successfully face these challenges, we have undertaken a multitude of initiatives. We continue to consistently maintain our focus on customer service improvement and achieving customer excellence and re-engineering our policies and processes so that we are completely customer focused and where our back office workflows are simplified and geared to the meeting of customer needs. Further, we are in the process of implementing an organization-wide core banking system that will help us make our support service operations more efficient and increase our client management abilities. Moreover, we will continue to undertake a host of cost management initiatives to keep our operational expenses in check and gradually work towards reducing our lending rates to make ourselves more competitive.

Acknowledgements

I 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 this challenging year. During the year, two of our Directors, Mr. Palihena and Mr. Jayawardena, resigned in line with the Central Bank's statutory age-based requirements. I would like to take this opportunity to thank them profusely for their contributions to the growth of the company. Additionally, Mr. Palihena, as the Chairman of the company's Credit Committee, played an instrumental role in the development of the company's credit related internal infrastructure.

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 the vital role they play in regulatory matters and to the external auditors for their invaluable service.

I conclude by expressing my sincere appreciation to the Softlogic Finance team whose commitment and drive was instrumental in facing the numerous challenges that we have faced over the years and I am confident that they will continue to contribute to the company's success in the future as well.

(Sgd.)
Nalin Wijekoon
Director / Chief Executive Officer

29th June 2017

Board of Directors

Left to right:

Left to Right: Mr. Harris Premaratne *– Deputy Chairman,* ***Mr. Nalin Wijekoon*** *– CEO,* ***Mr. Ashok Pathirage –*** *Chairman,* ***Mr. Iftikar Ahamed*** *- Director,* ***Mr. Dushan Soza*** *- Director,* ***Mr. Hiran Perera*** *- Director,* ***Mr. Chris Corea*** *- Director*

Board of Directors' Profiles

Ashok Pathirage

Chairman

Ashok Pathirage is the founding member and Chairman/ Managing Director of the Softlogic Group, a conglomerate with an aggregate turnover of over USD 400 Mn operating over 45 companies with over 9,000 employees. This dynamic group has established market shares in six growing sectors of the economy – Retail, Healthcare, Financial Services, ICT, Leisure and Automotive. Besides, he is also the Chairman/ Managing Director of the Asiri hospital chain, Softlogic Capital PLC, Softlogic Life Insurance PLC and Odel PLC, which are all listed public companies in the Colombo Stock Exchange. He is also the Deputy Chairman of National Development Bank PLC and the Chairman of NDB Capital Holdings Limited.

Harris Premaratne

Deputy Chairman

A leading banking professional, Mr. Harris Premaratne, who was already on the Boards of a no. of Softlogic Group companies, including Asiri Hospital Holdings PLC, Asiri Surgical Hospital PLC, Asiri Central Hospitals PLC and Central Hospital Ltd, was appointed as the Deputy Chairman of Softlogic Finance PLC with effect from 1st January 2015. He is also the Deputy Chairman of Pan Asia Bank PLC.

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, the former Chief Executive Officer of Cargills Bank Ltd and the Managing Director of Sampath Bank PLC. In addition, he also served as 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 Banks Association.

Nalin Wijekoon

Director/CEO

Mr. Nalin Wijekoon was appointed as the Director/CEO of Softlogic Finance PLC in 2013. Prior to him being appointed as the CEO, he served as the Deputy CEO of the Company. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, a Fellow Member of the 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 a 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 of the Sri Lanka Credit Information Bureau (CRIB) in 2014.

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

Chris Corea

Director

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

He has extensive experience at the John Keells Group where he served as the Head of the MIS Division and was responsible for Group IT Systems, Software Development and Network Infrastructure from 1984 to 2004.

He left the John Keells Group in 2004 to launch Riscor Consultants – a software products company engaged in GPS tracking Systems and electronic sensing and management systems for Tea Factories.

He is a past president of the University of Colombo, MBA Alumni Association. He also served as a visiting lecturer on their MBA Programme and now serves on the Faculty Board of the Management Faculty.

Hiran Perera

Director

Mr. Perera is currently serving as the Head of Treasury 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 at HSBC, including three years of group cross-border exposure.

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 Softlogic Life PLC and an Executive Director of Softlogic Stockbrokers (Pvt) Ltd and a Non-Executive Director of Softlogic Finance PLC. He counts over 30 years of experience in a wide range of métiers 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.

Dushan Soza

Director

Dushan Soza is currently the Managing Director of BPMOne (Private) Limited, an IT solutions and consulting company. He has more than 25 years of experience in Leadership and Senior Management Positions in local and international organizations. His key capabilities are in Leadership and Governance, Brand Marketing, Infrastructure and Strategic Development. He has in depth experience in setting up and running BPO operations with special focus on People and Organizational Development and Team Building. He is considered a thought leader in the industry and his contributions have helped fashion the BPO industry in the country. He was a founder board member of SLASSCOM and was formerly the Managing Director of WNS Global Services (Pvt) Ltd, Sri Lanka. 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.

Management *Committee*

Seated Left to Right:

Ms. Indresh Fernando *- Chief Operating Officer,* ***Mr. Harris Premaratne*** *- Deputy Chairman,* ***Mr. Nalin Wijekoon*** *- Director/ CEO*

Standing Left to Right:

Mr. Kumara Kongahawatta *- AGM – Credit,* ***Ms. Monika Ranasinghe*** *- DGM – Finance,* ***Mr. Nalaka De Silva*** *- DGM – Branch Operations*

Management Committee Profiles

Harris Premaratne - Deputy Chairman

A leading banking professional, Mr. Harris Premaratne, who was already on the Boards of a number of Softlogic Group companies, including Asiri Hospital Holdings PLC, Asiri Surgical Hospital PLC, Asiri Central Hospitals PLC and Central Hospital Ltd, was appointed as the Deputy Chairman of Softlogic Finance PLC with effect from 1st January 2015. He is also the Deputy Chairman of Pan Asia Bank PLC.

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, the former Chief Executive Officer of Cargills Bank Ltd and the Managing Director of Sampath Bank PLC. In addition, he also served as 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 the Sri Lanka Banks Association.

N H G Wijekoon - Director/CEO

Mr. Nalin Wijekoon was appointed as the Director/CEO of Softlogic Finance PLC in 2013. Prior to him being appointed as the CEO, he served as the Deputy CEO of the Company. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, a Fellow Member of the 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 a 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 of the Sri Lanka Credit Information Bureau (CRIB) in 2014.

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

Indresh Fernando - Chief Operating Officer

Ms. Indresh Fernando is a Fellow Member 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, Outbound Travel, Leisure & Telecommunications. 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 (Serendib Group) sectors and Financial Controller of Lanka Bell, prior to joining the Softlogic Group where she was seconded as Chief Operating Officer to Softlogic Finance PLC.

Monika Ranasinghe - Deputy General Manager - Finance

Ms. Monika Ranasinghe transferred to Softlogic Finance PLC from Softlogic Brands (Pvt) Ltd as a Deputy General Manager and heads the Finance Division of the company. She has more than 14 years of experience in the Finance field and has held Leadership and Senior Management positions. She possesses a MBA (specialized in Finance) from the University of Southern Queensland in Australia and is a Member of the Association of Accounting Technicians of Sri Lanka (AAT) and an Associate Member of the Institute of Chartered Accountants of Sri Lanka (ICASL). She started her career as an Internal Audit Trainee at Ernst & Young and has worked at St. Anthony's Industries (Pvt) Ltd as an Assistant Credit Controller and Accountant. She also held the positions of Accountant, Head of Credit and Head of Treasury at Ceylon Pencil Co. (Pvt) Ltd. Prior to transferring to Softlogic Finance PLC, she was attached to Softlogic Retail (Pvt) Ltd and Softlogic Brands (Pvt) Ltd from 2011 as the Finance Manager.

Nalaka De Silva - Deputy General Manager - Branch Operations

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

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

Kumara Kongahawatta - Assistant General Manager - Credit

Currently, Kumara is functioning as the Head of Credit of the Company. He has over 13 years of experience in the financial services 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 PLC. Subsequently, he was promoted as an Assistant General Manager and was appointed as the Head of Central Leasing Marketing Department in 2010. He holds a BSc. Business Administration (Special) Degree from the University of Sri Jayewardenepura and has also completed the Intermediate Level of the Institute of Chartered Accountants of Sri Lanka. He is also a Diploma Holder in Credit Management from the Institute of Bankers of Sri Lanka.

Regional & Branch *Managers*

Harsha Weerathunga
Assistant General Manager
Regional Management - Central Region

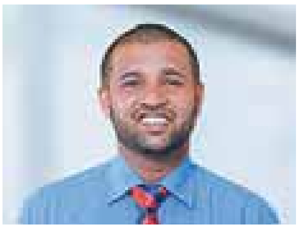
Colin Samaratunge
Assistant General Manager
Regional Management

Manoj Kumar
Assistant General Manager
Regional Management

Senathirajah Thavaseelan
Chief Manager
Jaffna Branch & Regional Management - Northern Region

Amila Konara
Chief Manager
Nawala

Mahinda Dias
Chief Manager
Kadawatha



Nadeesha Abeykoon
Chief Manager
Matara Metro

Nayomi Seneviratne
Chief Manager
Corporate Branch

Sudath Siri Kumara
Chief Manager
Matara

Dilip Wickramasinghe
Senior Manager
Galle

Hemantha Silva
Senior Manager
Borella

Kosala Peiris
Senior Manager
City Office

Nandana Gajanayake
Senior Manager
Anuradhapura

Nandana Edirisinghe
Senior Manager
Weligama

Nishantha Rathnayake
Senior Manager
Polonnaruwa

Sachintha Nakandala
Senior Manager
Kandy

Udayachandran Sivasooriyar
Senior Manager
Negombo

Asanka Godakandage
Manager
Senkadagala

Chandana Vithana
Manager
Ratnapura

Deeptha Eramudugolla
Manager
Kurunegala

Kapila Chandrakumara
Manager
Pamankada

Kenard Perera
Manager
Kochchikade

Lakmal Dharmasena
Manager
Badulla

Manuka Dharmagunarathne
Manager
Dambulla

Malinda Waidyatilleke
Manager
Matale

Mayura Adikari
Manager
Pettah

Ruchira Sameera
Manager
Thissamaharama

Sanjeewa Jayasinghe
Manager
Chilaw

Shanaka Piyaratna
Manager
Wattala

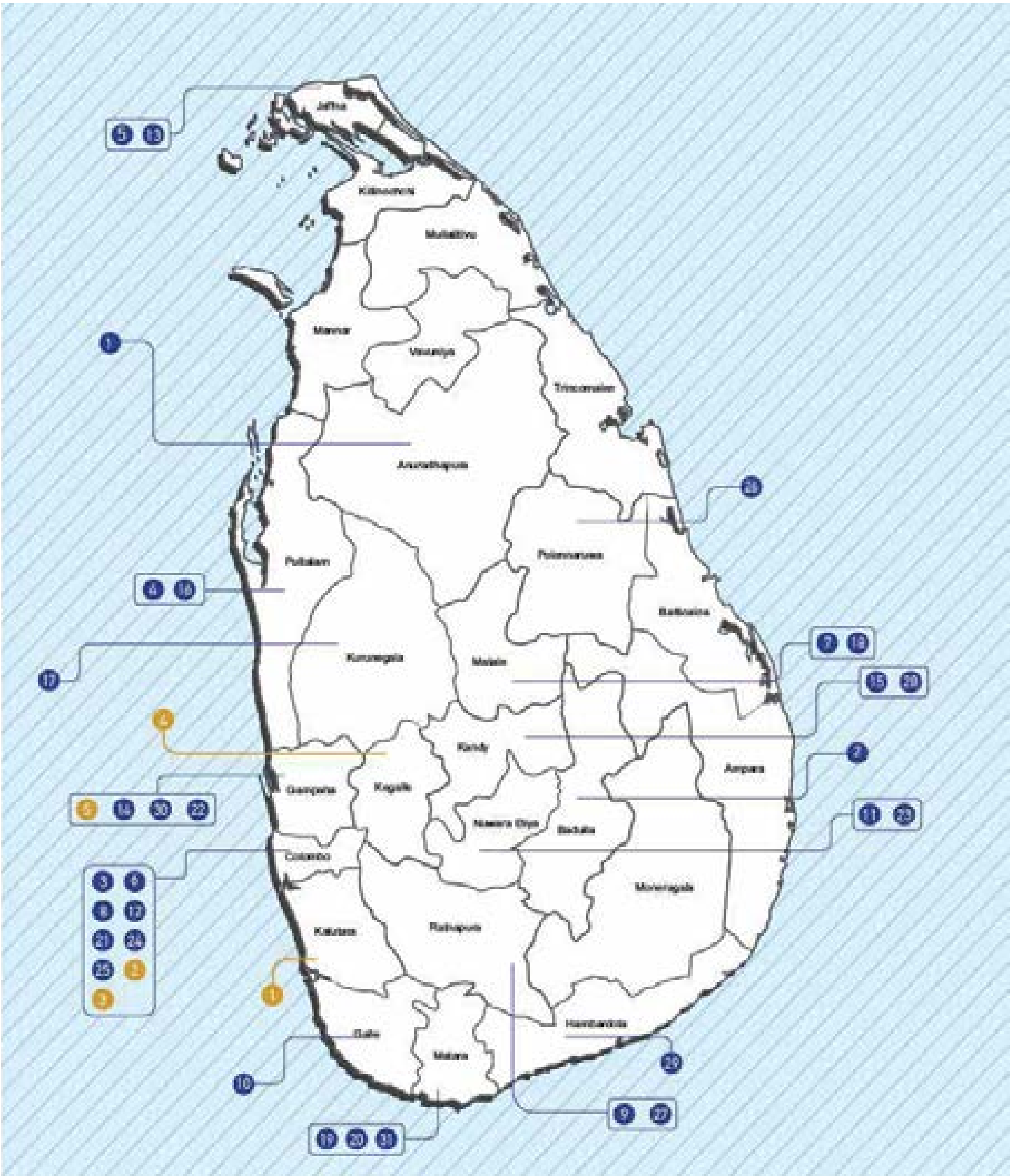
Damien Joseph
Officer-In-Charge
Hatton

Gayan Nawela
Officer-In-Charge
Dematagoda

Suntharalingam Ketharan
Officer-In-Charge
Chunnakam

Kithsiri Nishantha
Officer-In-Charge
Embilipitiya

Our Geographical *Footprint*



Branch *Network*

	Branch	Address	Telephone Number	Fax	Email
1	Anuradhapura	No: 561/11, Maithreepala Senanayake Mw, New Town, Anuradhapura	0252226279	0252234743	anuradhapura@softlogicfinance.lk
2	Badulla	No: 38, Anagarika Dharmapala Mw, Badulla	0552224206	0552223906	badulla@softlogicfinance.lk
3	Borella	No: 1072, Maradana Road, Borella	0112698016	0112694261	borella@softlogicfinance.lk
4	Chilaw	No: 28B, Kurunegala Road, Chilaw	0322221415	0322223754	chilaw@softlogicfinance.lk
5	Chunakkam	No: 101 & 105, K.K.S Road,Chunnakam	0212242770	0212242772	chunnakam@softlogicfinance.lk
6	City Office	No: 14/9, Sri Jinarathana Road, Colombo 02	0112303373	0112303363	cityoffice@softlogicfinance.lk
7	Dambulla	No: 719, Anuradhapura Road, Dambulla	0662284737	0662284717	dambulla@softlogicfinance.lk
8	Dematagoda	No: 85, Kolonnawa Road, Dematagoda, Colombo 09	0112679089	0112646226	dematagoda@softlogicfinance.lk
9	Embilipitiya	No: 176, Ratnapura Road, Pallegama, Embilipitiya	0472230590	0472230592	embilipitiya@softlogicfinance.lk
10	Galle	No: 64, Colombo Road, Kaluwella, Galle	0912248920	0912248095	galle@softlogicfinance.lk
11	Hatton	No: 107, Main Street, Hatton	0512222108	0512225739	hatton@softlogicfinance.lk
12	Head Office	No: 13, De Fonseka Place, Colombo 04	0112359700	0112359799	headoffice@softlogicfinance.lk
13	Jaffna	No: 62/64, Stanly Road,Jaffna	0212219444	0212219666	jaffna@softlogicfinance.lk
14	Kadawatha	No: 139/7/D, Kandy Road, Kadawatha	0112923011	0112923013	kadawatha@softlogicfinance.lk
15	Kandy	No: 165, Katugodella Street, Kandy	0812224912	0812224916	kandy@softlogicfinance.lk
16	Kochchikade	No: 42, Chilaw Road, Kochchikade	0312274233	0312272672	kochchikade@softlogicfinance.lk
17	Kurunegala	No: 13, Rajapihilla Mawatha, Kurunegala	0372232875	0372232565	kurunegala@softlogicfinance.lk
18	Matale	No: 253, Main Street, Matale	0662226461	0662228863	matale@softlogicfinance.lk
19	Matara	No: 8A, 1st Floor, F N Building, Station Road , Matara	0412220195	0412227257	matara@softlogicfinance.lk
20	Matara Metro	No: 382A, Galle Rd, Pamburana, Matara	0412238690	0412238691	matarametro@softlogicfinance.lk
21	Nawala	No: 305B, Nawala Road, Nawala	0112807080	0112807082	nawala@softlogicfinance.lk
22	Negombo	No: 406/1, Udayarthoppuwa Road, Negombo	0312224714	0312224716	negombo@softlogicfinance.lk
23	Nuwara Eliya	No: 72, Kandy Road, Nuwara Eliya	0522223082	0522223383	nuwaraeliya@softlogicfinance.lk
24	Pamankada	No: 201, W A Silva Mawatha, Colombo 6	0112367901	0112065517	pamankada@softlogicfinance.lk
25	Pettah	No: 12, Srimath Rathanajothi Sarwanamuththu Mawatha, Colombo 12	0112334461	0112334549	pettah@softlogicfinance.lk
26	Polonnaruwa	No:125, Batticaloa Road, Polonnaruwa	0272226727	0272225909	polonnaruwa@softlogicfinance.lk
27	Ratnapura	No: 1/200, Ground Floor, Main Street, Ratnapura	0452230677	0452223574	rathnapura@softlogicfinance.lk
28	Senkadagala	No: 235/B, Katugasthota Road, Kandy	0812232601	0812232603	senkadagala@softlogicfinance.lk
29	Tissamaharama	No: 28, Main Street, Tissamaharama	0472239933	0472239504	tissamaharama@softlogicfinance.lk
30	Wattala	No: 180, Negambo Road, Wattala	0112061660	0112061676	wattala@softlogicfinance.lk
31	Weligama	No: 325/A, Old Matara Road, Weligama	0412252888	0412260523	weligama@softlogicfinance.lk

Standalone Gold Loan Centres (to be converted to branches in the Financial Year 2017/18)

	Location	Address	Telephone Number
1	Kalutara	No: 242, Galle Road, Kaluthara South	034-2224714
2	Kotahena	No.264, George R De Silva Mawatha, Colombo 13	011-2337040
3	Kottawa	No: 128/A,Highlevel Road,Kottawa	011-2178464
4	Mawanella	No: 53/B, Kandy Road, Mawanella	035-2247304
5	Minuwangoda	No: 39/A, Negombo Road, Minuwangoda	011-2281285

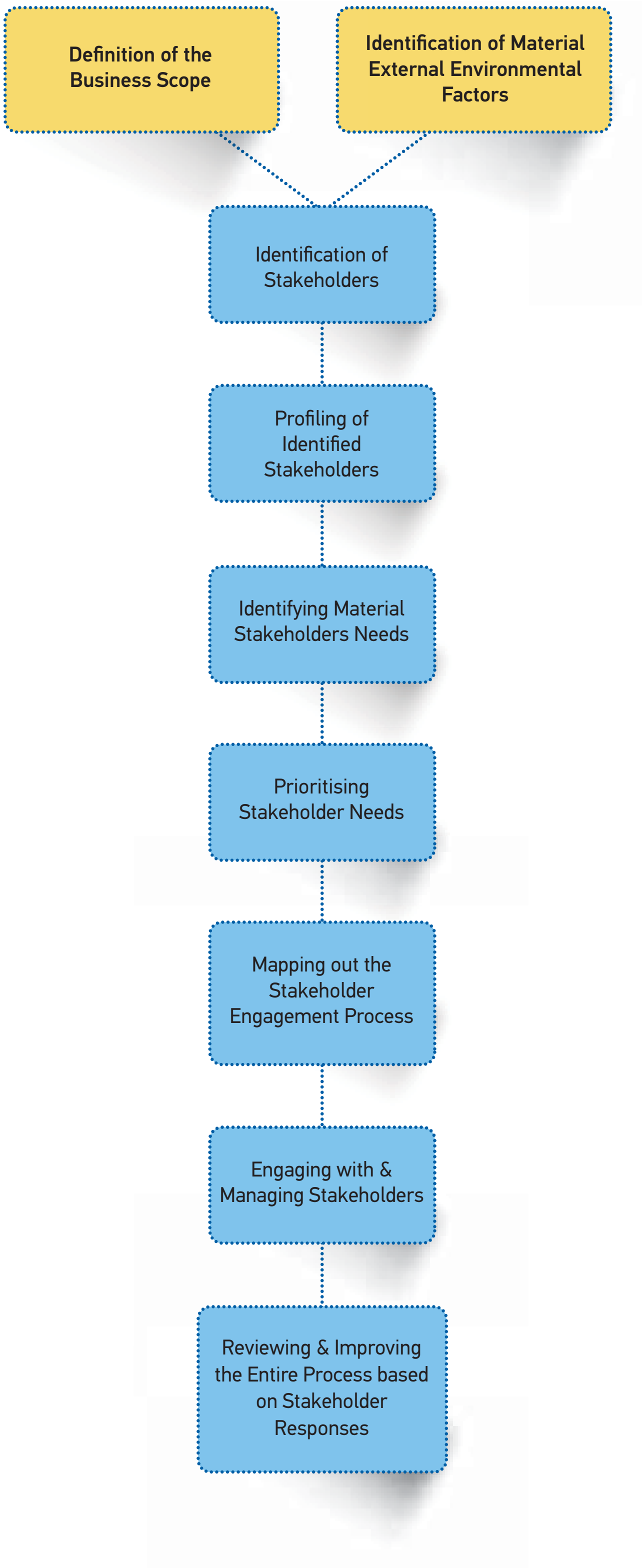
Our Approach to Value Creation

Personal Financing

A trusted and reliable option for your personal financial needs. Whether it is to meet emergency financial requirements or to finance personal needs, our personal loan schemes come with attractive interest rates, personalized service and fast disbursement times.

Stakeholder Identification and *Engagement*

The Identification, Engagement & Management Process



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 all-encompassing 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 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

Those who are affected by the operational activities and decisions made by Softlogic Finance PLC.

Those who can and are likely to affect our operational activities and influence our decision making processes.

Step 2 - Identification of Key Stakeholders

The level of interest in the activities of and decisions made by Softlogic Finance PLC

The ability of the stakeholder and their power level to impact the activities of and decisions made by Softlogic Finance PLC

The extent to which our activities would impact the stakeholder.

The legal obligations that the stakeholder has towards us and that we have towards the stakeholder.

THE IDENTIFIED KEY STAKEHOLDERS

Shareholders & Investors

Customers

Employees

Supplier & Value added Service Providers

Regulators

Society and the Environment

Methodology for Stakeholder Issue Identification

We employ a two dimensional approach to assess the significance of stakeholder issues that arise and prioritize them accordingly. This is a continuous process and we are aware that the significance of different stakeholder issues could change from time to time.

A broad criterion is used in this identification process of key stakeholder issues:

- The significance to and the level of impact on the company
- The significance to and the prioritization by the stakeholder

These two broad questions are always asked when deciding upon the significance of stakeholder issues and the level of priority that the company should assign to them. It is to be noted that the company regularly monitors and takes action on certain identified issues that qualify as per the laid out criteria. The issues that do not rank highly as per the said criteria are broadly monitored to identify any issues that could turn into significant issues later on that could affect our operations.

Stakeholder Identification and Engagement

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	• Annual Financial Statements • Quarterly Financial Statements • Annual General Meeting • Extraordinary General Meetings as and when statutorily necessary • Media Releases • CSE Website • Company Website	**From company perspective** • Increased Shareholder confidence in the Board **From stakeholder perspective** • Increase in Share Price • Regulatory Compliance • Declaration of Dividends • Adoption and maintenance of best practices in corporate governance • Adoption of industry best practices
Customers	• Personalized interactions • Customer complaint handling process • Customer Satisfaction Surveys • Market Surveys • Communication through multiple media platforms	**From company perspective** • Customer Loyalty • Enhanced Brand Value and Brand Penetration • Increased Customer Satisfaction • Increased Cross Selling **From stakeholder perspective** • Ethical business practices and full disclosure of product information • Competitive Interest Rates on Lending & Deposits • Innovative products and services
Employees	• One to one interactions based on our open-door policy • Confidential employee satisfaction survey • Individual annual performance appraisals • Performance based rewards and recognition • Training and development • Priority given for internal recruitment • Internal communication through company intranet and emails • Promotion of work-life balance	**From company perspective** • Increase employee productivity • Compliance with internal processes • Professional conduct • Reduced turnover • Motivated workforce **From stakeholder perspective** • 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

Stakeholder Type	Engagement Approach	Expected Outcomes
Suppliers & Value Added Service Providers	• Dedicated personnel to interact with different types of suppliers and service providers on a continuous basis • Prioritized engagement with local suppliers • Mutually beneficial, long term relationships being the focus during contractual negotiations	**From company perspective** • Favourable funding facilities • Seamless execution of outsourced services **From stakeholder perspective** • Strategic partnerships to obtain competitive advantages • Long term service contracts
Regulators	• Dedicated personnel for continuous, personalized 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	**From company perspective** • Compliance with regulatory requirements • Adoption of industry best practices to improve internal core and supporting processes • Contributing to economic growth through taxation paid **From stakeholder perspective** • Development of the industry to maintain public confidence • Dissemination of industry best practices • Collection of state revenue
Society and the Environment	• 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	**From company perspective** • 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 **From stakeholder perspective** • Maintenance of ethical business practices • Employment generation • Avoidance of any negative impacts on the environment

Stakeholder Identification and Engagement

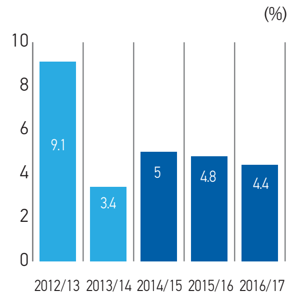
Management of Stakeholder Issues

As the issues that arise and the level of priority assigned to them change overtime, there is no constant set of issues. Therefore, a sample of the issues that typically arise is given below. This list details what the issue is, the specific stakeholder concerns regarding that issue and how we address such an issue when it arises. As this is a continuous process, when the level of priority changes, the company's response would also change accordingly.

Source of Issue	Issue Description	Stakeholder Expectation	Company Response
Customer	Ethical marketing practices	All relevant product information to be fully disclosed before entering into any agreement	All marketing material and communication processes have been developed as per Central Bank requirements and all marketing material is vetted by the Central Bank prior to publication
Customer	Customer complaints	Prompt handling of customer inquiries and complaints	Establishment of a customer complaint handling process. We continuously review this process and take steps to strengthen it.
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. Explanations and clear development paths given on appraisals made
Employee	Training and professional development	Regular access to training and availability of career development opportunities	Based on training needs determined beforehand, multiple training programs are held each month with internal and external resource personnel. Priority is given to internal recruitment for all vacancies that arise
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. Further, public education of waste disposal methods is done through our branch network
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.
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. Regular internal awareness sessions are conducted in this regard and dedicated resource personnel are available to process any employee queries. Further, all employees have access to Central Bank regulations through the company intranet

Economic Review

Real GDP Growth Rate



Source: Annual Report 2016, Central Bank of Sri Lanka

Emerging from a period of uncertainty, the Sri Lankan economy showed signs of stabilization during the year 2016 as a result of the corrective actions adopted by the government and the Central Bank. Due to unfavorable weather conditions and sluggish global economic recovery, the economy to grow at a slower rate of 4.4 % in 2016 in real terms, in comparison to 4.8 % in the previous year. Increased investment expenditure, especially in the construction sector, served as a key driver of economic growth during the year, while consumption expenditure decelerated in response to the tightened policy environment in place.

With regard to inflation, it remained low in the first four months of the year and increased thereafter to record an annual average of 4.0 % in 2016. The high levels of inflation observed during some months in 2016 as well as in the first quarter of 2017 were mainly due to the adverse impact of weather related disruptions, tax adjustments and rising international commodity prices. However, the increasing demand pressures of the economy were evident with the core inflation remaining at elevated levels.

Signals from the external sector balances reflected the continued domestic demand for imports from certain sectors of the economy, weak external demand for domestic products and the continued failure of the country to attract increased direct investment flows. Further, the rising global interest rates particularly on the government securities market, impacted as well. These developments resulted in the balance of payments (BOP) recording a deficit for the second consecutive year in spite of improvements in earnings from tourism and other service exports as well as workers' remittances. The Central Bank's heavy intervention in the foreign exchange market continued in the first four months of the year resulting in a broadly stable exchange rate during this period. However, the Central bank increasingly allowed the exchange rate to reflect market conditions thereafter by limiting its intervention.

Sri Lankan Key Economic Indicators

Indicator	2016	2015	2014	2013	2012
Real GDP Growth (%)	4.4	4.8	5.0	3.4	9.1
GDP (US$ billion)	81.3	80.6	79.4	74.3	68.4
Inflation (YOY %)	4.1	2.8	2.1	4.7	9.2
Inflation - Annual Average (%)	4.0	2.2	3.3	6.9	7.6
GDP Per Capita Income (US$)	3,835	3,843	3,821	3,609	3,351
Balance of Payment (US$ million)	(500)	(1,489)	1,369	985	151
Exchange Rate (Rs/US$)	149.80	144.06	131.05	130.75	127.16

Source: Annual Report 2016, Central Bank of Sri Lanka

GDP Growth

The Sri Lankan economy grew by 4.4 % in real terms in 2016 compared to the 4.8 % growth in 2015, in the midst of challenges from both domestic and external fronts. On the domestic front, recommencement of certain large scale government infrastructure projects and private sector investment activities supported economic growth. However, the growth momentum that was starting to build up was dampened by the continuation of fiscal consolidation measures, increase in inflationary pressure towards the latter part of 2016, tightening of the monetary policy stance of the Central Bank and adverse weather conditions. Moreover, uncertainty that arose from frequent policy changes during the beginning of 2016 also impacted the overall economic activity and business confidence. With regard to the external front, slow global economic recovery, sluggish global trade, tightening interest rates in the USA and heightened policy uncertainty from unanticipated outcomes of global economic and political developments, hindered the expected recovery in external demand.

Sectoral Performance

Sector	Rate of Change (%)		As a Share of GDP (%)	
	2016	2015	2016	2015
Agriculture, Forestry & Fishing	(4..2)	4.8	7.1	7.8
Industries	6.7	2.1	26.8	26.2
Services	4.2	5.7	56.5	56.6

Source: Annual Report 2016, Central Bank of Sri Lanka

Economic Review

Agriculture

The Agriculture, Forestry and Fishing sector recorded an overall decline of 4.2 % in 2016 compared to the growth of 4.8 % experienced in the previous year. As a result, the GDP share of this sector reduced further to 7.1 % in 2016 from 7.8 % in 2015. The contraction in the sector was particularly due to adverse weather patterns experienced during the year. Additionally, the average price of tea in the international market remained broadly stagnant, particularly during the first half of the year with lower demand from major export markets. Rubber production declined to the lowest volume reported in the past 50, in response to low international prices for natural rubber owing to low petroleum prices. Production of coconut dipped modestly during the year and high domestic prices were felt as a result of increased demand from coconut based industries and high export prices.

Industries

The Industry sector posted a significant growth of 6.7 % in 2016 in comparison to the 2.1 % recorded in the previous year. The marked growth of 14.9 % in the construction subsector, together with the growth in mining and quarrying, manufacture of rubber and plastic products, manufacture of basic metals and fabricated metal products and the manufacture of machinery and equipment, contributed to this higher growth rate in the Industry sector.

Services

The Service sector grew by 4.2 % in 2016 compared to 5.7 % in 2015. All services activities, except for the professional services subsector, grew in 2016. The growth in the Services sector was primarily driven by a significant expansion in the financial services activities and the developments in transportation of goods and passengers including warehousing activities. A substantial growth of 12.4 % was recorded in the value-added in financial service activities and auxiliary financial services in 2016. Further, the wholesale and retail trade subsector, which accounts for 10.6 % of GDP, grew at a modest rate of 2.5 % in 2016 and experienced deceleration during the second half of 2016, nevertheless, leading to an overall increasing trend.

Inflation

Inflation as measured by the year-on year change in the NCPI, displayed an overall increasing trend with mixed movements during 2016. Consumer price inflation moved upwards during the first half of 2016, although it stabilized somewhat during the remainder of the year, while core inflation broadly followed an upward trend in 2016. Headline inflation, as measured by the year-on-year change in NCPI, was subdued in the first quarter of the year as a result of imported deflationary effects associated with low international commodity prices. Headline inflation registered an increase during the second quarter of the year, reflecting the impact of domestic supply side disruptions, particularly due to adverse weather conditions, and tax adjustments.

When considering the NCPI based headline inflation on an annual average basis, however, it increased to 4.0 % by end 2016 compared to 3.8 % at end 2015.

Exchange Rate

The rupee depreciated against all major currencies, except the pounds sterling in 2016. The depreciation pressure on the rupee was a result of increased imports, continued foreign debt service payments and outflows on account of reversal of foreign investments from the government securities market amidst monetary policy normalisation in the USA. The Central Bank supplied foreign currency liquidity to the market heavily in the first four months of the year, and to a lesser extent thereafter. This intervention by the Central Bank was primarily intended to dampen the pressure on the exchange rate arising from foreign outflows from the government securities market. The rupee, which remained broadly stable with heavy intervention by the Central Bank in the first four months of the year, was allowed to reflect market demand and supply conditions to a great extent in the second half of the year, resulting in an overall depreciation of the rupee against the US dollar by 3.83 % in 2016.

Interest Rates

Trends in Interest Rates	2016	2015	2014	2013	2012
Average Weighted Lending Rate (%)	13.20	11.00	11.91	15.18	15.98
Average Weighted Prime Lending Rate (%)	11.52	7.53	6.26	10.13	14.40
Treasury Bill Rate (364 days) (%)	10.17	7.30	6.01	8.29	11.69
Standing Deposit Facility Rate/ Repurchase Rate (%)	7.00	6.00	6.50	6.50	7.50

Source: Annual Report 2016, Central Bank of Sri Lanka

Rupee liquidity in the money market, which was in surplus during the first quarter of 2016, reported a deficit thereafter, before increasing towards end 2016.

Interest rates offered on deposits of commercial banks continued to increase during 2016, reflecting the effect of tight monetary conditions on retail interest rates. Upward movement in deposit rates during 2016 also reflected the increased interest costs of financial institutions. Accordingly, the Average Weighted Deposit Rate (AWDR), increased by 197 basis points to 8.17 % by the end of 2016 from 6.20 % at the end of 2015.

Meanwhile, the Average Weighted Fixed Deposit Rate (AWFDR), also increased by 289 basis points to 10.46 % by the end of 2016 from 7.57 % at the end of 2015. A substantial increase in interest rates pertaining to short term time deposits, particularly for 3-months and 1-year time periods, was observed in the market during the year.

Lending rates of commercial banks increased during 2016, reflecting the impact of the tight monetary policy, deficit liquidity conditions and increased cost of funding due to high deposit interest rates offered in view of aggressive deposit mobilization. Reflecting the upward movement in short term lending rates during 2016, the weekly Average Weighted Prime Lending Rate (AWPR), increased by 399 basis points to 11.52 % by the end of 2016 from 7.53 % at the end of 2015. The Average Weighted Lending Rate (AWLR), increased by 220 basis points to 13.20 % by the end of 2016 from 11.00 % at the end of 2015.

Fiscal Policy

Fiscal Performance	As a % of GDP				
	2016	2015	2014	2013	2012
Budget Deficit	5.4	7.6	5.7	5.4	5.6
Government Debt	79.3	77.6	71.3	70.8	68.7
Government Debt - Domestic	45.1	45.3	41.3	40.0	37.0
Government Debt - Foreign	34.2	32.4	30.0	30.9	31.7

Source: Annual Report 2016, Central Bank of Sri Lanka

The increase in government revenue originating from the broadened tax base, structural reforms in tax administration and the rationalization of government expenditure, concurrently with the government's commitment to strengthen the fiscal consolidation process, contributed to the overall improvement of the fiscal sector during 2016. Essentially, the fiscal policy in 2016 was directed towards strengthening fiscal consolidation to curtail the budget deficit and thereby reduce the accumulation of government debt. In line with the budgetary targets, several revenue measures were introduced in the Budget for 2016 to enhance revenue mobilization. Accordingly, measures were taken to simplify the tax structure while broadening the tax base. Meanwhile, redrafting of existing tax laws also continued during the year to bring necessary improvements to the tax system to ensure simplicity, clarity and consistency. Further, tax administration was also strengthened through the automation of tax collecting agencies with the implementation of the RAMIS project at the IRD and NSWS at SLC.

Monetary Policy

The conduct of the monetary policy in 2016 was targeted at supporting the addressing of the existing and emerging imbalances in the Sri Lankan economy and stabilising the economy through the suppression of the likely rise in excessive demand pressures on the economy. The Central Bank tightened its monetary policy stance during 2016 to restrain the excessive growth in credit and to contain the possible accumulation of demand driven inflationary pressures in the economy.

The objective was to stabilize inflation at mid-single digits over the medium term, without compromising the growth prospects of the economy and remained the primary focus of the Central Bank in the conduct of its monetary policy. Accordingly, the Central Bank conducted its monetary policy within an enhanced monetary policy framework with features of both monetary and inflation targeting.

Economic Review

Stock Market Performance

Performance Indicators	2016	2015	2014	2013	2012
All Share Price Index	6,228.30	6,894.5	7,299.0	5,912.8	5,643.0
S&P SL 20 Index	3,496.4	3,625.7	4,089.1	3,263.9	3,085.3
Market Capitalization (Rs. Billion)	2,745.4	2,938.0	3,104.9	2,459.9	2,167.6
Daily Average Turnover (Rs. Million)	737.2	1059.6	1414.6	828.4	883.6
Total Turnover (Rs. Billion)	176.94	253.25	340.92	200.47	213.83
Number of Companies Listed	295	294	294	289	287
Number of Equity Initial Public Offers	3	2	5	1	6
Number of Debt Initial Public Offers	17	25	20	28	3

The Colombo Stock Exchange (CSE) recorded a dreary performance in 2016 for the second consecutive year. The All Share Price Index (ASPI) declined by 9.7 % to 6,228.3 points and S&P SL20 Index declined by 3.6 % to 3,496.4 points at the end of 2016 compared to 6,894.5 and 3,625.7, respectively, at the end of 2015. The upward trend in interest rates in both the domestic and international markets and the depreciation of the Sri Lankan rupee were amongst the key factors that negatively affected this subdued performance of the CSE. Consequently, price indices pertaining to the main sub sectors, namely banks, finance and insurance, diversified holdings, hotels and travels and telecommunication, declined substantially by 7.7 %, 16.4 %, 7.4 % and 12.5 %, respectively, during the year.

Market capitalization of the CSE declined in 2016. The market capitalization as a percentage of GDP declined to 23.2 % at the end of 2016 from 26.8 % in 2015. In terms of market capitalization, banks, finance and insurance (23.8 %), beverage, food and tobacco (19.4 %) and diversified holdings (18.7 %) were the top three largest sectors of the CSE while the ten largest companies listed on the CSE accounted for 41.7 % of the total market.

Industry Review

The Non-Bank Finance Sector experienced healthy growth during 2016, with accelerated asset growth and branch network expansion, in the backdrop of a challenging macro-economic environment. This sector, which includes Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs), showed a significant shift from its core business of motor vehicle financing to the financing of loan products.

It was noted that this growth experienced in the NBFI sector was primarily financed through domestic borrowings. Even in the context of substantial asset growth, the associated risk levels in the industry remained at controllable levels with a downward trend in NPLs and healthy liquidity and capital levels. The increase of policy rates by the CBSL did curtail credit growth towards the end of the year, whilst the tightening of the Loan-to-Value ratio system with regard to motor vehicle financing, posed many challenges to the traditional source of business of the NBFI sector.

By the end of 2016, the sector consisted of 46 LFCs and 7 SLCs. The overall branch network grew by a net of 97 branches to reach 1313 branch locations by the end of 2016.

Non-Bank Finance Sector Performance Highlights

Performance Indicators	2016	2015
Interest Income (Rs. Bn)	188.9	150.4
Net Interest Income (Rs. Bn)	92.1	82.2
Profit After Tax (Rs. Bn)	31.5	15.2
Total Asset Base (Rs. Bn)	1,211.9	996.1
Total Net Advances (Rs. Bn)	962.7	795.8
Total Deposits (Rs. Bn)	531.0	480.6
Total Borrowings (Rs. Bn)	438.7	314.3
Capital Elements (Rs. Bn)	146.1	123.1
Net Interest Margin (%)	7.9	8.7
Return on Assets (%)	4.0	3.0
Return on Equity (%)	23.1	12.4
Gross NPA Ratio (%)	5.3	5.7
Provision Coverage Ratio (%)	65.7	61.0
Total Advances to Total Assets (%)	79.5	79.7
Liquid Assets to Total Assets (%)	7.1	7.6
Core Capital Adequacy Ratio – Tier I (% of Risk Weighted Assets)	11.3	10.5
Capital Adequacy Ratio – Tier II (% of Risk Weighted Assets)	11.7	11.2

Source: Annual Report 2016, Central Bank of Sri Lanka

Industry Review

Analysis of Sector Assets and Liabilities

Total Assets of the sector experienced sustained growth in 2016 with growth rates similar to the previous year. Total Assets grew by 21.7% from Rs. 996.1 Bn to Rs. 1211.9 Bn in 2016, compared to the 22.3% growth experienced in 2015. This asset growth was mainly influenced by the 21.0 % growth in lending activities in the sector. When considering the funding of this asset growth, it was primarily funded through borrowings, representing a share of 57.6% and also through deposits representing a share of 23.3%.

When looking at credit growth during the year, there were significant pressures on credit growth in the NBFI sector as a result of the implementation of the loan-to-value ratio mechanism with regard to motor vehicle financing. However, with many companies in the sector moving towards the disbursement of other loan products, the credit growth somewhat recovered and posted a growth of 21.0 % for 2016. However this was a significant decline from the previous year's growth rate of 31.8%. When looking at the composition of this credit growth, about 73.1% was primarily through other loan products like term loans, revolving loans, microfinance, factoring and draft loans.

With regard to investment activities undertaken by the NBFI sector, there was a growth of 12.1% for 2016 in comparison to a drop of 9.2% in 2015. This growth was chiefly spurred on by the increased investments in short-term government securities. Investments in this context contain investments in equity, capital market debt instruments, government securities and investment properties.

With regard to the funding of the sector's asset growth, the NBFI sector's reliance on retail customer deposits has progressively moved towards bank borrowings over the past two years considering the flexibility and the cost factor afforded by banks. During 2016, there was an increase in borrowings of 39.6 % compared to the increase of 44.6 % posted in 2015. These borrowings are principally from the banking sector, trailed by debenture issues, foreign borrowings and overdraft facilities.

Hence, the overall funding structure of the sector has changed with the increasing of the share of borrowings to 36.2 % in 2016 from 31.6 % in 2015, while the dependency on retail customer deposits decreased to 43.8 % in 2016 from 48.3 % in 2015.

In the context of retail deposits, they posted a modest growth of 10.5 % in 2016, compared to a 16.1 % growth in 2015. The deposit mobilization in the sector was mainly through time deposits accounting for 95.6 % of the total deposits, whilst the rest was mainly composed from savings deposits.

Focusing on the capital elements of the NBFI sector, there was a significant increase of 18.7% to Rs. 146.1 Bn by the end of 2016 from Rs. 123.1 Bn in 2015. This was primarily as a result of internal profits generated by the sector.

Credit Risk

In the backdrop of a notable lending growth in the sector, the quality of the lending portfolio was maintained through the usage of aggressive credit recovery policies by the companies in the sector. The NPL ratio experienced a decline from 5.7 % in 2015 to 5.3 % in 2016. Even though there was an increase of Rs. 5.6 Bn in NPLs in 2016, it was not significant compared to the higher growth of the lending portfolio. With regard to the provision charges, they increased by Rs. 5.9 Bn to Rs. 34.8 Bn mainly as a result of an increase in the specific provisions made for NPLs with default periods of more than 12 to 24 months. In effect, the net NPL ratio decreased to 1.2 % as at the end of 2016 compared to 1.6 % in 2015 and the provision coverage increased to 65.7 % in 2016 compared to 61.0 % leading to a possible reduction of potential default risk of the sector.

Liquidity Risk

With regard to the excess liquidity in the sector that was experienced in the previous year, it continued to remain high during 2016 also amidst increased lending in the sector. The overall statutory liquid assets available in the sector were at a surplus of Rs. 15.4 Bn by the end 2016 compared to the prescribed minimum requirement of Rs. 74.7 Bn. In terms of composition, about 74.9 % of liquid assets of the sector were in the form of government securities. The liquid assets to total assets ratio decreased marginally to 7.1 % in 2016 from 7.6 % in 2015. In effect, the liquid asset to deposits ratio was well above the statutory minimum of 10.0 % of time deposits and unsecured borrowings and 15.0 % of savings deposits.

Sector Profitability

The year 2016 saw the sector posting a profit after tax of Rs. 31.5 Bn compared to that of Rs. 15.2 Bn in 2015, representing a more than two fold increase. Increased business volumes, improved other income and improved operational efficiency were the main contributory factors for these increased profits. The net interest income of the sector increased at a slower rate of 12.0 % compared to the 32.0 % increase in the previous year, mainly as a result of increased interest costs. This affected the net interest margin of the sector negatively as it declined to 7.9 % from 8.7 % in 2015. Mainly as a result of default and service charges, the non-interest income recorded an increase in comparison to 2015 while the non-interest expenses decreased marginally leading to an improved efficiency ratio.

Capital Funds

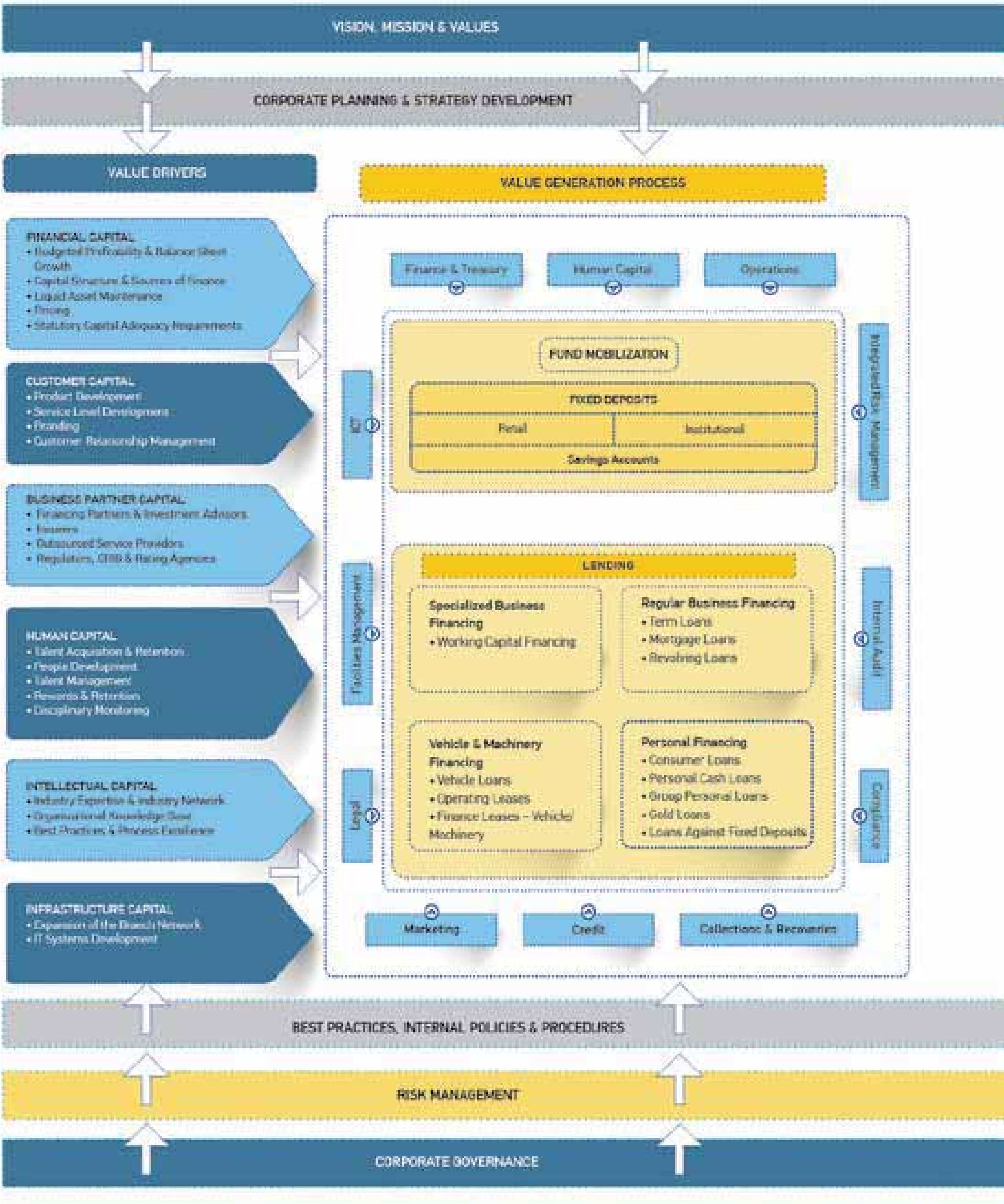
With regard to the total regulatory capital of the sector, it improved by 25.1 % to Rs. 116.2 Bn, primarily as a result of retained profits. The core capital and total risk weighted capital ratios of the sector increased to 11.4% and 11.7 % respectively, as at the end of 2016 from 10.5% and 11.2 % respectively, as at the end of 2015.

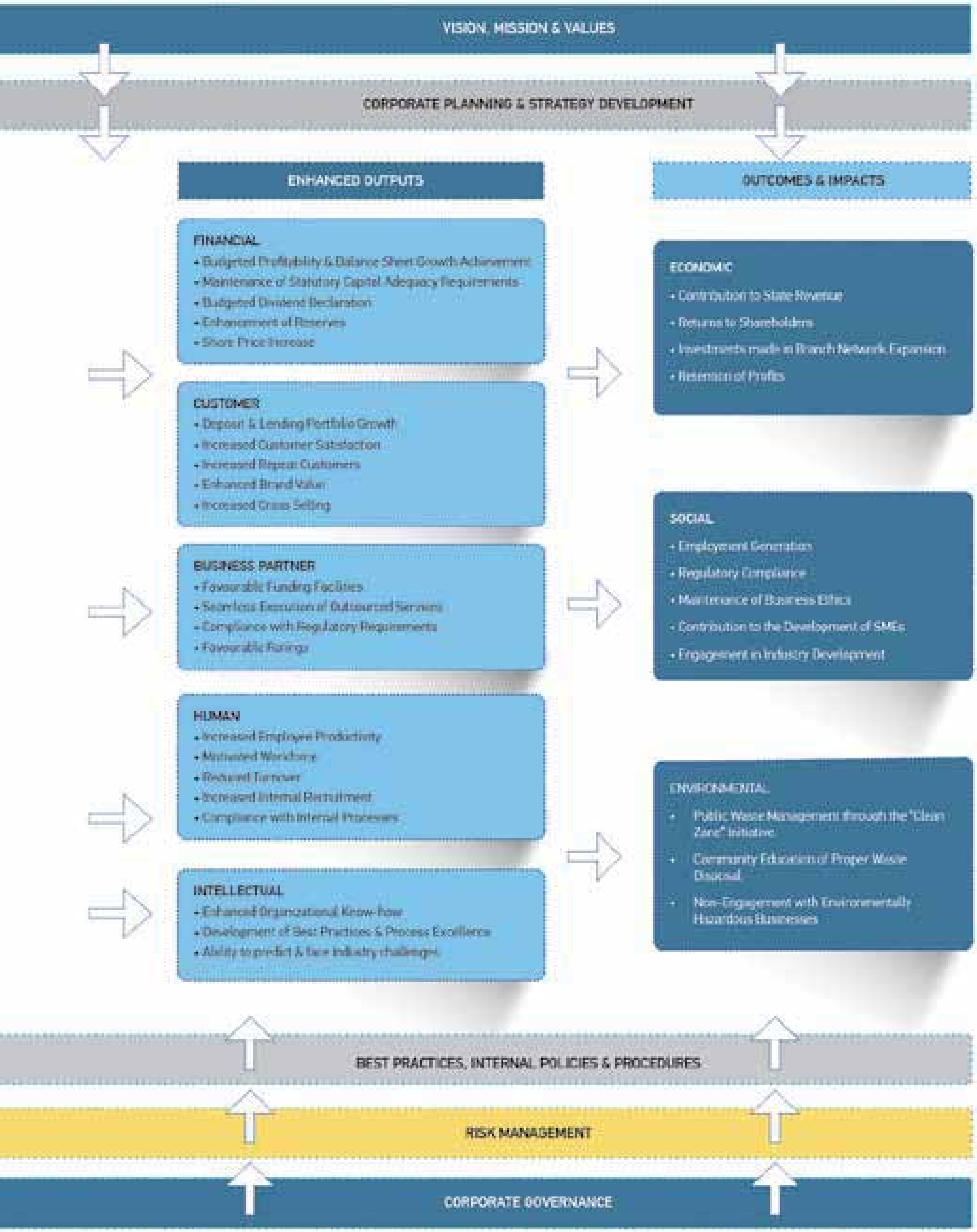
Regulatory Developments in the Sector

With the objective of strengthening the regulatory framework in place, a detailed review was conducted on the existing regulatory framework by the Central Bank. This was set in motion in order to keep the pace with international and local developments in the financial industry, emerging international best practices guided by the Basel Committee on Banking Supervision and other standard setting bodies. Accordingly, the Central Bank is in the process of introducing new regulations along with the consultation with stakeholders of the sector.

Moreover, the companies in the sector were given guidance to focus more on their branch expansion strategies in view of balancing the financial inclusion objective and internal strengths through the driving of business efficiency. Hence, a new framework on branch openings, closure and relocation was introduced by streamlining the existing policies and practices. Further, a policy was implemented to encourage the companies in the sector to open only branches instead of other outlets in view of streamlining the branch expansion process. Furthermore, the methodology used in setting the maximum upper limit of interest rates on deposits and debt instruments was revised to nullify the impact of abrupt changes in the interest rates.

Our Business *Model*




VISION, MISSION & VALUES
CORPORATE PLANNING & STRATEGY DEVELOPMENT
ENHANCED OUTPUTS
OUTCOMES & IMPACTS
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 Organizational Know-how
• Development of Best Practices & Process Excellence
• Ability to predict & face industry challenges
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

Corporate Strategy on *Value Creation*

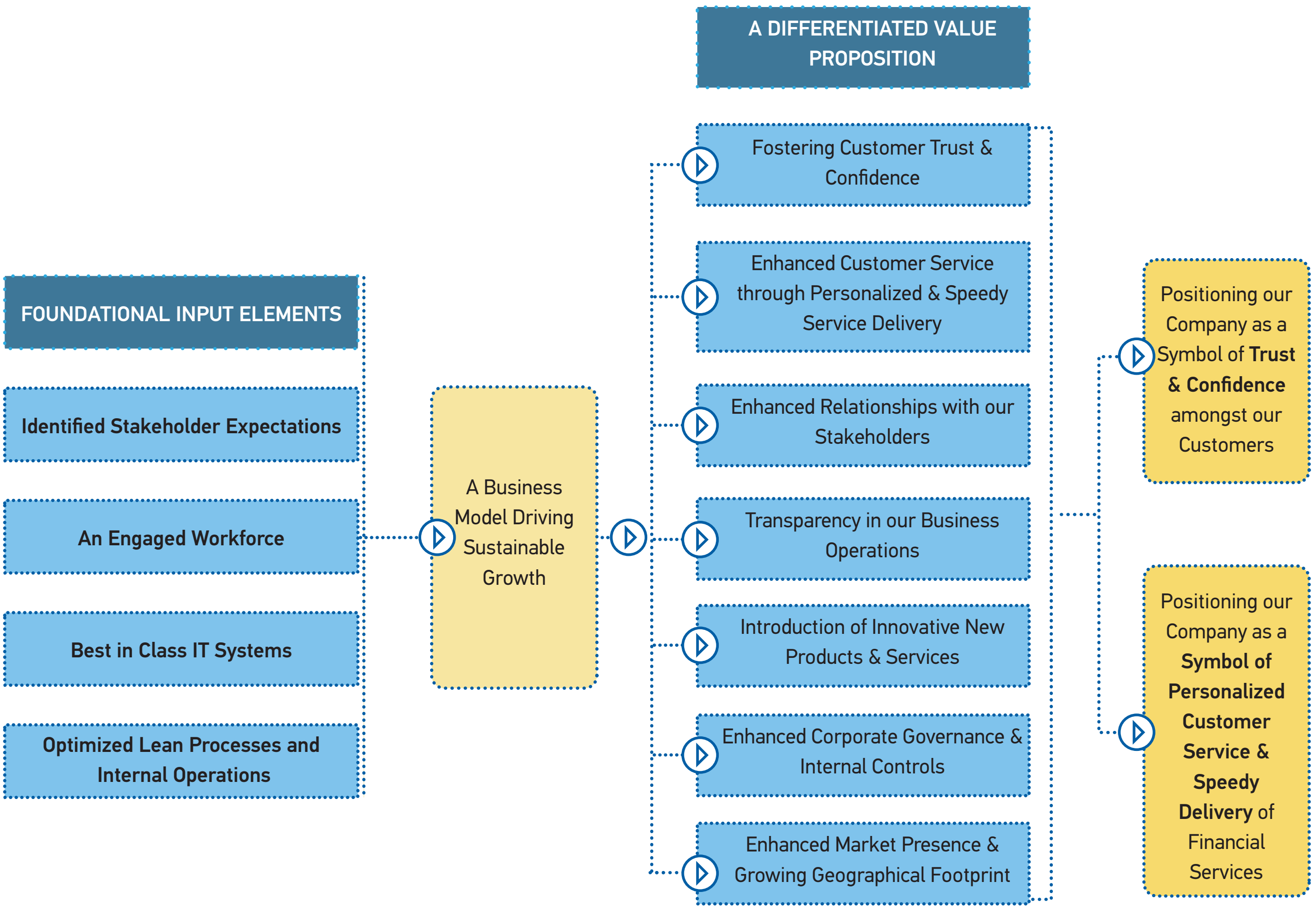
CORPORATE STRATEGY AND BUSINESS MODEL

We are focused on differentiating ourselves from other financial services providers and evolve from the traditional notion of what a finance company should be. Our overarching drive is to excel in business lending and become the preferred business partner of not only the SME sector, but also of larger corporates. Instrumental to this drive, is our ambition to also be the preferred retail investments partner. In order to achieve these goals, we have rolled out in our business model, certain key domains that are instrumental to this effort.

Critical to this endeavor are the below mentioned key success factors:

- Building an engaged, innovative and productive workforce
- Continuous refinement of our internal processes and controls
- Effective application and management of our monetary resources
- Expansion of our geographical footprint
- Partnering and maintaining relationships with strategic partners

As the pioneer in offering working capital solutions in the non-bank financial institutions sector, we are well on our way to reach the lofty goals we have set for ourselves. What allows us to consistently differentiate ourselves from our competitors and offer a unique value proposition to our clientele, is our proven business model. The operationalization of our business model to achieve our corporate goals has been further complemented by the industry expertise and the competencies that our team brings into the fray.



OUR VALUE CREATION PROCESS

Our value creation process embodied in our business model is the result of strategic fine tuning over time in anticipation of and in response to changes in our operating environment. It has been equipped to ensure that our shareholders receive increasing returns over the medium and long term, whilst actively addressing and responding to concerns and demands of our broader stakeholder base. Regardless of whatever lofty financial goals we have set, our value creation process has been modelled in such way as to ensure that we always run an ethical business and adhere to the tenets of corporate governance and regulatory compliance.

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, Intellectual Capital and Infrastructure Capital.

FINANCIAL CAPITAL

Financial Capital involves the financial management function which ensures that our financial resources are leveraged and used effectively in the value generation process, whilst complying with statutory capital adequacy requirements.

CUSTOMER CAPITAL

Customer Capital involves the effective management and fostering of our customer base through personalized customer relationship management, product development, branding and service level development.

BUSINESS PARTNER CAPITAL

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

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, training and 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

Intellectual Capital revolves around the industry expertise that we bring into this value generation process. Through our organizational 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 operationalize our other inputs.

INFRASTRUCTURE CAPITAL

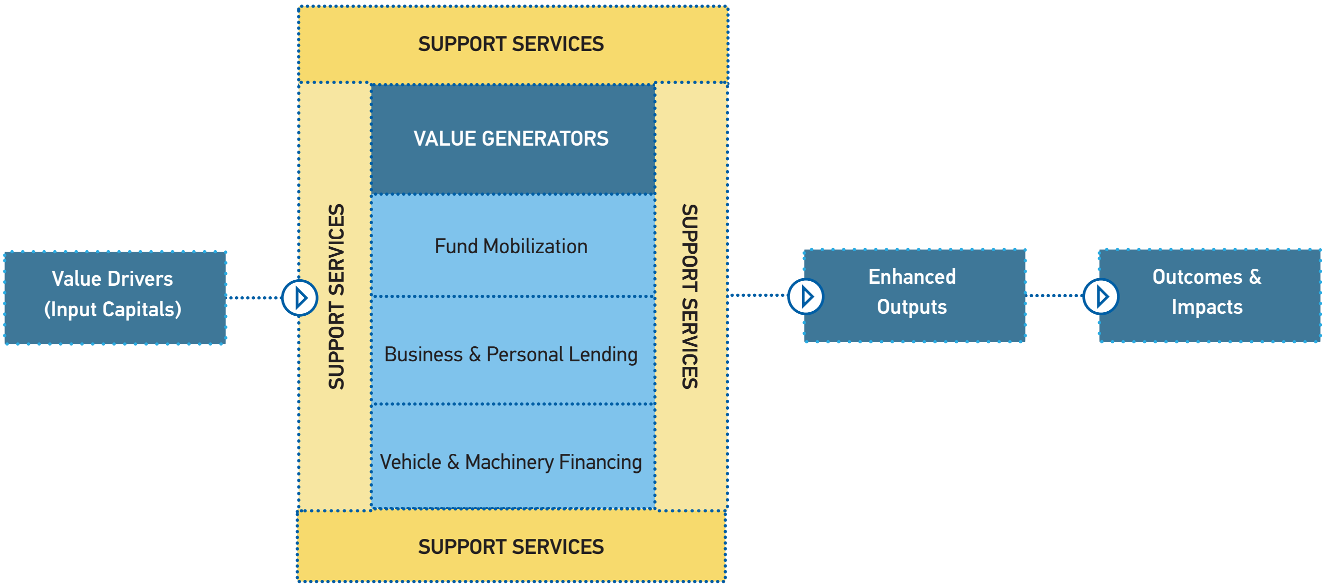
Infrastructure Capital that is brought into the process is the continuous expansion of our branch network, the substantial investments made in implementing best in class IT systems and the ATM partner network that is in the pipeline that would further enhance customer convenience. .

Corporate Strategy on Value Creation

The Value Generation Process

The objective of our value generation process is to manage and effectively utilize the 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 mobilization, specialized business financing, regular business financing, vehicle and machinery financing and personal financing activities, it is imperative that our internal processes and support services in place are geared to make efficient use of our value chain.

The success of our business financing function, which involves the provision of working capital solutions for SMEs and mid-to-large business entities, 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 maximized 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 not to compromise our stance of running an ethical business and being a responsible corporate citizen.



Our value creation process is a continuous, evolving process and these input capitals, the value generating activities, the immediate outputs and the impacts are all interdependent and incessantly influence each other. This is how we leverage our core competencies and the competitive advantage that we have in our business domains in order to maximize the value we create for our stakeholders. In the long term, adherence to the value creation processes in our business model helps us to manage the expectations of all our stakeholders and create win-win situations for all of them.

The Immediate Outputs

Our value generating process results in a number of immediate outputs that would be altered and enhanced through the value generators that we put our inputs through. Our immediate outputs have been categorized as:

- Financial Domain
- Customer Domain
- Business Partner Domain
- Human Capital Domain
- Intellectual Domain

With regard to the immediate outputs, we expect a variety of financial results in the form of the achievement of budgets, maintenance of statutory capital adequacy requirements, the declaration of budgeted dividends and the increase in the share price, to name but a few. Customer domain related outputs involve, among others, deposit and lending portfolio growth, increased customer satisfaction, increased repeat customers and the enhancement of our 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 the compliance with regulatory requirements. In the context of our Human Capital, immediate outputs in the form of increased employee productivity, a motivated workforce, reduced turnover and increased internal recruitment, amongst others are expected. Finally, in the context of the enhancement of our Intellectual Capital, we expect the continuous fine-tuning of our internal processes, the development of our organizational knowledge bank and the enhancement of our ability to predict and take proactive measures to face industry challenges.

The Outcomes & Impacts

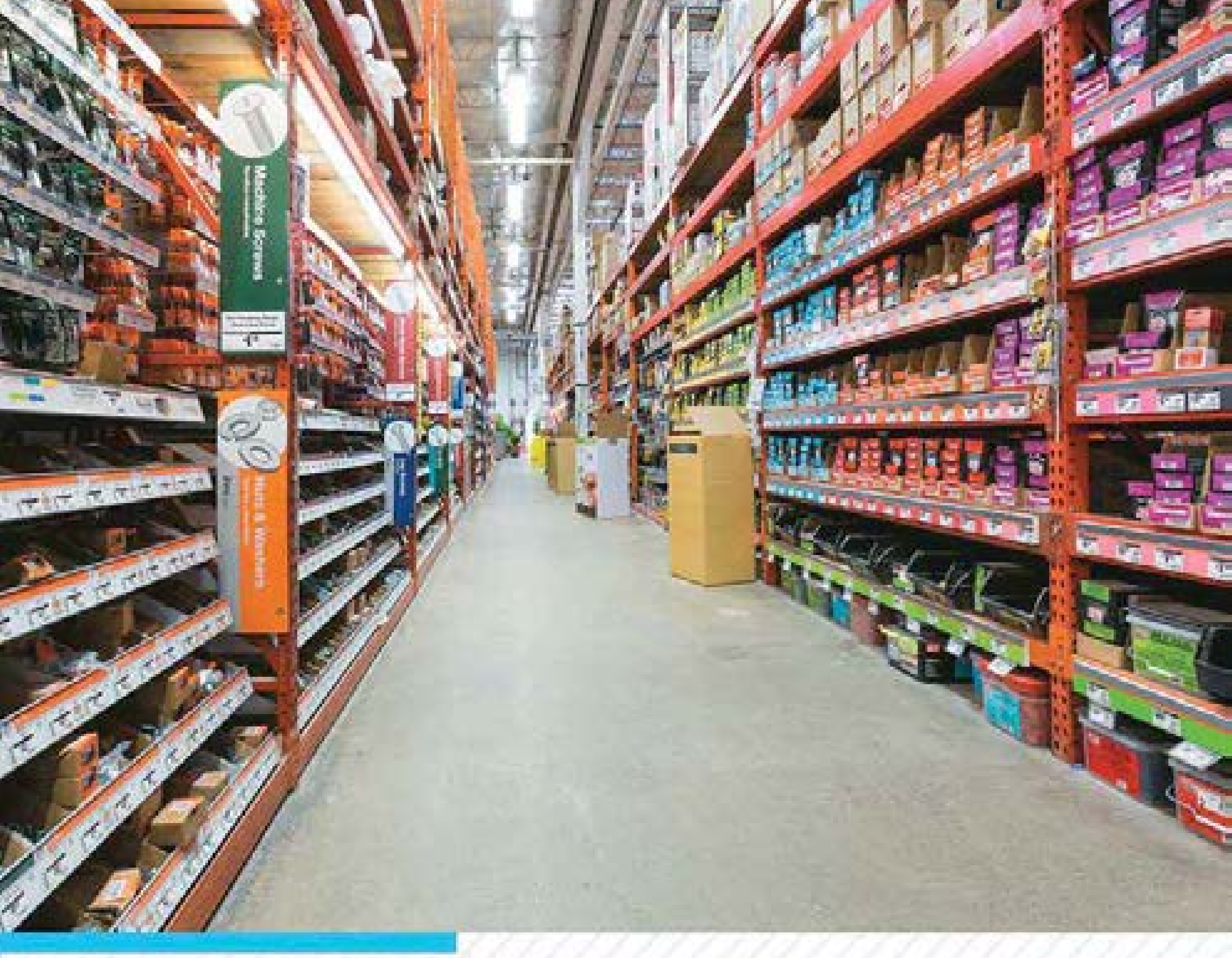
Our value creation process impacts a host of stakeholders with differing and sometimes conflicting interests. Management of these impacts is paramount for our long term survival. For monitoring efficacy, we have identified these impacts as follows:

- Economic Impacts
- Social Impacts
- 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 objective of our value generation process is to manage and effectively utilize the 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."

Management Discussion and Analysis



Business Financing

A guiding hand that helps you achieve your entrepreneurial goals, our trailblazing business financing products offer you flexible and speedy financing solutions, backed by our superior customer service. Our business financing products continue to make a positive impact on rural economic development and increasing access to formalized sources of finance.

Key Value *Drivers*

Financial Capital

Profitability

For the 2016/17 financial year, Softlogic Finance was able to produce a formidable financial performance, in the backdrop of a host of industry and macroeconomic challenges and post a Net Profit After Tax of Rs. 365 million. Key contributions originated from an increase in total revenue, the effective management of operational expenses and a reduction in the impairment charge for the year. Overall, as a result of the careful execution of a number of corporate and operational strategies by the management of the company, we were able to ensure that the company continued its sustainable growth drive.

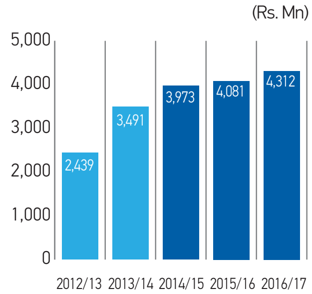
During the year under review, the company's operating sphere was regularly challenged by stringent government policies affecting vehicle financing and credit growth. The restrictive loan-to-value ratio scheme put in place by the Central Bank of Sri Lanka resulted in a depressive effect on vehicle financing, which represents the core business of finance companies. Further, the raising of policy interest rates by the Central Bank significantly affected our finance costs and curtailed credit growth. It is in light of these rigorous challenges that our operational machinery produced a solid Net Profit After Tax of 365 million.

During the year, the company adopted a revised methodology for its impairment model used for the impairment of Loans, Leases and Hire Purchase facilities. In order to refine our financial reporting and ensure consistency throughout the reporting periods, we made a number of prior year adjustments to our impairment charges that have already been reported and have restated them this year. The effects of these restatements have been extensively addressed in our Financial Statements and Notes thereto.

Income Analysis

During the year under review, the company posted an impressive top line performance even with industry volatility as a result of rising policy rates, restrictive policies towards motor vehicle financing and the increased competition arising from other finance companies moving to business financing. The Total Gross Income of the company which consists of Interest Income, Fee and Commission Income, Net Trading Income and Other Operating Income, grew by 06 percent to reach Rs. 4.3 billion during this financial year.

Total Gross Income

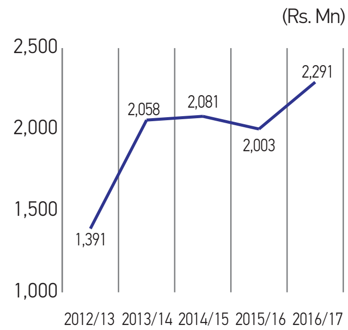


With regard to Interest Income growth, a significant year-on-year increase in disbursements of 17 percent served as a key contributor. More specifically, the 26 percent year-on-year increase in business financing loan disbursements played a vital role in interest income and customer acquisition fee income 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. Additionally, our ability to organically increase our disbursements, even in the face of the stifling of industry credit growth, can be seen in the 17 percent increase in the average monthly disbursements done by us. Further, in comparison to the previous financial year, it is noteworthy that Interest Income from the Revolving Loans portfolio increased by 49 percent, the Interest Income from SME working capital financing increased by 22 percent and the Interest Income from Gold Loans increased by 48 percent. Moreover, Interest Income from the company's investment activities increased by 41 percent as a result of the effective utilization of any available excess cash and the increase in the market interest rates.

Interest Cost Analysis

During the year under review, the interest costs of the company increased by 14 percent as a result of the significant increase in policy interest rates by the Central Bank. The company was able to curtail the increase in its interest costs through its strategic decision to primarily focus on individual retail investors looking to invest for periods of over 1 year and shift its focus away from large-scale institutional deposits. Further the company continued to negotiate with its banking partners to keep the finance costs of its funding lines at manageable levels.

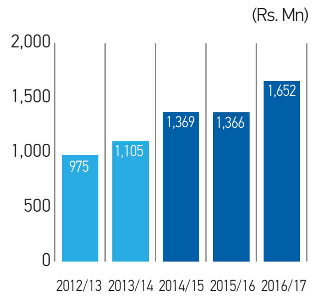
Interest Expenses



Net Operating Income (After Impairment)

During the year under review, the company undertook a major restructuring of its collections and recoveries management processes in order to ensure their efficient and effective functioning. These steps have helped in the management of the arrears positions and the reduction of the NPLs of the company. This is reflected in the reduction of the impairment charge. Further, through this restructuring exercise, the company put increased attention to the control of arrears so as to minimize facilities from going to the NPL category. In effect, the Net Operating Income after Impairment increased by 21 percent.

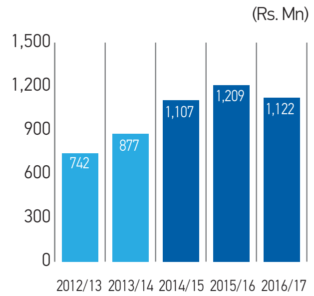
Net Operating Income



Cost Management

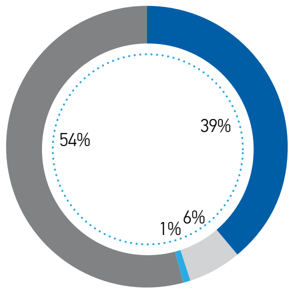
During the financial year under review, the company was able to effectively manage its operational expenses through the numerous cost management initiatives it undertook. Thus when compared to the previous year, the company was actually able to reduced its Operating Expenses by 07 percent. This was as a result of an overarching and coordinated approach to cost management, steps taken to increase employee productivity and the identification and elimination of operational wastage. Throughout the year, the management undertook the redesign and reengineering of many operational processes and workflows in order to keep our support services lean.

Total Operating Expenses



When analysing the composition of Operating Expenses, it is seen that Personnel Costs amount to 39 percent of the total Operating Expenses. In order to ensure that this cost is effectively managed, a strategic decision was taken to re-engineer existing job roles, effect job redesign, improve employee productivity and also give priority to internal transfers whenever vacancies arise. The redesign of job roles and operational workflows are undertaken carefully so as not to adversely affect the customer experience in any way. The internal recruitment initiative is carefully implemented by looking at the possibility of internal recruitment only when the requirements of the vacancy are matched by the skills of the internal resources.

Further, Other Operating Expenses constitute 54 percent 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, minimize 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, whilst reducing its cost exposure.

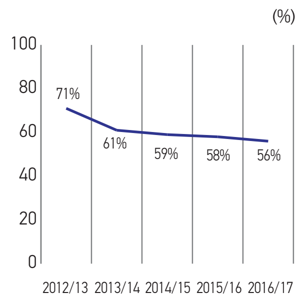


Composition of Operating Expenses-2016/17

- Personnel costs
- Depreciation of property, plant and equipment
- Amortisation of intangible assets
- Other operating expenses

As a result of the cost management 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 with the Total Operating Expenses reducing by 07 percent compared to the previous year, even with the Total Operating Income for this financial year decreasing slightly by 03 percent, compared to the previous year.

Cost to Income Ratio



Key Value Drivers

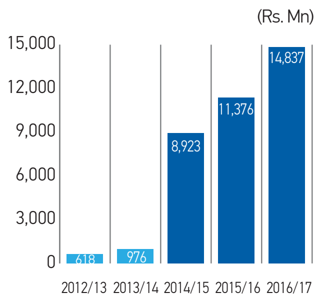
Financial Capital

Lending Portfolio

The total Net Lending Portfolio of the company grew by 14 percent during the year under review to reach Rs. 18.6 billion as at 31st March 2017 from Rs. 16.3 billion in 2015/16. The significant growth in Net Customer Assets contributed heavily to the 09 percent growth in the company's Total Asset Base. 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 to weather industry volatility, the Business Loans portfolio grew by 30 percent to reach a Rs. 14.5 billion. Thus, when analysing the company's portfolio mix, it is seen that the contribution from the Business Loans portfolio has been significantly increasing over the past few years. Additionally, of note is the fact that the Gold Loans portfolio grew by a healthy 35 percent 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.

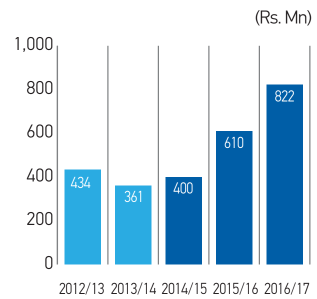
The consistent growth in our business financing portfolio provides us with stable income streams to withstand the uncertainty and the pressures exerted from frequent industry policy changes pertaining to motor vehicle financing. In addition to focusing on the SME segment of the economy and increasing the access to formalized financing options to the local communities, we are also focusing on mid to large corporate customers, driven by our superior customer service and attractive interest schemes on offer. These focused, multidimensional efforts have helped us increase this business financing portfolio by 30 percent.

Business Financing Portfolio



Our Gold Loan product experienced significant growth this year also, with portfolio growth of 35 percent. We have identified this to be a lucrative product with a growing market and we have set in motion plans to leverage upon our extensive branch and gold loan centre network and marketing strength to grow this portfolio even further. The potential of this product is exemplified by the fact that its Interest Income also experienced a 48 percent year-on-year increase.

Gold Loan Portfolio



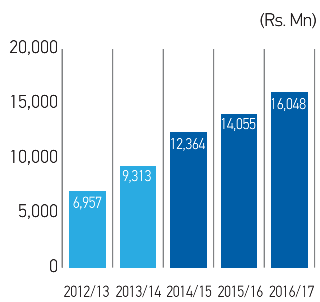
Liquidity

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. The company continued to aggressively mobilise retail deposits and negotiate favourable bank credit lines in order to support its increased disbursements. At the end of the financial year, the company's regulatory liquid asset levels were Rs. 807 million in excess of the minimum regulatory level. Further, the company had access to Rs. 660 million in utilized credit lines as at 31st March 2017.

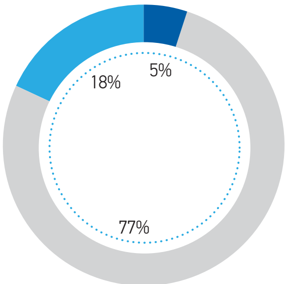
Funding

In the backdrop of an increasingly competitive deposit mobilization environment, the company was able to grow its public deposits portfolio by 14 percent from Rs. 14 billion to Rs. 16 billion. This 14 percent increase is higher than the industry growth rate of 11 percent. The company continued to put into effect its strategic decision to focus on individual retail depositors like senior citizens who are looking to invest for periods longer than 1 year. This year also, the company continued to move away from institutional deposits, as they entailed a higher cost. Effectively the company was able to reduce its dependency on its Top 20 deposit holders and reduce its focus on investors looking for high rates for short periods.

Customer Deposits Base

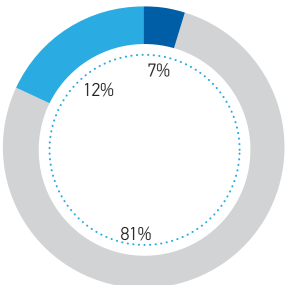


Overall, when looking at the company's funding mix, it is seen that the company's reliance on public deposits has comparatively increased slightly to 81 percent, signifying the company's ability to draw in public funds even in the face of increased competition from other financial institutions, based on the trust the customers have on the company.



Funding Mix 2015/16

- Due to banks
- Due to customers
- Other borrowed funds



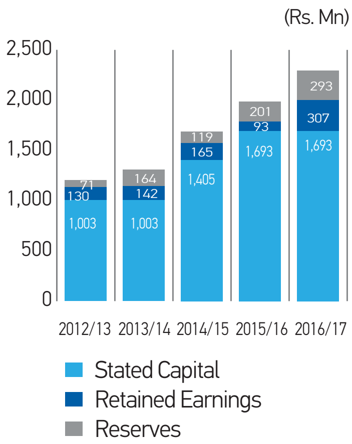
Funding Mix 2016/17

- Due to banks
- Due to customers
- Other borrowed funds

Shareholders' Funds

Total shareholder funds increased by 15 percent to reach Rs. 2.3 billion by the end of the financial year. The contributions to the increase in shareholder funds came from the significant year-on-year increase in the company's Retained Earnings and increases in the company's Reserves. There were no changes to the stated capital of the company this year.

Shareholder Funds



Key Value Drivers

Customer Capital

Management Approach

In line with our corporate values, our valued customers are placed at the centre of all our activities and we constantly push ourselves to ensure that we deliver an outstanding and uncompromised customer experience. We are committed to adopting a customer centric approach to all our business activities, be it support service, product development or sales. The service culture that we have fostered within our organization means that all our personnel, whether back office or front office; our internal processes and our entire branch network are completely geared to providing our valued clientele with a memorable customer experience.

We constantly strive to improve our service quality and service delivery by always giving priority to customer concerns and customer feedback. Based on the feedback we receive from our customers, we constantly reengineer our workflows and redesign our processes to streamline service delivery and bridge any gaps that exist.

Our Range of Product Offerings

Product Diversity

In line with the customer centric approach that we have adopted, we have designed and structured our product portfolio in such a manner as to cater to diverse customer segments requiring access to financial services. From increasing access to formalized sources of financing for the country's entrepreneurs to providing retail investors a stable and safe return on their investments, our products are geared to meet the evolving financial needs of our customers. Our lending and fund mobilization product portfolios include the following product categories that target identified market segments:

Lending Products
Business Financing
Leasing
Personal Financing
Consumer Loans
Education Loans
Gold Loans

Fund Mobilization Products
Fixed Deposits
Savings

Business Financing

Our Business Financing product offers our clientele with the flexibility, speed and personalized service support that they require to drive business growth. We serve as the preferred financing partner to a range of local business entities from regional SMEs to mid-to-large sized business organizations.

Our Business Financing product is geared to serve the needs of a range of industries and business sectors like wholesale and retail trading, manufacturing, services, agricultural and commodity distributors, exporting entities and large scale importers.

What sets us apart from our competitors is the level of personalized service that we deliver. The customer loyalty that we have fostered is directly linked to the speedy and personalized doorstep service that we offer to each client, whether it is a regional SME or a large scale business entity. Further, our internal processes are structured and geared to provide our customers with approval times and loan processing speeds that are faster than those offered by banking entities.

The structural flexibility offered by our Business Financing products in terms of customizable and flexible security options, payment terms and repayment periods helps our customers obtain financing solutions that suit their repayment capacities and requirements.

We plan to increase our level of personalized service even further and introduce new products and customized processes in order to penetrate corporate lending even further.

Key Value Drivers

Customer Capital

Leasing

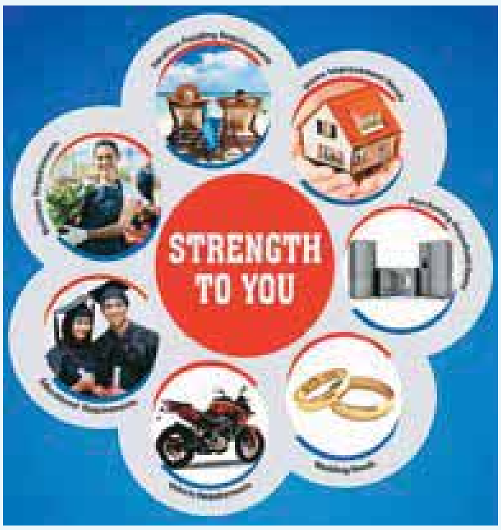
Our re-launched leasing product provides our customers with flexibility to structure their leases to fit their payment capabilities and requirements.

Backed by a new policy, our leasing product is geared to cater to the personal as well as the commercial needs of our customers, whether it is to finance motor vehicles or equipment.

We provide fast processing times, minimal documentation and attractive rates, along with personalized service that eliminates any complexity and hassle.

The personalized service that we offer is second to one. In addition to a doorstep service, our marketing officers are well geared to offer advice to our customers when it comes to structuring leases in terms of the customer's payment capabilities.

Personal Financing



Our Personal Financing products like Group Personal Loans and Personal Cash Loans provide our customers with an option to obtain quick cash to meet their immediate financial commitments.

With a strong foundation provided by our newly introduced product policies, we have the capability of providing our clientele with quick financial solutions, with minimal security, at attractive industry leading rates.

Consumer Loans

Our Consumer Loans are geared to provide our customers with quick financial solutions to meet their personal financial needs, especially in the context of the purchase of personal electronic products. Through the strategic partnerships that we have entered into, we have been able to reach a growing client base that requires speedy financial solutions with minimal documentation and hassle involved.

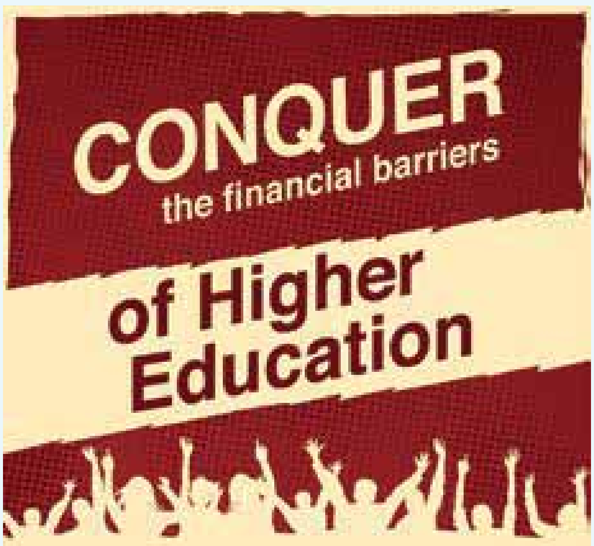
In addition to the personalized customer service that we are known for, what sets us apart from our competitors is the streamlined loan processing and disbursement structures that we have in place to ensure that the customer's financial requirements are effectively met in a timely manner.

Education Loans

Our Education Loan product provides financial support to parents in order to meet the primary, secondary and tertiary educational requirements of their children.

We also offer this product to working professionals who are looking for financial support for their educational needs, in order to drive their professional advancement.

We have in place, tried and tested evaluation processes and disbursement workflows that will ensure quick approvals and speedy disbursements, so as to provide our clientele with a positive experience with us.



Key Value Drivers

Customer Capital

Gold Loans

Specifically structured and designed with the requirements of our clientele in mind, our Gold Loan product offers a source of immediate cash to meet any personal or business requirements of our customers.

With attractive rates, an extensive branch network and superior customer service, we offer a range of flexible settlement options to suit the individual needs of our customers.

We ensure that our customers get industry leading returns for their gold and this has helped us foster a loyal clientele across our branch network.

Fixed Deposits

Our Fixed Deposit product offers our customers with a trusted and reliable investment option for their hard earned cash so that they can enjoy attractive, market leading returns on their investments.

We offer a wide range of investment options, backed by attractive rates, to meet the individual needs of our clients.

The personalized service that we offer has ensured that we have a loyal customer base and the high renewal ratios that we continue to enjoy serve as a testament to this fact

Savings

Our Savings product offers our customers with an attractive savings option with high interest rates.

With special rates offered to senior citizens, our Savings product represents a flexible investment tool where our customers can enjoy high returns and a guarantee that their money is in safe hands.

We plan to increase the market penetration of this product further with the introduction of an ATM facility along with the implementation of our core-banking solution.

Achieving Service Excellence

The service culture that we have embodied has ensured that the organization as a whole, collectively drives service quality and service delivery. We constantly look inwards and audit our operational discipline in order to ensure that the service delivery pipeline works seamlessly without any gaps or hiccups. This drive to achieve customer service excellence is ingrained at the core of our corporate values and represents what drives us to improve ourselves every single day.

Our commitment to achieving customer service excellence is buttressed by the measures we undertake to ensure that we are structurally ready to drive this goal:

An Overview of Measures taken to drive Customer Excellence
Quarterly Training on Customer Excellence for all our staff; be it sales staff, support services or client services.
Constant review and reengineering of our internal processes in order to ensure that our operational workflows are customer centric and are geared to provide optimum service levels to our customers.
The implementation of a Core Banking System that will enhance the customer relationship management processes and provide us with a more efficient support service function

In order to drive the service culture within our organization, we have set in motion a structured program of quarterly customer excellence training, conducted by renowned customer service and marketing professionals. The results of this program are closely monitored and we constantly take action to develop this program in order to ensure that our staff receive the best possible training in customer excellence. This quarterly series of training programmes are not just for the marketing staff, we make it a point to include our support services and client servicing staff as well in these programs. Such a multidimensional approach is undertaken in order to ensure that there are no gaps in the service delivery pipeline and to ensure that each member of staff understands their contributory role to achieving customer excellence.

Key Value Drivers

Customer Capital

Regular operational housekeeping is undertaken by the management in order to review and ensure that our internal processes and workflows are optimally designed and geared to deliver high quality and memorable customer service without any operational hiccups. In order streamline and strengthen these processes and workflows, the management regularly reviews and reengineers them to ensure that they continue to be customer centric and service oriented.

The company has undertaken to implement an organization-wide Core Banking System in order to enhance the customer relationship management and related frontend functions of our operations and to provide the frontend staff and the management with a more efficient support services function. The introduction of this system, whose implementation is currently underway, will help further drive the customer centric attitude towards service excellence that we are championing.

Moreover, the personalised customer experience that 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. We have invested heavily in ensuring that all our branches are developed to offer this pleasing customer experience that will ensure that our customers are able to conduct their business in a conducive and relaxed atmosphere.

Further, we have in place a comprehensive customer complaints handling system to ensure that any issues that our customers have are immediately addressed and constant feedback and solutions are given without any undue delay. As a testament to the commitment we have towards ensuring that our customers always have a pleasant experience when dealing with us, 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 regularly reviewed and trained to ensure that the customer is constantly kept abreast of the developments regarding the issue raised and that sustainable solutions are offered to the customer.

Marketing & Communications Mix

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.

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 amongst our staff. This is achieved through motivational and customer centric training programmes so that our employees become the ambassadors of the corporate image we strive to present.

Typically, we have a two-tiered approach towards effective branding. That is Brand Development and Brand Communications.

Brand Development

Our brands are at the heart of our business. Being part of Sri Lanka's most dynamic and progressive conglomerate brand "Softlogic", we have inherited the values of our parent brand.

Fast, flexible and innovative customer centric products and services are what we aim to deliver through our business and this entails a thorough understanding and alignment of our brand across the organization.

Our Core Strategy

Our core strategy would be to build equity for the "Softlogic Finance" master brand in order to enable quality asset growth with a superior, unmatched customer experience.

(1) Building Brand Equity for the Master Brand

- In medium term, our strategy is to utilize all our stakeholder touch points to enhance visibility for the master brand. We continue to

A selection of press articles highlighting our product launches and our corporate visibility increase our brand penetration through the expansion of our branch network and we will also adopt new channels to rapidly take our brand to a wider spectrum of customers.

- In the long term, we aim to build an intangible asset that would be the symbol of our value proposition to all our stakeholders. This will be continuously monitored by tracking the perceptions of our brand over time which ultimately could be converted to the value of our brand.

(2) Drive market penetration through high quality asset growth and deposit growth through product brands

- We serve a wide array of customer segments, each with a different set of preferences for financial services and these represent market penetration opportunities for the organization.

- The task that we have undertaken is to assess these opportunities and determine the business development and brand building potential of each. A robust segmentation for identifying the priority areas of value creation has been adopted. In the context of business segments, their sizes, growth potential, competitive intensities and our penetrative capabilities are used to filter the range of opportunities that these segments offer.

3) Consistent expression of our brand promise to create service excellence

- We constantly strive to live the brand at all our touch points by delivering faster, more flexible and more customer oriented services.

- Our employees deliver a consistent and positive customer experience that our brand stands for, as they have been adequately trained on our brand's promise.

- We continuously strive to align our internal stakeholders with the external expression of the brand to ensure consistency and uniformity in product and service delivery.

- Rigorous internal employee training and engagement programmes help our employees understand and be motivated to be the custodians of our brand to deliver its promise at the point of contact.

Brand Communications

- We maintain strict internal controls to ensure the strict compliance of our communications with external customers, with the regulator's statutory requirements.

- Going beyond mere compliance, as a responsible corporate citizen, our internal processes have ensured that we maintain a high standard of ethics in all our communications. We look at the how customers decode our message in its true sense which enables them to make an informed decision in the purchase decision making process.

- In this context, we undertook several island-wide above-the-line and below-the-line marketing campaigns to promote our Fixed Deposit product, our "Atha Hitha" Business Financing product, the newly re-launched Leasing product, the newly launched Education Loan product and our Gold Loan product.

- As a testament to the transparency with which we conduct our business and the market penetration that our products and brands have achieved, we were bestowed with a range of industry accolades. They are listed below:

51st Annual Report Awards – Compliance Award

For the fifth consecutive year, we received an award for compliance in financial reporting at the 52nd 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 2017 – 72nd Place

In the 2017 ranking of the most valuable brands in Sri Lanka carried out by Brand Finance and published by LMD, we were placed at the 72th position in the Top 100 ranking.

Inclusion in the LMD Top 100 Sri Lanka's Leading Listed Companies

We were placed in the Top 100 listing of Sri Lanka's Leading Listed Companies by LMD in 2016. This recognition conferred upon us is a testament to the financial strength and stability that we possess and a mark of confidence on the financial potential that we possess.

Product Responsibility

We ensure that all our business transactions with our customers are carried out in an ethical and transparent manner and we ensure that we give primacy to educating the customer of the features of our products and the conditions that they entail. The personalized customer engagement process that we have adopted in dealing with our

Key Value Drivers

Customer Capital

customers helps us to directly interact with the customer on a one-on-one basis and explain to them all the relevant financial and legal implications that their financial transactions with us entail.

Fairness and Transparency in Customer Interactions

Throughout the personalized interactions that we undertake with our customers, we ensure that we are fully transparent and forthcoming with our customers with regard to product features and information, financial and legal conditions and the credit evaluations processes that we undertake when granting loans. All regulatory disclosures are made to the customers and we make it a point to educate our customers on regulatory requirements whenever the occasion arises.

We make objective and transparent assessments on the financial capabilities of our clients and advise them on how to manage their potential and current financial obligations with us. Our recoveries processes are designed to be fully transparent and our recoveries teams ensure that our customers are fully apprised with all relevant information in advance.

Anti-Competition

As a responsible corporate citizen, it is our policy to not engage in any sort of anti-competitive practices and we strictly enforce it. We strictly follow all regulatory pronouncements and continuously educate our staff and enforce the need to carry out our business transactions ethically. Our products have been designed to be in line with the applicable regulatory guidelines and all our pricing has been undertaken to be within the Central Bank policy rates. Our goal is sustainable business growth and our policy is to achieve it ethically.

Anti-Corruption

We have implemented a Code of Ethics across our organization in order to ensure that our employees do not engage in corrupt, illegal or unethical practices that could harm our customers or our company. Our employees are regularly educated and trained in this regard and the internal control and risk management mechanisms that we have in place are geared to prevent and detect any such activities. Further, in order to take action if such improper practices materialize or if we receive any complaints, we have in place, a well-structured investigation and disciplinary mechanism. Moreover, the company has a whistle-blower mechanism in place for employees to confidentially report on any such incidences. We in the process of updating our whistle blower mechanism with a new policy and associated processes in order to make this mechanism more robust.

Customer Privacy

As a financial institution, we take the importance of customer privacy and the integrity of their data very seriously. As a policy, we do not share any information of our customers with any external party, unless statutorily stipulated and we have sufficient IT controls in place to ensure that no data breaches or any data integrity issues arise.

Product Portfolio Compliance

We constantly review and take action with regard to ensuring that our products and associated support services are in compliance with statutory requirements. Regular training is provided to our staff to ensure that they are well versed in the regulatory aspects of the products that they deal with so that accurate information is passed on to the customers. Our internal control systems and the risk management mechanism in place constantly work towards ensuring the there are no breaches of any regulatory requirements in the context of our products and operations.

Future Outlook

In order to spearhead our growth and position ourselves as the preferred non-bank financial institution, our plan is to excel in terms of achieving service excellence, product development, brand development and customer relationship management. The structured training, the regular review and reengineering of our processes and the introduction of our Core Banking system will help us to continue the fostering of a service culture that ensures customer centricity in all aspects of our business.

The development of this customer centric attitude across the organization has been recognized by our management as the driving force behind future business expansion. With the planned expansion of our branch network and the implementation of our Core Banking system, we are positioning ourselves to achieve customer loyalty and sustainable business growth in the future.

Business Partner Capital

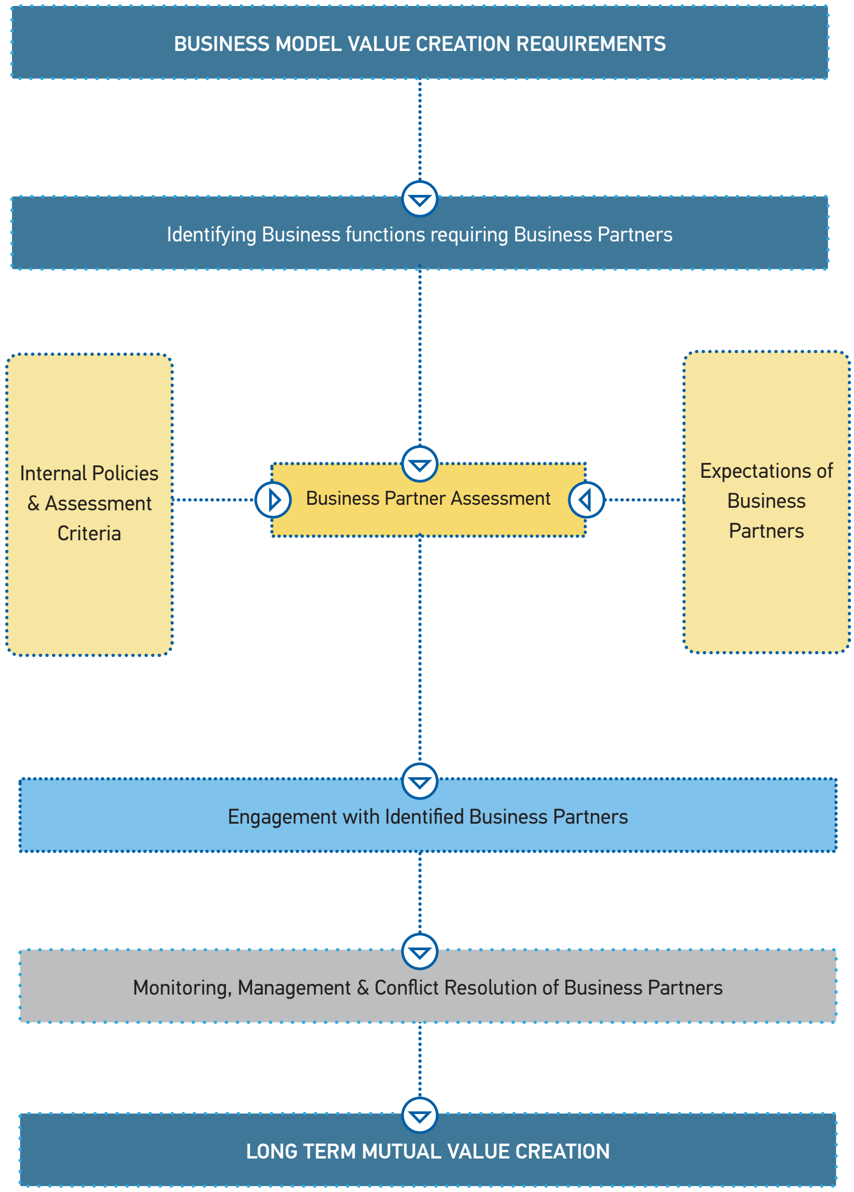
Management Approach

Our Business Partners contribute to the efficiency and effectiveness with which we reach our customers. The relationships that we have developed with them contribute to the achievement of competitive advantages in the marketplace and influence the positioning of our business. In effect, our business partners help us deliver sustainable value to all our stakeholders.

Our intention is to have partnerships that are prudent investments rendering strategic value for the resources that we expend. Therefore, it is with extensive and continuous evaluation that we engage with our pool of suppliers in availing of their services. Although the primary focus of our supplier evaluations is on the cost and quality, we seek to engage with suppliers who are conscious about their social and environmental responsibilities as we are.

In order to ensure that we obtain optimum cost and quality advantages, we maintain identified intra-group procurement channels with other group companies. Further, in the context of the evaluation criteria present in our procurement policy, we strive to ensure that we give priority to local suppliers as we strongly believe in adding value to the local economy and generating local employment and entrepreneurship.

As per our procurement policy, there is constant monitoring and assessments of the procurement processes in place. The supplier monitoring and management activities in place are many but the overall focus is on supplier performance of contractual obligations, the value generated to our business and the cost advantages realized.



Key Value Drivers

Business Partner Capital

Business Partner Engagement

Built on a foundation of trust and mutual understanding, we strive to maintain win-win partnerships in order to avail ourselves of reliable and consistent services whilst offering a steady source of revenue to our suppliers. To this end, we adopt a collaborative approach when engaging with our business partners so that mutual benefits are enjoyed by both parties in the long term. We seek to engage with business partners who complement and are aligned to our mission and values. Thus, in order to ensure that long term relationships are maintained and mutual expectations are met, we constantly engage with all our business partners on an individual and personalized basis.

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 Evaluation & Assessment

As per our procurement policy, all major procurements are evaluated and managed centrally. The respective departments and the relevant subject matter experts are charged with the setting of conformance standards and specifications for procurement of materials and services.

Currently, our procurement policy advocates supplier assessment based on the following criteria

- Quality
- Cost
- Long Term Strategic Value Generated
- Reliability of Consistent Service/ Material Delivery
- Regulatory Compliance

Plans are afoot to operationalize in the future, a process where our suppliers are also assessed on labor practices, human rights, child labor, forced labor and health and safety standards at the workplace. Additionally, we have envisaged this augmented assessment criteria to also address the environmental impact management practices undertaken by our suppliers, as applicable. The formalization of such additional criteria would also involve the introduction of a Supplier Code and a Supplier Self-Assessment Questionnaire.

Business Partner Monitoring & 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 policies 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 to ensure best value is received at a competitive price. The focus is on controlling operational costs while obtaining the expected service level. Moreover, we are committed to maintaining good working relationships in order to obtain acceptable prices and services 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

- Financing Partners
- Insurers
- Advertising Agencies
- Credit Information Bureau
- IT Service Providers
- Partnering Vendors/ Companies for our Consumer Loan product
- Partnering Companies for our Group Personal Loan product
- Banking partners for payment services
- ATM Network Service Provider
- Specialized Recovery Service Providers

With these strategic partners, the focus is on forming long-term strategic partnerships to facilitate the realization of competitive advantages and set us apart from traditional industry norms. This is an engagement that goes beyond the focus on short term cost considerations and instead is based on strategic value addition. Such partnerships are a necessity due to the industry related changes in the external environment that is ever present.

Furthermore, certain strategic partners provide specialized 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 entails 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.

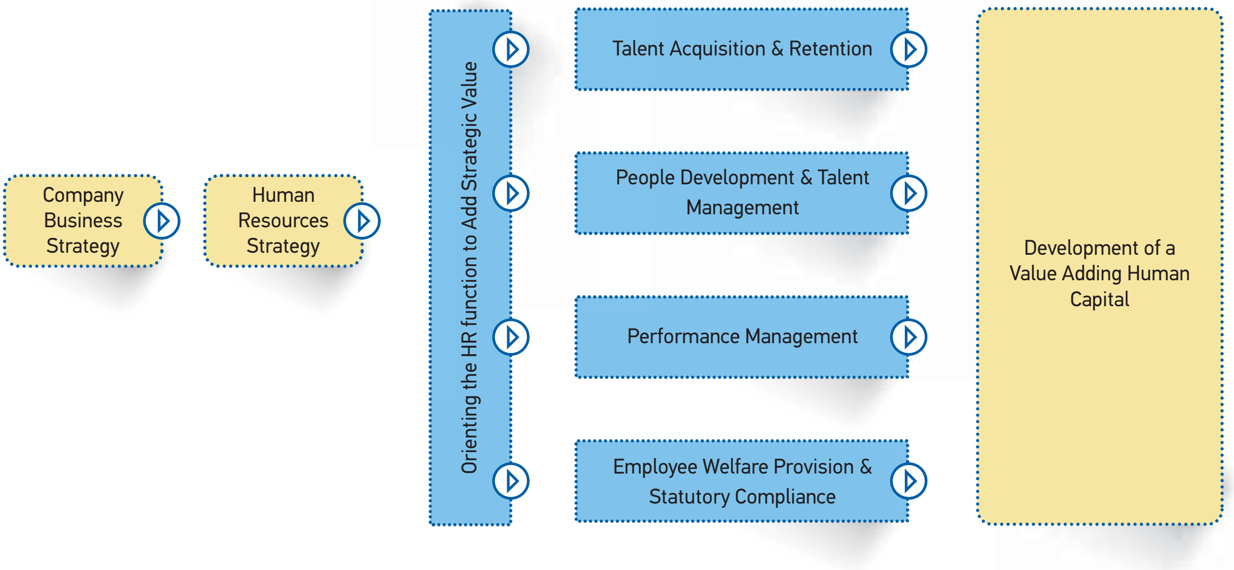
Future Outlook

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, the introduction of a Supplier Code and a Supplier Self-Assessment Questionnaire would help us introduce additional assessment criteria in the contexts of environmental management, health and safety and labor practices.

Key Value Drivers

Human Capital



Management Approach

We have identified our human capital as our most valuable asset and have recognized the importance of the development of our talent as being critical to the sustainable growth of our company. Driven by our core values, we go beyond the traditional norms of employee welfare management to ensure that a range of best practices in Human Capital management are adopted to ensure that our people add strategic value to our business.

As we operate in a constantly changing environment, we have identified that our employees need to act as change agents who drive the continuous enhancement of our service culture. To achieve this, we have adopted a four pronged approach to the management and development of our human capital. This four pronged approach is as follows:

- Talent Acquisition & Retention
- People Development & Talent Management
- Performance Management
- Employee Welfare Provision & Statutory Compliance

The HR department represents a centralized focal point that drives and administers all talent acquisition and retention, people development, performance management and employee welfare management. Additionally, the HR department also initiates and assists the departmental heads, regional managers and branch managers in the overall administration of the company's human resources in their respective business units.

In order to stay ahead of our competition and continuously foster a service culture in our company, the HR department adopts best practices with regard to HR management and development and constantly reviews its policies towards the four key strategic HR ingredients mentioned earlier. This is whilst ensuring that we adhere to all the applicable labour laws and regulations and striving to consistently go beyond industry norms when it comes to employee welfare.

HR Highlights of the Year

In order to constantly engage with our employees and consistently empower them with the right tools to drive the company's strategic objectives, we introduce a host of initiatives during the year:

- **Training & Development** - Conducting 101 training programs during the year, which was the highest number of training sessions in our company's history
- **Updated HR Manual** - Implementation of an updated Human Resources Manual.
- **HRIS Introduction** - Initiating the implementation of the Human Resources Information System (HRIS).
- **Branch Administrator** - Introduction of the concept of Branch Level Administrative Officers to assist the Branch Manager with the daily administration of the Branch.
- **Introduction of an Internship Program** – We set in motion this program to bring in high calibre, talented young individuals from diverse fields to our organization to drive the company's future expansion
- **Introduction of Service Level Commitments** – Internal Service Level Commitments were introduced to the support service units in order to ensure that they provide value added support to our sales and recovery personnel in the achievement of their targets.
- **Introduction of an E-Training System** – In order to foster and examine the product and process knowledge of our employees an E-Training system was operationalized.
- **Overseas Training Programs** – A number of high performing and high potential employees were chosen and sent for transformational leadership training programs overseas.

Indicator	2016/17	2015/16
Employee Head Count	490	491
New Recruitments	103	89
Internal Transfers	53	105
Promotions	34	42
No. of Training Programs	101	65
No. of Training Hours	7963 Hours	5265 Hours
Investment in Training	Rs. 5.3 Mn	Rs. 4.2 Mn
Staff Remuneration	Rs. 441 Mn	Rs. 500 Mn
Total Income Per Employee	Rs. 8.8 Mn	Rs. 8.3 Mn
NPAT Per Employee	Rs. 0.7 Mn	Rs. 0.1 Mn
Staff Costs Per Employee	Rs. 0.9 Mn	Rs. 1.0 Mn

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Training Programs

Conducted during the year

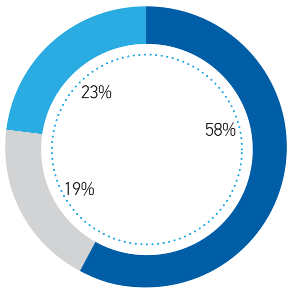
Employee Composition Analysis

Management Approach

We have identified the strategic importance of creating a diverse workforce for the sustainability of our business. To this end, we are committed to creating and maintaining an inclusive work environment where all employees are treated with equality, equity, respect and dignity. Our HR policy clearly dictates the treatment of all employees simply on performance merits and does not leave any space for any type of favourable treatment or any discriminatory practices of any form. In this regard, during the year under review, we have not recorded any incidences of discrimination of any form in our workplace.

Further, we have taken active steps to ensure that we have a good employee mix in terms of age, gender, skill sets, geographical locations and cultural backgrounds. This is undertaken to ensure that we have an ideal talent mix representing the diverse nature and geographical distribution of our clientele island-wide. In effect, this approach feeds into the fostering of the customer centric approach that we have committed ourselves to.

Employee Category-wise Analysis



Employee Category-wise Analysis

- Sales & Direct Sales Support
- Recovery
- Support Services

Key Value Drivers

Human Capital

Employee Category-wise Analysis (Contd.)

Category	2016/17		2015/16		2014/15	
	Number	Percentage	Number	Percentage	Number	Percentage
Sales & Direct Sales Support	282	58%	276	56%	283	54%
Recovery	94	19%	89	18%	124	24%
Support Services	114	23%	126	26%	114	22%

Our goal is to evolve into a lean company with an efficient and productive support services cadre that will complement and add value to our sales team. When considering the staff composition across the three broad activity segments of our business, we continue to put heavy emphasis on our Sales staff as they are directly responsible for the implementation of our corporate strategy. Further, sustained attention and appropriate resource allocation has been made to the Recovery function in order to ensure that our collections and recovery activities are carried out as planned and our asset quality is maintained. With the completion of the implementation of the core-banking solution that currently in progress, our plan is to increase the productivity of our Support Services staff and ensure that they are positioned as a source of strategic value addition.

We have committed ourselves to maintaining a healthy mix of employees when it comes to age distribution in order to have the ideal mix of young talent and experience to drive the strategic needs of our business. In recent years, we have increasingly focused on hiring young talent with diverse skill sets to ensure that we are ahead of our competition in the context of product innovation and the re-engineering of our internal processes. Further, as a means of giving back to the community, we are passionate about hiring young talent in order to give young graduates and professionals an opportunity to gain valuable work experience through our internship and management trainee programs. Experienced industry professionals are also constantly brought into the mix to enrich our talent pool with industry knowledge and strategic knowhow.

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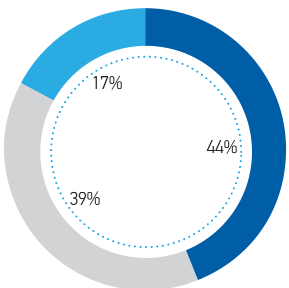
New Employment Opportunities Provided

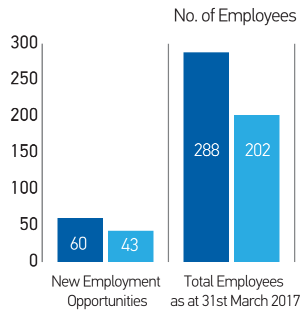
Employee Age-Wise Analysis



Employee Age-Wise Analysis

- Below 30 Yrs
- 31 - 40 Yrs
- 41 - Above

Geographical Distribution of Employees



Geographical Distribution of Employees

- Western Province
- Rest of the Country

Geographical Distribution of Employees (Contd.)

Description	Western Province		Rest of the Country		Total	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
New Employment Opportunities provided	59	60	30	43	89	103
Total Employees as at 31st March	293	288	198	202	491	490

With the view of fostering rural employment opportunities and ensuring that our regional customers are served by employees with localized market knowledge, we have taken steps to hire our human capital locally, from areas where we have market presence. In this context, almost half of the total staff count and the total number of recruitments are composed of personnel from outside of the Western Province, to complement our substantial presence in other provinces of the country.

Talent Acquisition and Retention Key Indicators

Indicator	2016/17
No. of External Recruitments	103
No. of Internal Recruitments (Transfers)	53
No. of Promotions	34

Talent Acquisition Management Approach

Effective recruitment and selection is crucial to the success of our operations. 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.

Internal Recruitment

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.

Regional Recruitment

Our recruitment strategy advocates community recruitments in areas where branches operate. This strategy is well in line with our 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 Management Approach

Talent retention is crucial to the long term sustainability of our business growth. We ensure that our people are appropriately rewarded and remunerated in line with industry levels and have in place a range of performance based remuneration schemes to ensure that their contributions to company performance are recognized and rewarded. Further, 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.

Talent Retention Initiatives Undertaken

We constantly review the reward systems and talent development systems in place in order to ensure that our employees feel valued at all times. Our training and development plans are structured to take into consideration the long term professional development of each employee, not just company requirements. Further, we have procedures in places to ensure that their concerns and grievances are effectively handled, swiftly and confidentially. Some of the key initiatives taken in this regard are:

- Recognition and promotion of high performers
- Ensuring that we offer competitive and well-rounded remuneration packages in line with the industry levels
- Performing Employee Satisfaction Surveys
- Continuous structured training based on a well-designed training plan
- Development of career development plans for our people
- Transparent performance appraisal & management process

Key Value Drivers

Human Capital

Performance Management

Management Approach

In order to ensure the sustainable growth of our organization, we have adopted and fostered a performance based culture across all employee levels. The methodologies adopted in monitoring, measuring and reviewing employee performance are transparent and are carried out with active employment participation. This is to ensure that our employees are motivated to perform at their full potential and also to ensure that our employees fully understand the performance levels expected from them by the organization. Further, our performance management system that is in place is structured in such a way that the organizational goals, required performance levels, actual performance and the reward systems are all aligned to each other.

Performance Appraisal System

Performance appraisals across all employee categories are carried out annually. The Bell-Curve based performance appraisal system in place is meant to provide an objective evaluation of employee performance and contribution to organizational development. The system in place ensures and encourages active employee participation in the appraisal process. Further, the evaluations are carried out against pre-agreed targets and performance measures which have been customized to suit each job role to ensure fairness in appraisal.

Keeping in line with the performance based rewards culture in place at our organization, the ratings given at the point of performance evaluation are directly connected to and serve as the basis for rewards and recognition, promotions, identification of training gaps and career development.

Remuneration & Rewards

The Remuneration Policy of our company dictates the formulation of all remuneration based on the job description, industry remuneration levels and practices and the country's cost of living situation. The performance based culture that we have fostered in our organization has ensured that all salary revisions, bonuses, incentives, career development opportunities and other rewards are directly linked to employee performance. In order to ensure that our high achievers are rewarded and recognized appropriately for their contributions to organizational performance, they are rewarded with salary increments, bonuses, promotions and overseas training opportunities.

People Development

Indicator	2016/17	2015/16
No. of Training Programs	101	65
No. of Training Hours	7963	5265
Investment in Training	Rs. 5.3 Mn	Rs. 4.2 Mn

Management Approach

Our philosophy towards employee training and development is to attempt to bring out the best version of our employees. The overarching goal that we have in mind is to foster a learning culture within our organization. We are 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 organizational needs. Our training and development plans are formulated based on a multitude of factors. Broadly, we take into account the following factors:

- Strategic organizational development needs
- Succession planning
- The performance skill gaps of employees and training needs identified during the annual performance appraisal process
- Technical training requirements with regard to our products and the industry regulatory landscape
- Leadership development of high achievers
- Employee satisfaction surveys
- Customer satisfaction surveys and customer feedback
- Development of soft skills and general management requirements such as effective communication, leadership, team building, motivation and service excellence
- Employee career development
- Internal operational changes

Types of Training Programs Conducted

Type of Training Program	Number of Programs
External	46
External - Overseas	01
Internal	42
Internal (With External Trainers)	13
Total	101

During this financial year, we conducted the highest ever number of training programs in our company's history, amounting to 101 training programs. These training programs were multi-faceted and are composed of a mix of internal and external training programs. The broad areas that our internal and external training programs touched are as follows:

Internal Training

The industry and operational expertise of our employees are strategically leveraged to conduct internal training programs to impart strategic, industrial level and operational knowledge to our cadre. This expertise of our internal resource personnel is used to ensure that the rest of the staff is always well versed in operational processes, credit evaluation, recovery management, product features and the company values that we live by. Further, we actively take steps in providing on-the-job training and job rotation to our employees so that they are well versed in a range of internal functions and processes.

Internal Training Programs

- Credit Appraisals and Evaluations
- Briefings on Product Knowledge and associated processes
- Support Services Operations
- Business English
- Recovery Process Management
- Branch Operational Management
- Client Servicing

External Training

We also regularly schedule external training programs with best-in-class external resource personnel and recognized institutes. Such external training programs are consistently undertaken in order to provide our employees with exposure to industry best practices, new developments in the external environment, new regulatory developments and business insight from renowned industry professionals, to name a few.

With regard to industry specific training programmes we organized a number of training programmes with industry 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 achieve performance excellence.

- Technical training on CBSL regulatory requirements conducted by the CBSL
- Continuous quarterly customer service excellence training for our support services, recovery, client servicing and sales staff.
- Legal aspects relevant to the industry
- Effective communication
- Leadership
- Team building
- Marketing, direct selling and sales management
- Industry and economic related issues
- Exchange control regulations
- Taxation
- Strategic management development
- Labour regulations and industrial affairs
- Leadership development and motivation
- Financial reporting
- Financial budgeting and forecasting
- Internal auditing
- ICT management

Training and Employee Development Highlights During the Year

Introduction of the Branch Administrator Concept to Branches – In order to manage the operational tasks pertaining to branch management, we introduced the role of a Branch Administrator at branch level and recruitments were conducted internally.

Service Level Commitments – In order to ensure that support services departments consistently added value to the organizational value creation processes, service level commitments were obtained from all support services departments. To operationalize this concept, these back office employees were provided relevant training to fill technical training gaps and also training in internal service excellence.

Overseas Training for High Performers – Training on Transformational Leadership was provided to 7 high performing branch managers. They were exposed to a 5 day training programme in Malaysia were they were extensively trained on transformational leadership in order to help them evolve from being managers to leaders who can drive growth in our organization.

Initiation of an Internship Programme – Through tie-ups with the Chartered Institute of Management Accountants (UK), University of Sri Jayewardenepura, University of Kelaniya and University of Colombo, we took steps to bring in talented young professionals into our talent pool. This was undertaken to ensure that we have high calibre motivated young talent to drive business growth.

Introduction of E-Training – In order to create a learning culture in our organization, we initiated an E-Training program for our entire branch network with regard to product features, internal policies and procedures and CBSL compliance requirements. Further, we conduct quarterly examinations on these areas. In the future, we plan to link this to the performance appraisal system of our employees.

Key Value Drivers

Human Capital

Employee Productivity

The management and fostering of employee productivity has been identified as a key ingredient for employee performance management and increasing employee contribution to organizational performance. In this context we have set in motion a number of measures to ensures that our employees work at their optimum productivity levels.

We have taken steps to provide our employees with a work environment and an organizational operating structure that is conducive to nurturing employee productivity. This has been identified as important as these factors directly affect employee motivation. Further, we have undertaken to continuously adopt industry best practices and re-engineer our processes to facilitate employee productivity. In this regard, if the necessity arises, we are open to reviewing our internal company policies too, in order facilitate productivity. Additionally, we regularly review employee KPIs and job roles in order to ensure that jobs and roles are designed to elicit maximum productivity out of them. Moreover, we constantly hold training and development programs to bridge any identified performance gaps of our employees.

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 employees with leadership potential are identified and mentored by the management, focusing on areas that need improvement. Selected employees once groomed and their potential gauged, are promoted to managerial positions within the company, in line with the company's strategic requirements.

To facilitate ongoing process, our training and development plan is geared to accommodate such high achievers and train them accordingly to help them grow into identified leadership roles. Further, we have in place a management trainee program and an internship program in place to recruit and develop young talent that could contribute to organizational growth.

Employee Welfare

We consider the consistent and standardized provision of employee welfare to be a decisive component of employee management and development. We go above and beyond the minimum statutory requirements when modelling our employee benefit schemes in order to be on par with and go beyond industry standards. Our approach to the provision of employee welfare has resulted in increased employee productivity and employee loyalty.

Employee Wellbeing

In the context of employee wellbeing, our primary objective is to create a healthy, safe and productive work environment, where our employees can collectively thrive along with the company. In order to achieve this, we have adopted a multi-faceted approach to the management of employee wellbeing where we focus on work-life balance, occupational health and safety, reimbursement of medical expenses, subsidized catering at our Head Office, increased employee engagement and the swift addressing of employee grievances. Further, we have taken the initiative to create a pleasant, comfortable and conducive work environment for our employees at our head Office, as well as in our branches.

We have consciously moved away from a traditional hierarchical structure and have strived to create a flat organizational operational structure where a collaborative work culture is practised. This helps in increasing employee engagement and ensuring that employees at all levels are actively involved in the making and executing of strategic decisions.

Even though we have not entered into any collective bargaining agreements with any trade unions, it is our company policy to take proactive steps to ensure that good, productive relations are maintained with our employees and that all employees are given the opportunity to bring any concerns they have to the attention of the management. This is facilitated through our open door policy which we passionately encourage.

Employee Health & Safety

In order to provide all our employees across our entire branch network with a safe and healthy work space, we expend a considerable amount of resources to ensure that the right infrastructure and operational processes are in place, in this regard. Based on constant assessments done by our Operational Risk department across our entire network, we take measures to anticipate identified occupational health and safety risks and take preventive measures to minimize the impacts of their occurrence. For example, we have comprehensive fire safety procedures in place and we regularly conduct planned and unplanned fire drills, fire safety training, the maintenance and upgrading of fire safety equipment and have appointed trained fire wardens.

Sports & Welfare Activities

With the financial and operational support of the company, the company's Recreation Club takes the initiative in regularly organizing a host of sports and recreational activities in order to promote a work-life balance and a collaborative work culture amongst our employees. During the year, for example, our Recreation Club organized a number of sports activities, religious activities, New Year celebrations, staff parties and the annual dinner dance. This year also, the company took steps to organize an internal photography competition where the Top 12 photographs were chosen to be featured in our annual desk calendar. Further, just as in previous years, the company's men's cricket team represented the company at the Mercantile Cricket Association Division E Cricket Tournament. Additionally, our employees regularly participate in sports events organized by industry bodies like the Finance Houses Association.

Grievance Handling

We have firmly established an open door policy in our establishment and any employee, regardless of his or her position within the company, has equal opportunity to approach the management to discuss any pertinent issue. We actively promote this open door culture to employees at all levels so that they can resolve their disputes quickly in a cordial manner through one-to-one discussions. Further, we also have in place a structured grievance handling mechanism administered by the HR department, for the swift resolution of any employee disputes and grievances.

Whistleblowing

In order to foster an ethical and legally compliant working environment, we encourage confidential employee whistleblowing and assure all employees the maintenance of their anonymity in this regard. Employees can use whistleblowing to address any internal violations and misdeeds that they come across. Furthermore, we are working towards introducing a new Whistleblowing Policy to the company to further improve the whistleblowing procedure.

Employee Engagement Methods

We continue to take active steps in fostering and constantly reviewing the employee engagement methods that we undertake in order to increase the frequency and quality of communication between our employees and the management of the company.

Key Concerns	Our Response	Engagement Method	Frequency
Employee Grievances & Suggestions	Grievance Redressal Procedure & Discussions of key issues at Management Committee (MC) meetings.	Open door policy at all levels of management and the provision of formalized procedures to ensure grievance redressal.	As and when required
Operational issues, business performance issues, internal procedures related issues.	Discussion, delegation & progress tracking at MC meetings and through special meetings held amongst the senior management depending on the criticality of the issue.	Direct engagement with the relevant employees and managers at MC meetings and other meetings held.	MC meetings are usually held once a month. Other special management meetings are called as and when required.
Up-to-date company related news.	Updating the employees on 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 and gap analysis.	As per the training calendar

Statutory Benefits for Employees

We strongly adhere to the ethos of providing our employees with benefits, both pecuniary and non-pecuniary, that are above and beyond the laid out statutory requirements. As a responsible corporate that gives absolute precedence to the adherence with statutory obligations, we ensure that all our statutory obligations with regard to our employees are carried out without deviations. This includes the contributions under the EPF, ETF and the provision of Gratuity. Further, we adhere to all statutory obligations with regard to the provision of leave to our employees and ensure that maternity leave is administered in conformity with statutory requirements.

Key Value Drivers

Human Capital

Future Outlook

Training & Development

- Plans are in motion to increase our investment in the training and development of our employees.
- A range of training programs are planned for the upcoming year, including technical, functional, language, information technology, soft skills, life skills, general management and leadership training.
- We have planned to cover a minimum of 3 training sessions per employee during the upcoming year.
- 07 high performing employees, have been chosen to attend a workshop on "Empowered Leadership" in Thailand in August 2017.

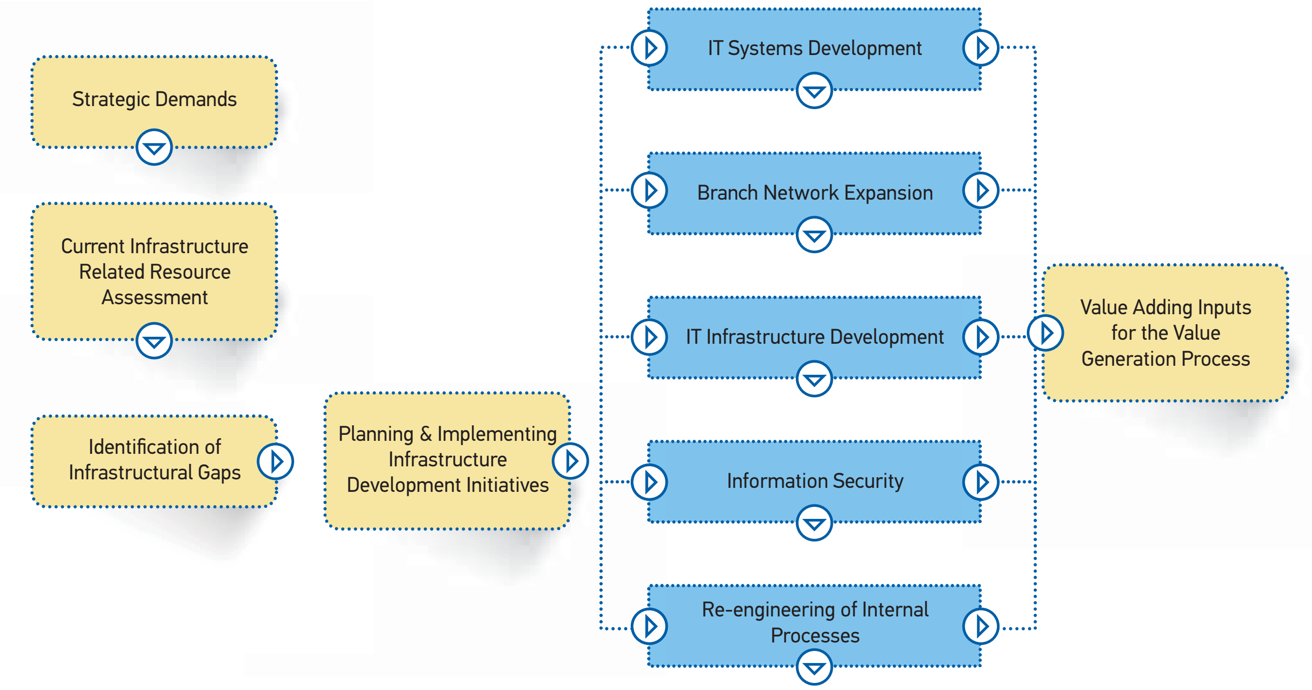
Performance Management

- We will continue to provide growth opportunities to our employees in line with our Performance Management System in place.
- The introduction of an Individual Development Plan (IDP) for our employees to enable them to map out their long term life and career goals. This system is bound to help our employees manage and plan out their career growth and certain milestones to be achieved at different points of career growth.
- The completion of the implementation of the Human Resources Information System (HRIS).

Recruitment & Retention

- Extension of our Internship Program – In line with the purpose of bringing in new and young talent into the organization, we will be further developing this program to attract diverse and high calibre talent to fuel the future growth of our organization.
- HR Network Head-hunter Program – We have established links with universities and professional bodies to facilitate targeted recruitment and we will continue to actively participate in job fairs.
- Continuation of our Internal Recruitment Program – This successful program that we have undertaken has helped improve employee motivation and morale as it has provided many of our employees with career development opportunities. Whenever recruitment needs arise, first priority will continue to be given to any available internal resources of the required calibre.
- Employee Satisfaction Survey – As an Employee Satisfaction Survey serves as a critical listening tool for the company's management, plans are afoot to conduct an Employee Satisfaction Survey to understand employee requirements and identify the challenges and issues faced by them.
- Review of the Remuneration Schemes in place – In order to maintain our remuneration and reward schemes on par or above industry norms, we continuously review these schemes that are in place to ensure that our employees are rewarded fairly as per their contributions. Further, we have tied up with the Finance Houses Association (FHA) to do a work study on the remuneration structures in the NBFI sector.

Infrastructure Capital



Business Growth and Infrastructure Capital

Infrastructure capital has been identified as a key input to our business model and as being crucial for the sustainability and growth of business performance. As we continue to consolidate our focus on business financing for our lending activities and continuously increase our engagement with retail depositors for our fund mobilization, an expanded physical geographical presence is bound to play a critical role in value generation. Moreover, the growth in business performance and physical network expansion cannot happen in isolation without adequate IT support services and customer convenience tools. That is where the state-of-the art IT systems that are currently in development and the ATM network that is to be introduced, come into play. They will play a vital role in making the branch expansion a success and help the future increase in value generation a reality.

Introduction of State of the Art Core Banking System

In order to drive our business strategy and ensure long term sustainable value addition to our stakeholders, we have undertaken the implementation of a core-banking solution that would revolutionize how our frontend and backend services are carried out.

We have partnered with Oracle to implement their Oracle Flexcube Core-Banking Solution to our organization in order to optimize the customer experience, introduce new products and further develop the quality of the support services provided to our frontend staff.

We have itemized below, some of the value added features that will be introduced to our operations through the adoption of this core-banking solution:

Through the implementation of this core-banking solution and re-engineering our internal processes to accommodate this

- The ability to introduce new products and serve new customer segments
- Customer relationship management techniques
- Multiple transaction channels like teller systems, mobile banking, online banking, ATM facilities and Credit Card facilities
- Best in class financial control and audit systems
- Governance and compliance reporting features
- Internal control management capabilities
- Standardized workflows and processes
- A range of financial reporting and data analysis tools
- Online backend general ledger system
- Enhanced data security

Key Value Drivers

Infrastructure Capital

solution, we hope to extract the following advantages:

This core-banking solution, which is in the process of being implemented, will no

- Introduction of ATM facilities for our Savings Accounts customers
- Ability to introduce new products and re-engineer certain products to increase customer convenience
- Efficient management of human capital to reallocated resources from operational activities to frontend activities like sales, personalized customer management and recoveries
- Enhanced Management Information Systems providing instant information to support proactive decision making
- Adoption of best-in-class, standardized processes for our operations
- Effective monitoring of internal policy implementation
- Effective recovery processes resulting in lower NPAs and recovery expenses
- Ability to perform different types of online transactions with other Financial Institutions

doubt serve as a catalyst for the further enhancement of the personalized customer experience that we deliver.

IT Security Management

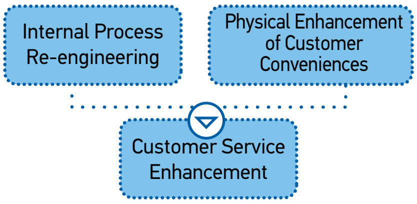
As a financial institution, we have an increased responsibility to ensure that we have systems and controls in place to avoid, combat and manage IT security threats. The failures of IT systems and cyber-attacks have the ability to cause disruptions to our routine operational processes, damage our reputation and cause financial loss.

With the direction from the company's IT Steering Committee, the Management Committee and in consultation with Softlogic Group IT , we have put in place an array of systems and controls to ensure that we can effectively face identified IT security threats without any significant impact to routine operations.

In order to constantly review and manage the IT Security Controls in place, the following actions are routinely undertaken:

- Implementing proper System & IT Audits.
- IT/ Technological enhancements and upgrades being reviewed and provided for during annual planning.
- Engaging external professional consultants with regard to the improvement of existing controls
- Regular review of internal processes and controls in order to minimize system frauds
- Review and updating of the company's IT policy and ensuring that updates are implemented
- Continuous and regular System Updates and Upgrades
- Ensuring that IT backup systems are operational and effective
- Ensuring that the Business Continuity Plan in updated and operational

Customer Service Enhancement

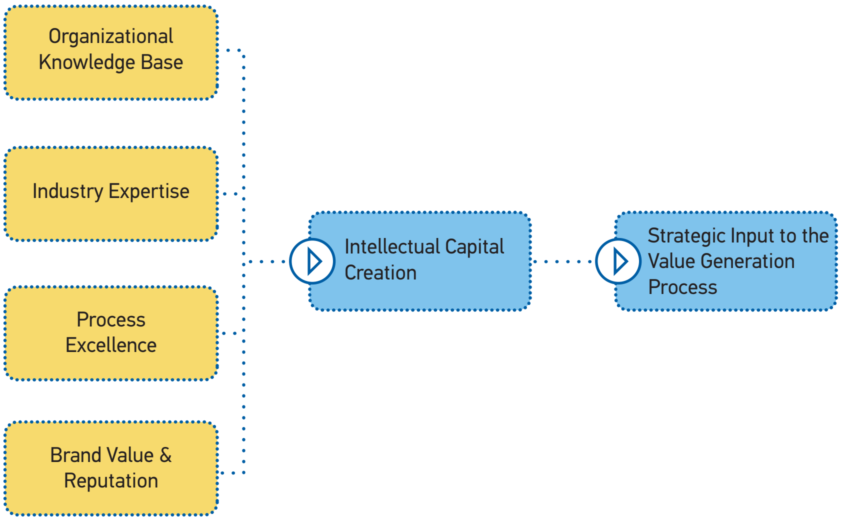


Our end goal is to provide our esteemed clientele with a memorable, personalized service that would guarantee us their status as returning customers. In this context, we approach customer service enhancement in a two pronged manner. One would be the constant review and re-engineering of internal process and the other would be the physical enhancement of the customer conveniences offered at our branches to ensure that all business interactions materialize in a professionally conducive atmosphere.

In line with our commitment to customer service excellence and the continuous improvement of customer convenience, we continuously review and re-engineer our internal processes in tandem with the IT systems development that is in progress. We have undertaken this concurrent development of both the IT systems and the internal processes in order to ensure that our support services run efficiently and effectively within the ecosystem of the new core banking solution that is being implemented, without compromising the excellent customer service that we are renowned for.

We take great pride in ensuring that our valued customers are provided with a warm and pleasing atmosphere to conduct their business with us. Great pains are taken to ensure that our branches are designed in a manner that promotes personalized and relaxed customer engagement, whilst providing facilities for customers to confidently discuss their financial needs in a confidential manner.

Intellectual Capital



Enhancement of the Organizational Knowledge Base

As a service sector organization and a pioneer in business financing in the NBFI sector, our long term operational sustainability very much hinges on the development and the effective utilization of our organizational knowledge base. 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 helps 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 mobilization and business financing involves the continuous updating of internal knowledge and effective sharing of it with our team.

Frequent sharing of industry knowledge among our team members through internal workshops and training programs play a dual role. It serves as a platform for the dissemination of existing industry know-how and the refinement of our knowledge base through the sharing of market information that comes from the ground level. Through this, we have been able to predict industry challenges and successfully face them. A fine example of this is the development of our working capital loan product that was developed for the purposes of product diversification in order to face the rising challenges in the leasing product segment. Such proactive decisions taken as a result of our industry expertise have allowed us to confidently face tightening loan-to-value regulatory restrictions that would have otherwise affected our customer asset growth.

Achievement of Process Excellence

Owing to the adoption of a service culture across our organization, we have recognized the operationalization of best practices and the achievement of process excellence as sources of competitive advantage. This is why a conscious effort is been made to consistently drive the adoption of best practices and compliance with documented processes so that process excellence and the transparency of operational functions is commonplace. At all levels of management, there is commitment to the refinement of internal policies and procedures as our customer service levels significantly depend on them.

Enhancement of our Brand Value & 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 solutions provider. Personalized service and prompt solution delivery are instrumental to the brand perception that we project. We constantly strive to cement our position as a symbol of trust and confidence amongst our customers. As we continue to expand our geographical presence, the positioning of our brand and the perception we project would be deciding factors of the success of our expansion drive.

External Recognition

As a testament to the transparency with which we conduct our business and the elevated personalized service levels we deliver to our esteemed clientele, we have been bestowed with industry awards and accolades this year also. This is a clear demonstration of our continuously enhancing brand exposure and value.

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 for our shareholders. We have recognized that it is imperative that we manage the impacts that we make on the society and the environment also.

To this end, we have ensured that the Company's sustainable value creation is backed by a systematic process of constantly engaging with stakeholders, identifying their evolving needs and formulating mechanisms to address these needs.

Hence this emphasis on sustainable and balanced growth has ensured that we have shifted from purely focusing on short term profitability and now focus on ensuring that the interests of all stakeholders are identified and effectively addressed.

Our Management Approach

We have taken a holistic and overarching approach to the management of the impacts of our business. This is the result of the effective operationalization 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 categorized as the Economic, Social and Environmental impacts of our business. All sustainability initiatives undertaken by the Company are carried out and managed under these Economic, Social and Environmental pillars.

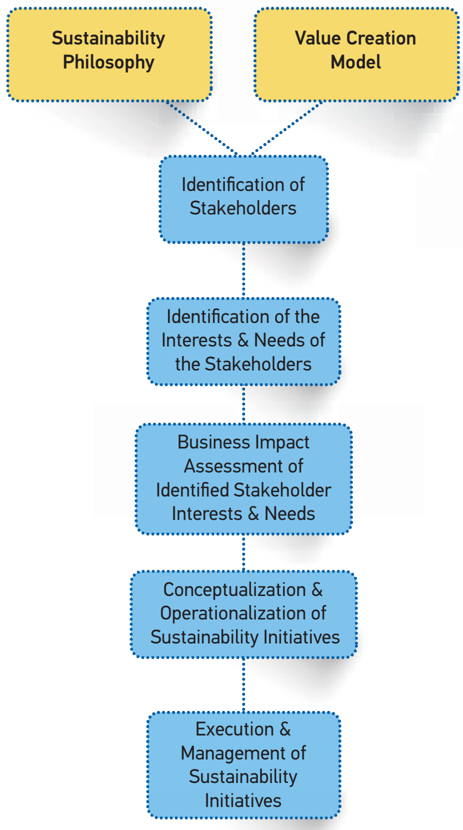
We undertake certain deliberate steps when executing our sustainability philosophy. The process commences from identifying our stakeholders and then identifying their needs. Next we assess the materiality of these stakeholder needs and their impacts on our business model. Based on this thorough assessment, we formulated calculated mechanisms to satisfy such stakeholder needs.

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.

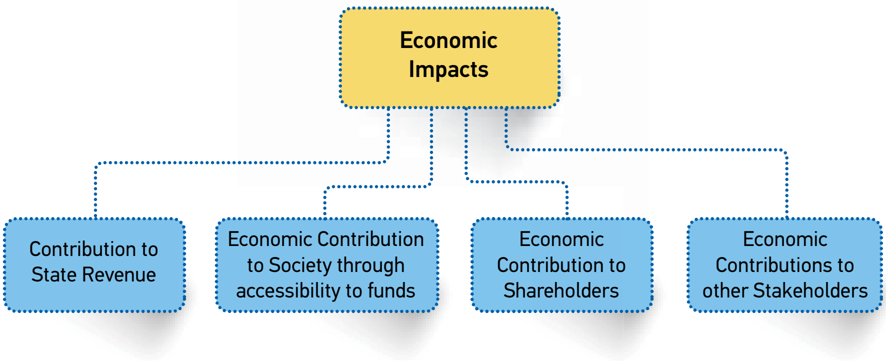
The Sustainability Framework

Owing to the importance of the management of the various impacts that our business has on our operating environment, we have adopted a formalized framework to sustainable value creation. This framework ensures that our sustainability strategy generates Economic, Social and Environmental value. The conceptualization, execution and monitoring of all value creation activities related to our sustainability strategy are carried out 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 areas of our business.

Such a formalized 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.



Economic Contribution

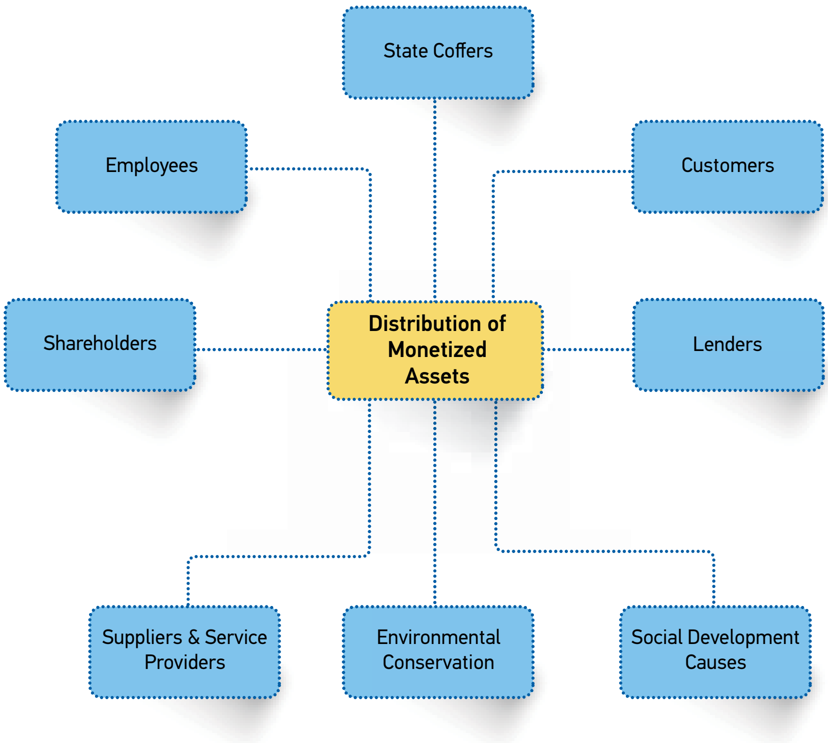


Our economic performance serves as the cornerstone for our survival and is the key enabling factor for our active engagement with our stakeholders. The monetized value we generate through our business model is shared amongst a range of stakeholders. A significant economic contribution to the country's 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.

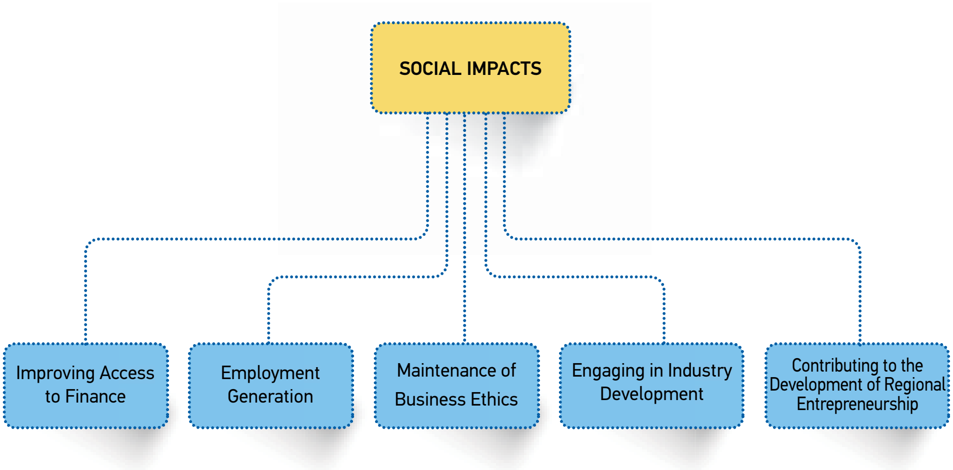
More specifically, substantial economic contributions are made every year towards government revenue, our shareholders, our suppliers and service providers, financing partners, investments in rural areas supporting economic growth, the provision of employment and to the community at large.

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 specialized 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.

During this financial year, our contribution to state revenue, through taxes paid, stands at Rs. 164.9 Mn compared to Rs. 84.6 Mn paid during the last financial year.



Social Contribution



As we expand our reach to every district of Sri Lanka, we are 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 attracted interest 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.

Contributing to the Local Economy

Through our growing branch network, we have the opportunity of engaging directly with the community. A majority of the products or services that any branch requires is sourced directly from within the immediate community the branch is located, rather than from Colombo or any other large city. This positively impacts employment generation both directly and indirectly, in-turn raising the quality of life for local communities. The presence of a branch offers ease of access to financial services paving the way for greater business opportunities for entrepreneurs. Their success in-turn helps generate increased employment prospects for the whole community.

Engaging in Regional Social Development Causes

Our intimate engagement with the communities in which we operate in extends beyond a simple financial transaction. We continue to contribute to and participate in social development causes like donating necessities to victims of natural disasters and conducting social engagement activities like dansalas, alms givings, donations to places of religious worship and schools. We make it a point to embed such activities into our operational philosophy as it serves as a catalyst for our team to think beyond the traditional bottom line.

Employment Generation and People Development

We strongly believe in creating employment opportunities to the youth and pay special attention providing employment to those from rural areas of the country. Especially when hiring personnel for our branch network, we prioritize the recruitment of talent from the respective regions in order to foster localized employment creation. Further, we have tied up with a number of local universities and educational institutes to give opportunities to young graduates and students to gain valuable experience in the corporate sector by working with us.

Our commitment to our people does not stop there. We are passionate about people development. This is evident by the fact that we carried out the largest number of training programs in the company's history during the 2016-17 financial year. We undertake the continuous training and development of our employees so that they continue to add value to our business and at the same time, develop themselves as capable professionals.

Ethical Business Practices

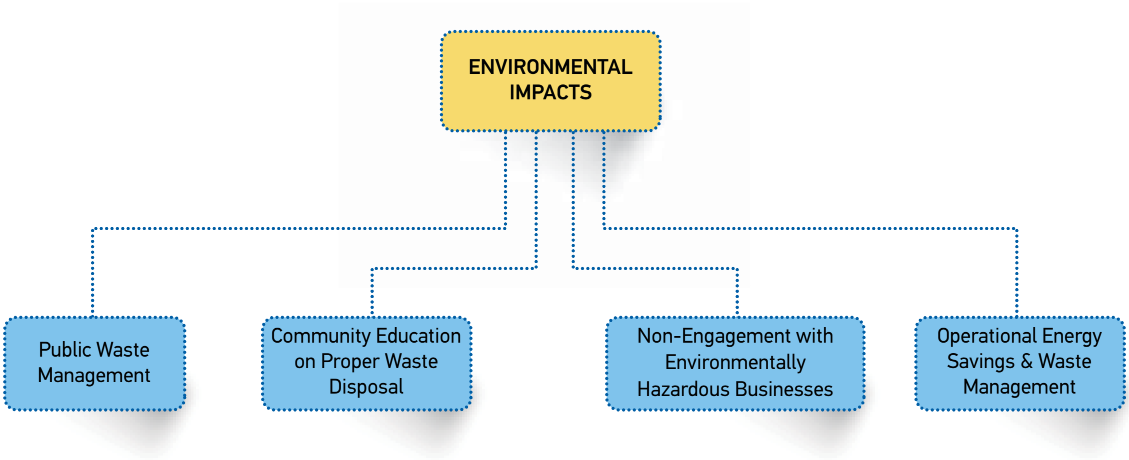
Our customers and shareholders are amongst our most valued assets and it is in their interest as well as ours that we have stringent processes in place to uphold sound business ethics and practices. Compliance with all industry regulations allows us to subject our engagements to scrutiny and preserve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

• *Moments from our blood donation campaign conducted by our Jaffna branch and the distribution of essential items for flood relief efforts by our City Office branch*

Environmental Contribution



We at Softlogic Finance, recognize the importance of using the most appropriate methods to preserve the environment for future generations by instilling "green" habits amongst our staff and the communities that we engage with. Our policies are always aligned towards conserving energy and resources whilst minimizing 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, we embarked on a carefully-planned, large-scale effort which would eventually improve the cleanliness of a two kilometer roadside extent around each branch and mobilize public support for waste segregation and recycling. Consequently, we formulated our "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 kilometer 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 program 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" program are distributed amongst the communities. To inculcate the habit of garbage segregation, separate bins are placed in front of the branch or designated public 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.

Extension of the "Clean Zone" Initiative to Public Places

Driven by the overwhelming response we received for our "Clean Zone" community initiative, we decided to extend this campaign to cover a host of public spaces like places of worship, town centres, places of recreation, railway and bus stations and hospitals, in addition to the vicinity of our branch locations.

Particularly, we recognized that the effective waste disposal and segregation is critical in hospitals as these are public spaces frequently visited by thousands of people daily. Further, it is crucial that a sterile and clean environment is maintained in hospitals at all times. Therefore, we also decided to launch our "Clean Zone" initiative at the Lady Ridgeway Hospital in Borella, and the General Hospital in Matara, both of which are public spaces in which proper waste management and cleanliness are of paramount importance. At these public

Our 'Clean Zone Initiative' at the Hatton railway station

Launching our 'Clean Zone Initiative' at the Matara General Hospital

Launching our 'Clean Zone Initiative' at the Lady Ridgeway Hospital for children

spaces, we undertake to raise community awareness on waste management and provide the basic groundwork for the appropriate segregation, disposal and recycling of garbage.

In addition to the demarcated areas covered by our 31 branch locations, we have extended our "Clean Zone" initiative to the following public spaces:

Location	City
Lady Ridgeway Hospital	Colombo 08
Matara General Hospital	Matara
St. Thomas Church	Kotte
Vinayagar Kovil	Bambalapitiya
Gangaramaya Temple	Colombo 02
Weligama Town Centre	Weligama
Matale Children's Park	Matale
Dambulla Central Bus Stand	Dambulla
Gas Paha Junction	Pettah
Ruwanweliseya Sthupa	Anuradhapura
Hatton Railway Station	Hatton
Ratnapura Town Centre	Ratnapura
Muthiyangana Raja Maha Viharaya	Badulla

Extending our 'Clean Zone Initiative' to the sacred Ruwanwelisaya Temple

Integrated Risk Management

Integrated Risk Management Framework

Objectives

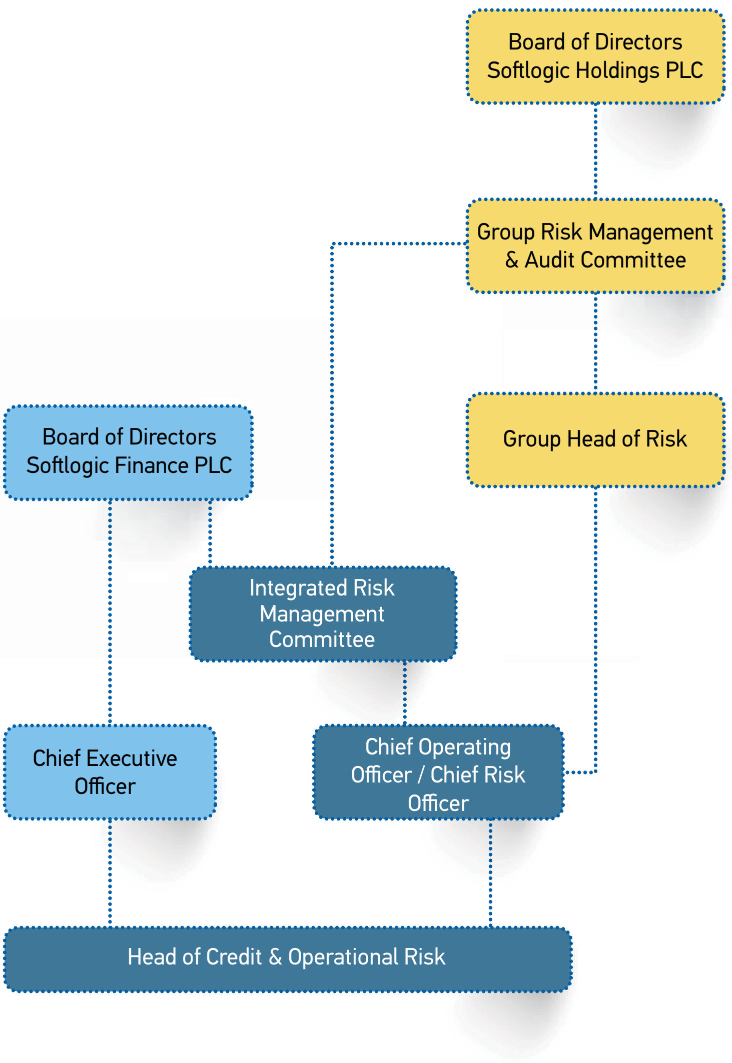
The Integrated Risk Management (IRM) Framework at Softlogic Finance PLC is a process which represents a means of ensuring that sustainable value is created for stakeholders in a responsible manner through effectively monitoring, managing and controlling risks at all times. The IRM process advocates a structured and disciplined approach to risk management by aligning strategies, policies, processes, people, technology and knowledge in relation to opportunities, threats and uncertainties faced by the Company and the Group as a whole.

The primary objectives of the framework are:

- Protecting the Company/ Group against possible losses;
- To establish common principles and standards for management and ensure consistency throughout the company in risk management.
- Integrating risk management at all levels of decision-making.
- Anticipating and mitigating risk events before they become a reality.
- Ensuring earnings stability optimizing use of capital.
- Define the risk appetite and align the Company's portfolios and business strategies accordingly.
- Maintain and ensure the Company's capital requirement and strong liquidity position.

These objectives are cascaded down into the framework, policies, methodologies, allocation of responsibilities, governance and reporting structures that have been developed in line with all applicable regulatory requirements and best practices as per the Basel Accord.

Functional Structure of The Risk Management Framework



Integrated Risk Management Committee

The Board delegated its authority to the Integrated Risk Management (IRM) 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.

The Main Responsibilities of this Committee 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.

The Integrated Risk Management Unit (IRMU), under the supervision of the Head of Credit & Operational Risk of the company is responsible for driving the IRM framework across the network.

Risk Management Responsibilities

The foundation of our Risk Management framework is built on the 'Three Lines of Defense' model, which promotes accountability, transparency and consistency through the clear specification and segregation of roles which are in line with risk management and governance activities.

Three Lines of Defense

	Responsibilities
First Line	The first line of defense is directly linked with the activities of operational management units which include identification, management and reporting of both current and potential risks of the day-to-day business. • Key Responsibilities are:- • Self-assessment and reporting of risks and control effectiveness. • Compliance with all policies and procedures. • Promoting a strong risk culture. • Awareness of risk elements through effective communication and training. Identifying and implementing both proactive and reactive risk evaluation, monitoring, and controls, coordinating with Department Heads and the Risk Management Unit.
Second Line	The Centralized Risk Management Division (RMD) functions as the second line of defense, providing guidance to ensure the implementation of governance standards, frameworks and policies for each type of risk that the company/group is exposed to. • RMD is mainly responsible for:- • The formulation and implementation of the IRM framework • Independently identifying and assessing the risks that the Company is exposed to. • Overseeing the development of a risk culture and its links with the anti-fraud framework. • The reviewing of Key Risk Indicators of the business units, products, processes, systems and reporting to the business units and higher management committees. • Conducting post disbursement reviews on loan and other credit facilities in order to ensure the maintenance of a high degree of credit quality in company portfolios. • Reporting Internal Compliance, regulatory compliance, and Anti-Money Laundering measures.

Integrated Risk Management

	Responsibilities
Third Line	The Internal Audit provides independent and objective assurance on the Risk Management /Compliance processes and practices in place. Internal Audit has the authority to communicate with the External Auditors & the Board Audit Committee (BAC) and provide independent assurance on the first & second lines of defense and determine the applicability and effectiveness of policy implementation and internal controls which are in place. Assurance is provided through: **Internal Audit** • Review effectiveness of risk management practices and the internal control framework. • Confirm the level of compliance. • Recommend improvements and enforce corrective action where necessary. • Anti-Fraud and monitoring. **External Audit** • Reporting to shareholders and expressing their true and fair view of the Financial Statements and reviewing the internal controls in place over the financial reporting process.

Softlogic Finance PLC - Risk Profile

Type of Risk	Definition and Possible Impact	Mitigation Strategy
Strategic and Business Risk	Strategic Risk is the possible loss that might 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. 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.	We are aware of the importance of understanding all elements of new business expansions before commencement. 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. All the strategic decisions are embedded with proper risk management plans and alternative channels. The Company's strategic and business plans are updated on an annual basis and formally approved by the Board.
Credit Risk	Credit Risk is the risk of financial losses occurring in the event of a customer or a counterparty failing to meet the payment obligation to a financial instrument. It arises principally from Direct Lending, Leasing & Hire Purchase businesses which in effect represent the majority of the total assets.	We at Softlogic Finance PLC have exercised the following actions in order to manage the Credit Risk. Well defined Credit policy in place, which has been approved by the Board of Directors Standardized evaluation methods practice in the Credit Approval process. Proper Delegation of Authorities Independent Credit Risk evaluation Risk based pricing mechanism Post sanction review & monitoring During our verification process, additional attention is given to "ways out" analysis in proposals, proper credit documentation and obtaining sufficient collateral in line with the company's policies as to mitigate credit risk in our loan books.

Softlogic Finance PLC - Risk Profile (Contd.)

Type of Risk	Definition and Possible Impact	Mitigation Strategy
Credit Concentration Risk	The credit concentration risk arises due to over distribution/disbursements of credit exposures to trade sectors in the industry.	As a mitigating factor, sector and product concentrations are analyzed and tolerance levels are set time to time by the Board. Individual and group exposure limits are in place to measure and monitor the credit concentration in the lending portfolio. NPLs of each sector against each portfolio are closely monitored.
Liquidity Risk	Liquidity Risk arises when the company is unable to comply with its financial obligations such as liabilities to depositors, settlements of borrowings, settlements of lending & investment commitments, which would lead it to incur significant losses.	The company has well-defined and tested liquidity management policies & procedures to maintain sufficient liquidity at all times to meet financial obligations. We frequently monitor and review Liquid Asset Ratio, Liquidity Gap Analysis and CAR, Medium Term Funding (MTF), Net Advances to Total Assets Ratio to ensure & maintain healthy liquidity positions in company operations.
Market Risk	Market Risk is the potential loss caused by movements in foreign exchange rates, interest rates and equity and commodity prices.	A board approved Treasury Risk Management policy is in place. The market risk limits set by risk management are monitored on a daily, weekly and monthly basis. Where limits are exceeded, Market risk management is responsible for identifying and escalating those excesses to the senior management on a timely basis.
Interest Rate Risk	Interest Rate Risk arises due to adverse movements in market rates which affect the underlying value of company assets and liabilities, as the present values of future cash flows change as a result of interest rate changes.	In order to mitigate the impacts of Interest Rate Risk, more consideration is given to the maintenance of a minimum interest spread at all times, low cost funding and close monitoring and supervision of macroeconomic trends to understand the market behavior for firm ALCO decisions. Stress testing and scenario analysis are carried out to facilitate proactive Risk management measures.
Equity Risk	This arises due to adverse movements in the value of the individual stock price in accordance to the corresponding equity index.	The company is not very exposed to this since we did not hold a substantial active equity trading portfolio during the year. However the trading and investment portfolios are closely monitored on a daily basis ensuring that timely measures are taken to minimize losses.
Commodity Risk	Commodity price risk arises due to the unpredictability of commodity exposures in the company.	Gold buffer stock under the Gold Loan category comprises of only less than 5% when compared with the total portfolio. Therefore, the impact from this area is almost within the controllable level.

Softlogic Finance PLC - Risk Profile (Contd.)

Type of Risk	Definition and Possible Impact	Mitigation Strategy
Operational Risk	Operational Risk is the potential risk arising from the inadequacy of internal processes, controls, IT systems, people or even external events that may impact the company.	To manage the operational risk in our business effectively, the following measures are in place. Implementing a strong operational policy and procedural framework in co-operation with business units and support functions. Regular review of the laid down operational practices. Inculcating an operational risk culture amongst our network. Effective tools in place to identify, measure, monitor, control & report any inherent & emerging operational risks. Key Risk Indicators (KRIs) and Audit findings to identify and assess the key risk events. Pre-defined thresholds in place in our real-time escalation mechanism to refer loss incidents to the top level. Setting up of a separate unit that will continuously audit all laid down operational procedures concerning cash and gold loans. Continuous reviews by the Internal Audit function of the operational controls/policies at the head office & branches. Operational risk unit monitoring the operational controls and potential risks Robust Business Continuity Planning Policy. (BCP)
IT / Cyber Security Risk	Cyber Security Risk is the risk of financial loss, disruption or damages to routine operational functions and also to the reputation of the company due to the failure of information technology systems.	Our company has identified the importance of IT / Cyber Security and has deployed numerous technical controls to mitigate the risk involved in collaboration with TechCERT. The company has adopted ISO 27000 based Information Security policies & procedures and it's tied with regularly tested IT disaster recovery plan to deal with any contingencies. We also plan to tie up with FINCSIRT of Central Bank of Sri Lanka.
Reputational Risk	Reputational risk arises due to an event or incident that could adversely impact on the corporate image. It can also be identified as the negative publicity regarding our own business practices, which may cause a decline in the customer base and also lead to a reduction of revenue in terms of financial dealings.	Mitigation mechanisms are embedded in company policies, which are further strengthened by the training/induction programs conducted continuously by our HR department, a well-defined customer complaint handling process is in place. Also an updated code of conduct and ethics in place and a strong corporate governance culture is promoted.
Compliance Risk	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. Though the amount seems unquantifiable it is a major concern for the entire financial industry.	The role of the compliance function has been set out in the Compliance Policy and it has given appropriate authority and independence to perform its duties. All the operational processes and best practices have been documented and communicated to the staff and the Compliance Department is monitoring the same with the assistance of our Internal Audit division.
Risk of Fraud	The risk of fraud arises because of the violation of laid down controls, procedures, laws and regulations with an intention to commit fraud.	The company has identified the criticality of this risk and has laid out the necessary controls and checks and balances to avoid, detect and minimize the impact to the company.

Risk Management Process

Risk management is a part of Governance, Risk & Compliance. Effective Risk Management is critical for the success of the Softlogic Finance PLC and is under increasing focus as a preemptive tool.

A Risk Management Charter has been approved by the Board of Directors of and a Risk Management Policy is in place, which outlines the Integrated Risk Management framework that will be applied at Softlogic Finance PLC. The Risk management process is aligned with Company's culture, processes, structure and strategy.

Risk Assessment

An independent credit risk review unit headed by a Senior Manager is in place to conduct independent Credit Risk assessments for facilities over Rs 5.0 Million which to ensures that a proper pre-disbursement analysis is carried out to minimize risks. A standardized Risk evaluation section has been amalgamated into the credit proposal, which is 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 Board subcommittee, on credit.

Risk Assessment Map

In addition to the risk appetite criteria in place, the company also utilizes a Risk Assessment Map to make assessments and judgment calls of the level of criticality of identified types of risks. Under each major selected risk category, the company has identified certain indicators that could significantly affect the company's business operations and its business sustainability. The company regularly monitors these indicators and categorizes them as "High Risk", "Medium Risk" and "Low Risk" depending on the status of the indicator and its assessed impact on the business.

Risk Assessment Map	
Credit Risk	**Operational Risk**
Portfolio Growth	People - Staff Turnover
NPL Ratio Position	Vulnerability of Key Performance Indicators
Provisioning GAP - SLAS vs IFRS	Internal Process - Complexity / Level of Integration
Market Risk	External - Health & safety
Liquidity	**IT Risk**
Top 20 Largest Fixed Deposits Concentration	Systems (Hardware)
Interest Rate	Backup Processes
Gold Price	Backend System
Exchange Rate	Frontend System
Net Interest Margin	Cyber security Measures
Regulatory Risk	IT Project
Compliance	**Systemic Risk - Macro Environment**
Statutory Payments	Economic & Industry Indicators
Renewal of Licences	Country's Security Situation
Central Bank Audits	Law & Order
Statutory Reporting	
External Audit	
Reputational Risk	
Financial	
External Rating	
Service Standards	
Reputational Risk	
Financial	
External Rating	
Service Standards	

The status of these indicators are assessed and graded as per the following criteria:

Assessment Indicators		
High Risk	**Medium Risk**	**Low Risk**

Integrated Risk Management

Stress Testing

Stress Testing is used as an assessment tool to identify the possible events or future changes in economic conditions that could have unfavorable effects directly on the company's Assets & Liability portfolios, which may impact the Capital Adequacy Ratios (CAR). It also tests the company's ability to withstand such changes whilst influencing necessary changes in the Risk Profile as in line with changes in the Risk Appetite tolerance levels.

The adverse impacts caused due to economic or industry downturns, interest rate movements, market-risk events and liquidity conditions are examined and monitored on a regular basis against the significance of selected categories in the Company Risk Profile.

Major Risk area/category	Possible event	Stressed scenarios /impact to portfolios
Default Risk	Default of large amounts	Low Medium High
Liquidity Risk	Pre-mature withdrawals of large deposits (Top 20 deposits)	
Operational Risk	Increase in Operational Losses	
Concentration Risk	Exceeding respective sector exposures and single/group borrower limits	
Collateral Value Risk	Fall in Forced Sale Value (FSV) of Mortgage Securities	
Interest Rate Risk	Interest Rate shocks on assets	

Stress Testing is currently practiced with regard to Credit, Liquidity and Market Risks mainly and duly reported to the Board/IRMC on a quarterly basis.

Risk Register

To assess Operational Risks, the Risk Register is used which derives a prioritized list according to the level of impact. 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 integrated 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 analyzed 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 Moderate Risk

The Key Risk Indicators are scored / rated against the severity and Probability of the Risk using a Risk scoring matrix given above. The impact is assessed under financial, reputational, operational and the escalation of risk, where it is rated under 4 categories such as Negligible, Minor, Moderate, Major. The probability is a frequency based assessment where the Risks will be rated according to the Likelihood of the Risk occurring.

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 Unit.

Risk Appetite and Tolerance

The Risk Appetite is defined as the quantum of risk the company is willing to assume in the different areas of business in the context of achieving its strategic objectives whilst ensuring the maintenance of a desired risk profile. The monitoring of the respective indicators of the Risk Appetite Framework and taking the necessary mitigation and corrective action are in the hands of the senior management, whilst addressing the following objectives:

- Ensure proper identification and understanding of emerging Risks
- Ensure that business operations and operational decisions are in line with the Risk appetite framework.
- Determine and ensure that the tolerance levels are aligned with the corporate objectives.
- Strengthen the risk culture at all levels of decision making.

The limits are set considering regulatory requirements, best practices, industry benchmarks and internal benchmarks as appropriate. The foremost purpose of setting a Risk Appetite is to ensure that risks are proactively managed as per the set tolerance limits under each respective risk category. Selecting the most appropriate Risk treatment option involves balancing the costs and efforts of implementation against the benefits derived. Maximum tolerance limits are set annually and reviewed monthly to capture any deviations.

Future Plans for Risk Management

Our robust Risk Management practices have progressed encouragingly with the maintenance of high standards and will continue to be further strengthened and enhanced towards the achievement of Company success in the future. Key initiatives will be focused on, in terms of further sustaining and improving the risk management capabilities at Softlogic Finance PLC as elaborated below:

Initiative / Element	Actions to be taken
Further strengthen the existing Risk Management Policy framework.	• Review, develop & upgrade the Integrated Risk Management framework and other policies such as disclosure, valuation, stress testing, model validation and whistle blowing.
Strengthen the Pre-Approval credit process / underwriting standards.	• Review existing credit policies and strengthen the credit review/verification departments. • Introducing non-judgmental scorecards to assess credit worthiness. • Develop/strengthen the Internal Risk Rating system.
Further strengthening of the Post-Approval credit process	• Setting up loan review teams in a region/cluster wise manner to monitor the post-approval process.
Strengthen collection & recoveries process	• Centralized collection units will be strengthened to handle and follow up the recovery process smoothly.
Further strengthening of Disaster Recovery capabilities	• BCP testing with more integrated functions in place. • Better equipped DR site set up will be put in place.
Implement / establish a strong cyber security culture	• With view of combating cyber security threats, new plans are underway to improve and introduce new cyber security risk management policy. • Strong controls to be added/included to the IT related policies & procedures in the context of company activities. • Strengthen the awareness culture and ability to proactively manage threats.

Accountability & Transparency

Leasing

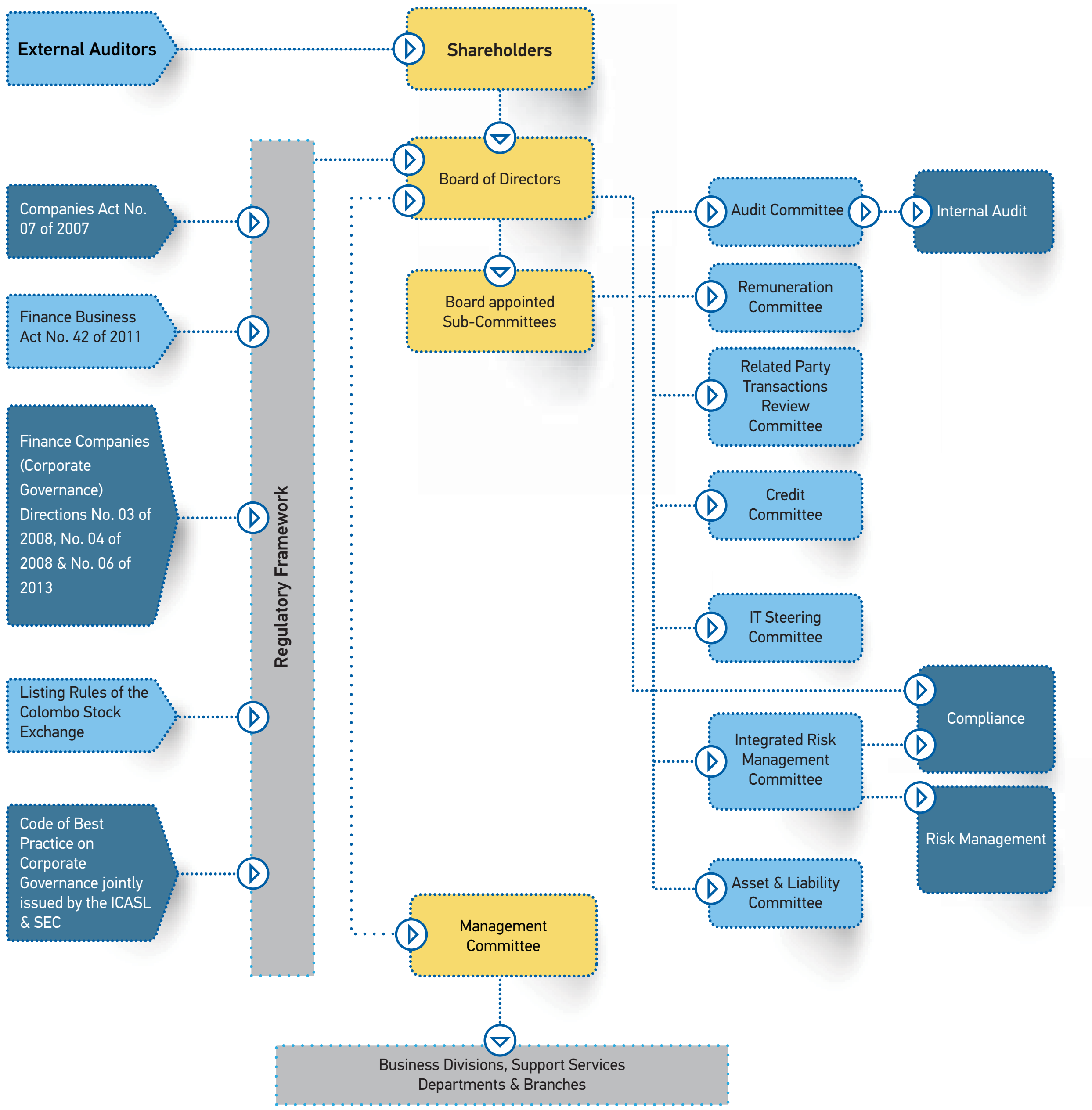
The ideal choice for flexibility, affordability and personalized customer service, our leasing solutions provide you with customized vehicle financing solutions for both your private and commercial financing requirements. We are well geared to offer you attractive interest rates, fast processing times and advice on how to structure your leases to suit your payment capabilities and requirements.

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 & 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 131 and the statement of Directors' responsibilities is given in page 139.

The table at the end of this section 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 it 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.

During the year under review, the Board met 13 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	13
Mr. G L H Premaratne (Deputy Chairman)	Executive Director	13
Mr. N H G Wijekoon (CEO)	Executive Director	13
Mr. T M I Ahamed	Non-Executive Director	12
Mr. B H S Jayawardena (resigned w.e.f. 7th July 2016)	Non-Executive Director	03
Mr. C J E Corea	Independent Non-Executive Director	13
Mr. D T C Soza	Independent Non-Executive Director	09
Mr. H K M Perera	Non-Executive Director	11
Mr. S N P Palihena (resigned w.e.f. 2nd December 2016)	Independent Non-Executive Director	08

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 140
168 (1)(b)	Signed financial statements of the company for the accounting period completed	Page 147 to 199
168 (1)(c)	Auditor's report on the financial statements of the company	Page 146
168 (1)(d)	Applicable accounting policies and any changes therein made during the accounting period	Page 151 to 163
168 (1)(e)	Particulars of entries in the interests register made during the accounting period	Page 140
168 (1)(f)	Remuneration and other benefits of directors during the accounting period	Page 195
168 (1)(g)	Total amount of donations made by the company during the accounting period	Page 142
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 140
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 141
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 141
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 143

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 140
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 140
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 203
7.6 (iv)	The Public Holding percentage	Compliant	This is stated in the Investor Information section in page 202
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 141
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 94 to 101 and in the Integrated Risk Management Committee Report in page 138

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
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 76 to 84. 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 page 172
7.6 (ix)	Number of shares representing the Entity's stated capital	Compliant	This is stated in Note No: 28 in page 179
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 202
7.6 (xi)	Ratios and market price information on:	Compliant	This is stated in the Investor Relations section in page 203
	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 203
	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 204
	Any changes to the credit rating	Compliant	No changes to the credit rating
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 page 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	Not Applicable	No such raising of funds were done
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 106 to 109
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	Compliant	The company had one transaction that qualified for this disclosure and it has been disclosed in page 137 of the Related Party Transactions Review Committee Report, page 141 of the Annual Report of the Board of Directors and Note 36.1.4 of the Notes to the Financial Statements.

Corporate Governance Disclosures

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 2 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 declarations have been submitted
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 140 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 page 30
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	No new directors were appointed to the Board during the period under review
7.10.5	A listed company shall have a Remuneration Committee	Compliant	The composition of this committee is stated in page 135 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 135 of this report

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
7.10.5 (c)	The annual report shall set out: (i) The names of the Directors that comprise the Remuneration Committee	Compliant	The composition of this committee is stated in page 135 of this report
	(ii) A statement of remuneration policy	Compliant	Please refer the Remuneration Committee Report in page 135 of this report
	(iii) Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer page 195 of this report
7.10.6	A listed company shall have an Audit Committee	Compliant	The composition of the Audit Committee is stated in page 143 of this report
7.10.6 (a)	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 2 independent non-executive directors
	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	The chairman of the Audit Committee is a member of a recognized professional accounting body.
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 132 to 133 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 132 to 133 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 132 to 133 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 132 to 133 in this report

Corporate Governance Disclosures

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.	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, budgetary objectives and the company's business plan have been communicated to all relevant line managers of the company, who implement them in conjunction with their teams. As part of its 3 year planning process, the company has formulated the relevant business plans and its 3 year financial projections. In the context of future business planning, a 3 year comprehensive strategic plan incorporating strategic objectives, corporate values, and measurable goals will be formulated, under the supervision of the Board.
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.	During the year, the Board approved the company's budget and its 3 year financial projections, which included measurable goals. The business strategy is normally reviewed monthly by the Board with updates at Board meetings on execution of the agreed strategy. The Integrated Risk Management Committee monitors and reviews the risk management procedures and mechanisms in place, during its quarterly meetings. The company plans to introduce a revised and updated Board approved risk management policy to take into account the changing external landscape and the internal control requirements.
2 (1)(c)	Identifying risks & ensuring implementation of appropriate systems to manage the risks prudently.	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 monitored, managed and reported to the Board. Plans have been made to establish a formalized process where Board members can discuss new strategies for the company, the risks arising out of such new strategies and further the ways and means to mitigate such risks.
2 (1)(d)	Approving a policy of communication with all stakeholders, including depositors, creditors, share-holders & borrowers.	The company plans to update the existing communications policy and the communications processes that are currently in place, in order to embrace the changes happening in the external environment and effectively cater to the changing needs of the company's stakeholders.
2 (1)(e)	Reviewing the adequacy & the integrity of the finance company's internal control systems & management information systems.	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. Further, the company plans to review and ensure the effectiveness of the controls in place to determine the reliability and accuracy of the non-financial information reported to the Board and also the adequacy and integrity of the company's management information system.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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	The directors (including Executive & Non-Executive Directors) have been classified as KMPs in the company's financial statements. The company plans to review its classification of its KMPs in order to ensure that the classification used, adequately addresses the stated objectives of the KMP designation.
2 (1)(g)	Defining the areas of authority & key responsibilities for the Board & for the key management personnel	Duties & responsibilities of the Board of Directors are included in the Articles of Association. Areas of authority are covered under the Delegation of Authority limits of the KMPs and have been approved by the Board. The company plans to review and update the areas of authority and key responsibilities of the Board of Directors. Additionally, along with the review of the KMP classification, the company plans to review and update the job descriptions of the KMPs, under the supervision of 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	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 normally once a month.
2 (1)(i)	Periodically assessing the effectiveness of its governance practices, including:	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 functionally reviewed by the board on a periodic basis. A self-assessment policy has also been put in place for all directors. The company plans to review and if necessary update the process of obtaining self-evaluations and the analysis thereof, in order to ensure the effectiveness of this mechanism.
2 (1)(i)(i)	The selection, nomination & election of directors & appointment of key management personnel	
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	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. With the planned review of the KMP classification, the company will relook at the succession plan in place and update accordingly.
2 (1)(k)	Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives	Management committee meetings are held once a month and normally, 2 executive directors take part in the discussions & reviews of business operations. Further, in monthly Board meetings, the Executive Directors, for example, the CEO, present performance reviews of the company to the Board.
2 (1)(l)	Understanding the regulatory environment	The Board members are furnished with Central Bank guidelines, regulations and determinations. The findings of Central Bank examinations are submitted to the Board. Further, the compliance officer submits a compliance statement to the Board with the respective updates. The company maintains an active relationship with the regulator through the compliance officer and the CEO.
2 (1)(m)	Exercising due diligence in the hiring and oversight of external auditors	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.

Corporate Governance Disclosures

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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	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. Under the supervision and approval of the Board, the company will review and update the functions and responsibilities of the Chairman and CEO in the future.
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.	. 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	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	The Board's power & matters specifically reserved to it have been set out in the Articles of Association. In order to make this process more efficacious, a reviewed and updated formal schedule of matters specifically reserved to the Board for its decisions will be introduced to ensure that the direction and control of the company is firmly under its authority.
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	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	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	The Board has implemented such an annual self –assessment on its performance in discharge of its key responsibilities, where each Director has to carry out a self-assessment. The company plans to review and if necessary update the process of obtaining self-evaluations and the analysis thereof, in order to ensure the effectiveness of this mechanism.
Meetings of the Board		
3 (1)	The Board shall meet at least twelve times a financial year at approximately monthly intervals	The board met 13 times during the year under review. The company plans implement a procedure to submit special matters approved through circular resolutions, to the subsequent the Board meeting for their review and ratification, as there were a notable no. of circular resolutions used during the year.
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	In practice, proposals from all Directors on the promotion of business and management of risk & other relevant areas are included where relevant in the agenda for regular meetings. In order to reap the maximum benefits of this available avenue, in future, the company plans to implement a formalized procedure to enable all Directors to include matters and proposals in the agenda.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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.	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.	All directors have attended at least two- thirds of the meetings held during the 2016/17 financial year. Further, no director has been absent from three consecutive regular board meetings.
3 (5)	The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board & shareholder meetings.	The board has appointed a company secretary – Softlogic Corporate Services (Pvt) Ltd. All Directors have access to the Board Secretary.
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	The Chairman has delegated the function of preparing the Agenda for the board meeting to the company secretary.
3 (7)	All directors shall have access to advice & services of the company secretary	The company secretary's services are available to all Directors, who need additional support to ensure they receive timely & accurate information to fulfill their duties. In order to make the availability of this service more efficacious, under the supervision of the Board, this avenue will be reviewed and a formalized and updated procedure will be introduced.
3 (8)	The company secretary shall maintain the minutes of Board meetings & such minutes shall be open for inspection by any director	The Board minutes are adequately maintained & open for inspection by any Director. In order to make the availability of this inspection service more efficacious, under the supervision of the Board, this avenue will be reviewed and a formalized and updated procedure will be introduced.
3 (9)	Minutes of Board meetings shall be recorded in sufficient detail as per the detailed requirements of Paragraph 3(9) of this Direction	The minutes of the board meetings have been recorded by the company secretary. The company secretary will continue to review and update their minute taking and the level of detail gone into, in conjunction with the advice of the Board.
Composition of the Board		
4 (1)	The number of directors on the Board shall not be less than 5 & not more than 13	The Board comprised of 9 Directors up to June 2016. Thereafter, the number reduced to 7, which is within the requirement in the Direction. As at 31st March 2017, the Board comprised of 7 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.	There are no Directors who have exceeded 9 years of service in the Board during the year 2016/17.
4 (3)	Appointment, election or nomination of an employee as a director and the qualifications applicable thereto.	In the 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.	The Board comprised of three Independent Non-Executive Directors up to November 2016 and then reduced to two thereafter. As per the requirements of this Direction, this number is more than one fourth of the Board. The criteria for assessing the independency of a non-executive director have been complied with.

Corporate Governance Disclosures

Paragraph Reference	Guiding Principle	Status & Details of Compliance
4 (5)	Situations where an alternate director is appointed to represent an independent non-executive director	No alternate directors were appointed during the year under review.
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	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.	The Company has complied with this requirement of the required quorum in all the board 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.	Company has properly disclosed the information required on board composition in its Annual Report. Independent non-executive directors will be expressly identified as such in the company's 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.	The Articles of Association of the company states the procedure applicable to the selection & appointment of directors of the company. Formal announcements are made to the Central Bank & the Colombo Stock Exchange in this regard. Appointments are only made once Central Bank approval is obtained. In order to make this whole process more efficient, the company plans to update and introduce a formalized procedure with regard to these requirements.
4 (10)	Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment	During the year under review, no Directors were appointed to fill casual vacancies.
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.	There were two resignations 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.	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	As per the information provided by the Directors to the company secretaries, all directors are within the limit of 20 companies to hold directorships.
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	The company's Articles of Association has a provision addressing the delegation of powers of the Board. The 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.
6 (2)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant	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	The roles of the Chairman and the Chief Executive Officer are separate.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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.	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.	The company functionally checks in order to identify whether any relationship between the parties exist 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. In order to make these checks more efficient, the company plans to introduce a formalized process where declarations are obtained in this regard in the future.
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.	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.	The Chairman has delegated the function of preparing the board meeting agenda to the Company Secretary.
7 (6)	The chairman shall ensure that all directors are informed adequately & in a timely manner of the issues arising at each Board meeting	Directors are informed adequately & in a timely manner about the issues arising at Board meetings.
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	The Board is encouraged to actively contribute to the Board's affairs and also ensure that the Board acts in the best interests of the company. The Company Secretary will continue to review and update their minute taking and the level of detail gone into, in conjunction with the advice of the Board, in order to ensure that the individual contributions of the Directors are evidenced.
7 (8)	The chairman shall facilitate the effective contribution of non-executive directors in particular & ensure constructive relationships between executive & non-executive directors.	The Chairman ensures that constructive relationships are built between executive & non-executive directors and that substantial contribution comes from non-executive directors.
7 (9)	The chairman shall not engage in activities involving direct supervision of KMPs or any other executive duties.	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.	Through the AGM, the chairman ensures that the company's progress & strategy are effectively communicated to the shareholders & shareholders can communicate any concerns to the Board, through the company secretary.
7 (11)	The CEO shall function as the apex executive-in-charge of the day-to-day-management of the operations.	The CEO functions as the primary executive in charge of the day–to–day activities of the company.

Corporate Governance Disclosures

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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	Board appointed committees include the Audit Committee, Integrated Risk Management Committee, Remuneration Committee, IT Steering Committee, Assets and Liabilities 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	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	All members of the Audit Committee are non-executive directors.
8 (2)(c)	Responsible to make recommendations with regard to the: Appointment of the external auditor Implementation of CBSL guidelines issued to auditors Application of relevant accounting standards Service period, audit fee & resignation/ dismissal of the auditor	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) No such guidelines have been issued by the Central Bank during the year under review. 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. In order to ensure that this monitoring mechanism is more efficient and effective, the plan is to introduce a formalized policy in relation to the service period, audit fee, any resignation or dismissal of the auditor and the applicable term limits of the auditor.
8 (2)(d)	Reviewing & monitoring the external auditor's independence & objectivity & the effectiveness of the audit processes in accordance with applicable standards & best practices	The committee regularly reviews & monitors the external auditor's independence, objectivity & the effectiveness of the audit processes as per the applicable guidelines.
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.	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. Through its continuous monitoring activities, the committee will continue to evaluate the effectiveness of the independence of the external auditors in the provision of non-audit services. In order to formalize this process even more, the plan is to introduce a policy addressing the engagement with the external auditor which does not impair the independence and objectivity in relation to the provision of non-audit services.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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.	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.	The Audit committee has reviewed the company's annual report including financial statements, accounting standards and policies (and changes therein) & significant adjustments arising from the audit & quarterly financial statements. 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.	The committee has met the external auditors twice without the executive management being present to discuss any issues relating to the audit.
8 (2)(i)	The committee shall review the external auditor's management letter & the management's response thereto.	The audit committee has reviewed the applicable management letter & the management's responses thereto.
8 (2)(j)	The committee is responsible to take the following steps with regard to the internal audit function: Review the adequacy of the scope, functions & resources of the internal audit dept. Review the internal audit programme & results of the internal audit process Review any appraisal or assessment of the performance of the head & senior staff members of the internal audit dept. Recommend any appointment or termination of the head, senior staff members & outsourced service providers to the internal audit function 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. Ensure that the internal audit function is independent of the activities it audits	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 Chairman of the Board Audit Committee has reviewed the performance appraisal of the Head of Internal Audit. In future, steps will be taken to ensure that the Audit Committee collectively will review the performance appraisal of the Head of Internal Audit. iv) The Committee has recommended the appointments of senior staff members for the internal audit function during the year. v) No resignations of the head of internal audit or any senior staff members happened during the year under review. vi) The Internal Audit Dept. is independent from the activities it audits.
8 (2)(k)	The committee shall consider the major findings of internal investigations & management's responses thereto	Findings of the internal investigations carried out during the year and the management's responses thereto were reviewed by the Audit Committee in its 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.	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.

Corporate Governance Disclosures

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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.	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. The company will continue to review and update the terms of reference accordingly to be in line with the CBSL requirements.
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	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, by the company secretary.
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.	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	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.	The company has in place, a formal whistle blowing policy. Further, the audit committee functionally reviews issues relating to matters of misconduct. The company has drafted a new whistleblowing policy, in line with the CBSL requirements and plans to introduce it soon.
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.	The committee comprises of 3 non-executive directors, one executive director (the CEO) and the Head of Risk of the company. The terms of reference of this committee encompasses the duties assigned to it by this direction.
8 (3)(b)	The committee is to assess all risks on a monthly basis through appropriate risk indicators & management information.	The committee assesses & reviews on a monthly basis, risk in terms of liquidity, credit and operational risk by variance reports. Also ensures that appropriate measures have been taken to mitigate any risks that are envisaged. Additionally, plans are afoot to further strengthen the assessment process with the addition of identified credit, liquidity, market and strategic risk indicators.
8 (3)(c)	The committee shall review the adequacy & effectiveness of all management level committees such as the credit committee & the asset-liability committee	Through common quantitative & qualitative indicators, the committee monitors the effects of the decisions of the credit committee & the assets & liability committee. In order to strengthen this process further, the plan is to assess the effectiveness of these two committees against their terms of reference.
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.	The committee has reviewed the existing risk indicators which have gone beyond the laid out quantitative and qualitative parameters and recommended corrective adequate action. In order to develop the risk mitigation aspect, the plan is to review, update and set up risk appetite limits for identified risk indicators and review the risk indicators which have gone beyond the specified quantitative and qualitative risk limits.
8 (3)(e)	The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	The committee met four times in the period under review and has assessed and reviewed relevant detailed Management Information System reports.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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	The risk identification activities are carried out by the Integrated Risk Management Committee and as such decisions are taken collectively. If any policy breaches occur or if any detrimental action which affects the organization is committed by an employee, the committee will recommend appropriate action against the employee.
8 (3)(g)	The committee shall submit a risk assessment report within a week of each meeting to the Board	The committee has submitted the approved Integrated Risk Management Committee minutes to the main Board, seeking the Board's views and for specific directions.
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.	A separate compliance officer has been appointed to overlook regulatory and other requirements. The company plans to develop the compliance function further in order to improve the assessments of the company's compliance with internal controls and approved policies on all areas of business operations. Further, with the planned KMP reclassification, the compliance officer will also be classified as a KMP.
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.	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 there no related party benefits from favorable treatment & the terms of such transactions are similar to the usual terms between the company & any unrelated customer. In order to ensure that this functional process works effectively, plans are afoot to introduce a formalized process on related parties and their transactions with the company, which addresses categories of related parties, and for the company to avoid any conflicts of interest that may arise from any transaction of the company.
9 (3)	The types of transactions with related parties, to which this Direction applies, are laid out in this rule.	The Board has established a Related Party Transactions Review Committee to review related party transactions like the ones laid out in this rule. In order to ensure that the review committee functions effectively, the company plans to introduce a formalized process on related parties and their transactions with the company, which addresses categories of related parties, and for the company to avoid any conflicts of interest that may arise from any transaction of the company.
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.	The company functionally reviews related party loans and advances, borrowings & deposits in order to ensure that such transactions do not involve "more favorable treatment" as stated in the direction. In order to further ensure that the company does not engage in such transactions in a manner that would grant such related parties "more favorable treatment" than that accorded to others carrying on the same business with the company, a formalized and documented process is to be introduced, addressing these factors.

Corporate Governance Disclosures

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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.	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.	Compliance with applicable accounting standards and regulatory requirements has been reported in the "Statement of Directors' Responsibility" section 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 for external purposes has been done in accordance with relevant accounting principles & regulatory requirements.	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 under "Directors' Statement on Internal Controls".
10 (2)(c)	The external auditor's certification on the effectiveness of the internal control mechanism referred to in 10(2)(b) above, in respect of any statements prepared or published from the date of this Direction.	The company has disclosed that the external auditors have considered the effectiveness of the internal controls relevant to the company's preparation of its financial statements that give a true and fair view in order to design appropriate audit procedures.
10 (2)(d)	Details of directors, including names, transactions with the company	Details of the directors are disclosed in the annual report. The Directors' transactions with the company and their remuneration have been disclosed in Note No: 36 in the Notes to the Financial Statements.
10 (2)(e)	Fees/remuneration paid by the company to the directors in aggregate.	This has been disclosed in Note No: 36 in the Notes to the Financial Statements in the annual report.
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.	As per Note No: 36 in the Notes to the Financial Statements in the annual report, there are no accommodations outstanding in respect of any related parties.
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	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.	The Statement of Directors' Responsibilities 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.	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 Corporate Governance Directions in the annual corporate governance reports published from the date of this Direction.	The Board has obtained the auditor's factual findings report in this regard.

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		
A) Directors		
A.1. The Board:- Every public company should be headed by an effective Board, which should direct, lead and control the company		
A.1.1.	The Board should meet regularly, at least once every quarter in a financial year	During the year, the Board met 13 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 32 to 33.
	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 40 to 44.
	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 88 to 93 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 146 subscribes to this fact.
	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.

Corporate Governance Disclosures

Ref No:	Guiding Principle	Degree of Compliance
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, 2 qualified accountants who provide the necessary financial acumen and guidance on matters of finance to the Board. Further, there are also 3 experienced bankers on the Board.
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.

Ref No:	Guiding Principle	Degree of Compliance
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 2 Independent Non-Executive Directors and amounts to more than one third of the no. of Non-Executive Directors in 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
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 140 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.
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.

Corporate Governance Disclosures

Ref No:	Guiding Principle	Degree of Compliance
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 day 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.
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 page 30.

Ref No:	Guiding Principle	Degree of Compliance
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 135 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 143 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.
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.

Corporate Governance Disclosures

Ref No:	Guiding Principle	Degree of Compliance
B.2.4.	The performance-related elements of remuneration of ExecutiveDirectors 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 does 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 143 The remuneration policy has been set out in page 135 The aggregate remuneration has been set out in page 195.
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.
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.

Ref No:	Guiding Principle	Degree of Compliance
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.
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 140 to 143 for the Annual Report of the Board of Directors and page 131 for the Directors' Statement on Internal Controls.

Corporate Governance Disclosures

Ref No:	Guiding Principle	Degree of Compliance
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 140 to 143. The statement issued by the Auditors is in page146. The Statement of Directors' Responsibilities is in page 139. The Statement on Internal Controls is in page 131.
D.1.4.	Annual Report should contain a Management Discussion & Analysis	The Management Discussion & Analysis is from page 60 to 101.
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 140 to143 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 194 to 197.
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 132 to 133 and the Integrated Risk Management Committee report in page 138.
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
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, page 142 and the Statement of Internal Control in page 131.
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 two 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.

Ref No:	Guiding Principle	Degree of Compliance
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 132 to 133.
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 page 140 to 143.
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.
Section 2		
Shareholders		
E.	**Institutional Investors**	
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.**	
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.

Corporate Governance Disclosures

Ref No:	Guiding Principle	Degree of Compliance
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 Capital" in page 60 to 63 and "Economic Contribution" in page 89.
G.1.2.	The environment	Refer "Environmental Contribution" in page 92 to 93.
G.1.3.	Labour practice	Refer "Human Capital" in page 76 to 84.
G.1.4.	Society	Refer "Creating Sustainable Value" in page 88 to 93
G.1.5.	Product responsibility	Refer "Customer Capital" in page 64 to 72.
G.1.6.	Stakeholder identification, engagement and effective communication	Refer "Stakeholder Identification & Engagement" in page 40 to 44.
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 09.

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 process in reviewing the design and operating effectiveness of the system of internal controls with regard to financial reporting including the following:

- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of Company's daily operations and that the Company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Unit of the Company checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on branches and other 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 evaluate 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 132.
- In assessing the internal control system, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn were observed and checked by the Internal Audit Unit for suitability of design and effectiveness on an ongoing basis.
- Comments made by the External Auditors in connection with further improvements to the internal control system had been adequately addressed in a written response from the Management. The improvements pointed 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 given their certification on the effectiveness of internal controls of the company.

By order of the Board,

(Sgd.)
A K Pathirage
Chairman

(Sgd.)
N H G Wijekoon
CEO / Director

29th June 2017

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 (Retired on 07/07/2016)

Mr. S N P Palihena - Independent Non-Executive Director (Retired on 02/12/2016)

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 and proposed remuneration pertaining to the External Auditors. The reappointment of external auditor Messrs Ernst & Young for the next financial year is recommended subject to the approval of the Shareholders at the AGM.

Internal Audits

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

Meetings

The audit committee met eleven times during the year 2016/17. 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 (Retired on 07/07/2016	Non-Executive Director	4/4
Mr. S N P Palihena (Retired on 02/12/2016)	Non-Executive Director	8/8

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

29th June 2017

Report of the IT Steering Committee

Terms of Reference

Purpose:

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

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 L E Corea - Independent Director

Mr. N H G Wijekoon - Director/CEO

Ms. I N B P Fernando - COO

Mr. Vindya Solangarachchi - Group IT Head

Invitees:

Channa De Silva – Head of IT – Softlogic Finance PLC

Terms of Reference:

- Monitor the good governance of the IT Strategic Plan for Softlogic Finance PLC.
- Guide, review and approve any new IT investments.
- Guide/ monitor and review the automation of highly robust IT solutions which drives the business of the company.
- Overlook issues/ concerns brought before the Steering Committee to ensure proper solutions are provided.
- Review all modifications / enhancements periodically done into the system
- Guide on IT general applications and data base controls.
- Monitor service levels set on daily helpdesk activities by the IT department.
- Review, recommend and approve the company's IT Policy/ Procedures.
- Report to the Board, IT strategy matters and promote best practices on IT procedures.

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

29th June 2017

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 preclude 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

29th June 2017

Related Party Transactions Review Committee Report

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	Non-Executive Director	Member
Mr. D.T.C. Soza	Independent Non-Executive Director	Member
Mr. B.H.S. Jayawardena (retired from 07/07/2016)	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.

- 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 asses all aspects of proposed related party transactions and where necessary, they should obtain appropriate professional and expert advice from an appropriately qualified person.

- 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.

- 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 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.

Policies and Procedures

The company identifies all persons and entities who are to be recognized 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 four occasions.

Related Party Transactions during the 2016/17 Financial Year

During the year under review, there was one non-recurrent related party transaction that surpassed the thresholds specified in Section 9 of the Listing Rules.

The date of the transaction was 29th December 2016. There was a sale and transfer of land and premises bearing Assessment No: 27, De Fonseka Road, Colombo 04 containing in extent Thirty Seven Perches to Softlogic Properties (Private) Limited, which is the related party. The relationship between the company and the related party is that both Softlogic Finance PLC and Softlogic Properties (Private) Limited are subsidiaries of Softlogic Holdings PLC. The amount of the transaction was Rupees Three Hundred and Fifty One Million Five Hundred Thousand (Rs. 351,500,000), which exceeds 10% of the equity of the company as per the Audited Financial Statements for the year ended 31st March 2016.

The rationale for entering into the transaction is that the sale of land and premises owned by the company to Softlogic Properties (Private) Limited is to develop an apartment project to sell by Softlogic Properties (Private) Limited, which has the expertise in property development.

The Related Party Transactions Review Committee of the company is of the view that the transaction is on normal commercial terms and is not prejudicial to the interests of the company and its minority shareholders and a valuation has been obtained from Messrs. P.B. Kalugalagedara, Chartered Property Valuer, in this regard. The company has not entered into any related party transaction with Softlogic Properties (Private) Limited prior to this transaction.

This particular related party transaction and the other related party transactions entered into by the company during the year 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 transactions falling within the scope of the Listing Rules, other than the transaction that has been expressly stated above, were entered into by the company during the year under review.

[Sgd]
Mr. C J E Corea
Chairman
Related Party Transactions Review Committee

29th June 2017

Report of the Integrated Risk Management Committee

The Board has delegated its authority to the Integrated Risk Management committee which is responsible for the development and monitoring of the 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 H K M Perera – Non-Executive Director (Chairman)

Mr S N P Palihena - Independent Non-executive Director (Retired on 02/12/2016)

Mr N H G Wijekoon - Director/CEO

Mr B H S Jayawardena - Non-Executive Director (Retired on 07/07/2016)

Mr T M I Ahamed – Non-Executive Director

Mr D T C Soza - Independent Non-Executive Director

(Sgd.)
H K M Perera
Chairman
Board Integrated Risk Management Committee

29th June 2017

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 146.

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 147 to 199 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

29th June 2017
Colombo

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 2017.

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 lease and hire purchase facilities, group personal loans, business loans, SME loans, gold loans, other credit facilities, vehicle hiring, and acceptance of deposits, real estate sales and operation of savings accounts.

A review of the business of the Company and its performance during the year with comments on the financial results, future strategies and prospects are contained in the Chairman's Message on pages 16-19.

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

Financial Statements

The complete financial statements of the Company prepared in accordance with 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 147-199.

Summarized Financial Results

	2016/17 Rs. '000	2015/16 Restated Rs. '000
Total operating income	2,020,610	2,078,092
Profit before income tax	461,574	90,581
Income tax expense	96,774	17,438
Net profit for the year	364,800	73,142

Auditors' Report

The Report of the Auditors on the Financial Statements of the Company is given on page 146.

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 151-163. Figures pertaining to the previous periods have been re-stated where necessary to conform to the presentation for the year under review.

Directorate

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on page 30.

Executive Directors

Mr. G L H Premaratne - Deputy Chairman

Mr. N H G Wijekoon - Director/CEO

Non-Executive Directors

Mr. A K Pathirage - Chairman

Mr. B H S Jayawardena – Director (ceased to be a director w.e.f. 7th July 2016)

Mr. C J E Corea - Director*/**

Mr. D T C Soza - Director*

Mr. S N P Palihena - Director* (resigned w.e.f. 2nd December 2016)

Mr. T M I Ahamed - Director

Mr. H K M Perera – 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

Messrs. T M I Ahamed and H K M Perera who were Executive Directors of the Company, were performing as Non-Executive Directors w.e.f. 27th October 2016. The approval has been granted by the Central Bank of Sri Lanka for the said change in terms of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011.

Mr. Aaron Russell-Davison was appointed as a Non-Executive Non-Independent Director to the Board w.e.f. 27th June 2017. In terms of Article 97 of the Articles of Association of the Company, Mr. Russell-Davison retires and being eligible, offers himself for re-election.

In terms of Articles 91 and 92 of the Articles of Association of the Company, Mr. C J E Corea and Mr. D T C Soza retire by rotation and being eligible, offer themselves for re-election.

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 2017 and 31 March 2016 are as follows:

	Shareholding as at 31/03/2017	Shareholding as at 31/03/2016
Mr. A K Pathirage	228,000	228,000
Mr. G L H Premaratne	Nil	Nil
Mr. N H G Wijekoon	13,118	13,118
Mr. T M I Ahamed	Nil	Nil
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 40,509,081 shares (68.58%) as at 31 March 2017. Messrs A K Pathirage and G L H Premaratne are also Directors of Softlogic Holdings PLC which held 779,969 shares (1.32%) in Softlogic Finance PLC as at 31 March 2017.

Remuneration of Directors

The Directors' remuneration is disclosed under transactions with key managerial personnel in Note 36.1.1 to the Financial Statements on page 195.

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, except for the following. The Company has complied with the requirements of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions.

On 29th December 2016, the Company entered into a transaction for the sale and transfer of land and premises bearing Assessment No. 27, De Fonseka Road, Colombo 04 containing in extent 37 perches to Softlogic Properties (Private) Limited for a total consideration of Rs. 351,000,000.00 which exceeds 10% of the equity of the Company as per the audited financial statements of the Company for the financial year ended 31st March 2016.

Directors' Responsibility for Financial Reporting

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

Auditors

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

A total amount of Rs. 1,508,970 /- is payable by the Company to the Auditors for the year under review as audit fees.

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

A resolution to reappoint the Auditors and to authorize the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Stated Capital

The Stated Capital of the Company as at 31 March 2017 was Rs. 1,692,615,435/- represented by 59,070,988 ordinary shares. There was no change in the stated capital of the Company during the year under review.

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 202-204 under Investor Information.

Reserves

The movements of reserves during the year are given under the Statement of Changes in Equity on page 149.

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 172-174.

Land Holdings

The Company owns freehold land worth Rs. 150,000,000

Investments

Details of quoted and unquoted investments made by the Company as at 31 March 2017 are given in Note 14 to the Financial Statements on pages 167-168.

Donations

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

Compliance

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

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

Internal Controls

The Board has taken steps to ensure the implementation of an effective and comprehensive system of internal controls covering financial, operational and compliance controls. The Internal Auditors are responsible to review and report on the efficacy of the internal control system and other regulations and the Company's accounting and operational policies, which are subject to further review by the Audit Committee as elaborated in the report of the Audit Committee on page 132.

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 Risk Management section on pages 94-101 sets out the processes currently practiced by the Company to identify and manage the risks.

Contingent Liabilities

Except as disclosed in Note 34 to the Financial Statements on page 193-194, 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 material circumstances have arisen as at the date of the Auditors' Report, which would require adjustment to, or disclosure in 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 (CSE), Finance Companies (Corporate Governance) Direction No. 03 of 2008, Finance Companies (Corporate Governance – Amendment) Direction No. 04 of 2008, Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013 and Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 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 104-143.

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 Directors, certain key management personnel also serve on the Integrated Risk Management Committee, IT Steering Committee and the Credit Committee. The composition of the 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

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. G L H Premaratne - Deputy Chairman

Mr. N H G Wijekoon - Director/CEO

Mr. T M I Ahamed - Executive Director

Integrated Risk Management Committee

Mr. H.K.M. Perera – Non-Executive Director (Chairman)

Mr. N H G Wijekoon - Director/CEO

Mr. T M I Ahamed – Non-Executive Director

Mr. D T C Soza - Independent Non-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 – Non-Executive Director

Mr. D T C Soza - Independent Non-Executive Director

Annual General Meeting

The Annual General meeting will be held on 16th August 2017 at the Auditorium of the Central Hospital Limited (4th Floor), No. 114, Norris Canal Road, Colombo 10 at 10.00 a.m. The Notice of the Annual General Meeting appears on page 206 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

29th June 2017
Colombo

Financial Statements

Fixed Deposits

A trusted and reliable investment solution for your hard earned cash, we provide you with an array of investment options with market leading rates to suit your individual investment choices. Backed by our extensive branch network and personalized customer service, we are well geared to become your investment partner of choice and help your money work for you.

Independent Auditor’s Report

Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

TO THE SHAREHOLDERS OF SOFTLOGIC FINANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Softlogic Finance PLC, (“the Company”), which comprise the statement of financial position as at 31 March 2017, and the statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain 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 the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Other Matter

The financial statements of Softlogic Finance PLC for the year ended 31 March 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 29 June 2016.

Report on Other Legal and Regulatory Requirements

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

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

b) In our opinion:

- we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and

- the financial statements of the Company comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

Ernst & Young

29 June 2017
Colombo

Statement of Comprehensive Income

Year ended 31 March	Notes	2017 Rs.	2016 Rs. Restated
Income		**4,312,018,690**	**4,080,598,348**
Interest income	3	**3,637,129,665**	**3,558,080,969**
Interest expenses	4	(2,291,408,431)	(2,002,506,263)
Net interest income		**1,345,721,234**	**1,555,574,704**
Fee and commission income	5	602,309,706	487,124,764
Net trading income	6	16,128,488	17,927,432
Other operating income	7	56,450,831	17,465,182
Total operating income		**2,020,610,259**	**2,078,092,082**
Impairment (charge)/ reversal for loans and other losses	8	(368,754,483)	(711,845,582)
Net Operating Income		**1,651,855,776**	**1,366,246,500**
Operating expenses	9		
Personnel costs	9.1	(441,067,262)	(499,767,998)
Depreciation of property, plant and equipment	21.1	(68,792,809)	(74,342,567)
Amortisation of intangible assets	20	(10,272,052)	(10,322,277)
Other operating expenses	9.2	(602,009,112)	(624,104,329)
Operating profit before Value Added Tax on financial services		**529,714,541**	**157,709,329**
VAT & NBT on financial services		(68,140,600)	(67,128,697)
Profit before income tax		**461,573,941**	**90,580,632**
Income tax expense	10	(96,774,054)	(17,438,285)
Profit for the year		**364,799,887**	**73,142,347**
Other comprehensive income/ (expenses)			
Other comprehensive income to be reclassified to profit or loss			
Gain/(Loss) arising on remeasuring available for sale financial investments	29	4,338,889	(50,657,400)
Gain on available for sale investment transferred to profit or loss	29	(15,115,988)	Nil
Other comprehensive income not to be reclassified to profit or loss			
Actuarial gain/(loss) on post employment benefit obligations	26	(4,026,339)	4,388,764
Gain/(Loss) arising on revaluation of land and building	29	30,000,000	58,265,408
Other comprehensive income for the year, net of tax		**15,196,562**	**11,996,772**
Total comprehensive income/(expenses) for the year		**379,996,449**	**85,139,119**
Basic earnings per share	11	6.18	1.40
Dividend per share	12	1.25	1.50

The accounting policies and notes as set out in pages 151 to 199 form an integral part of these financial statements.

Statement of Financial Position

As at 31 March	Notes	2017 Rs.	2016 Rs. Restated	2015 Rs. Restated
ASSETS				
Cash and cash equivalents	13	754,813,493	509,280,659	678,468,881
Financial investments - Available for sale	14	184,193,580	179,848,200	60,730,332
Financial investments - Held for trading		Nil	Nil	118,296,000
Financial investments - Held to maturity		Nil	Nil	1,480,769,217
Financial Investments - Loans and Receivables	15	1,777,822,416	1,985,949,858	400,000,000
Lease and hire purchase receivables	17	949,316,675	1,444,230,593	3,095,119,458
Loans and receivables	18	17,665,323,546	14,881,570,822	12,432,979,231
Other non financial assets	19	352,012,443	830,916,160	1,113,598,648
Income Tax Receivable		37,010,401	Nil	3,693,215
Deferred tax asset		Nil	29,930,147	Nil
Intangible assets	20	95,066,053	37,431,036	33,661,754
Property, plant & equipment	21	373,817,940	373,351,729	333,803,481
Total assets		**22,189,376,547**	**20,272,509,204**	**19,751,120,217**
LIABILITIES				
Due to banks	22	1,362,994,681	888,402,016	488,177,074
Due to customers	23	16,048,473,927	14,055,203,485	12,363,202,229
Other borrowed funds	24	2,308,397,150	3,188,118,082	5,093,560,167
Other non financial liabilities	25	96,902,951	83,792,108	82,817,519
Income Tax Payable		Nil	56,162,160	Nil
Retirement benefit obligations	26	16,938,596	14,855,344	14,263,852
Deferred tax liabilities	27	63,535,519	Nil	20,109,228
		19,897,242,824	**18,286,533,195**	**18,062,130,069**
SHARE HOLDERS' FUNDS				
Stated capital	28	1,692,615,435	1,692,615,435	1,404,523,150
Statutory reserve fund	29	266,020,101	193,060,124	119,267,968
Retained earnings		306,667,278	92,692,442	165,199,030
Revaluation reserve	29	88,265,408	58,265,408	Nil
Available for sale reserve	29	(61,434,499)	(50,657,400)	Nil
Shareholders' funds		**2,292,133,723**	**1,985,976,009**	**1,688,990,148**
Total liabilities and share holders' funds		**22,189,376,547**	**20,272,509,204**	**19,751,120,217**
Net assets value per share		38.80	33.62	33.23

I certify that these Financial Statements are 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. Signed for and on behalf of the Board by.

(Sgd.)
N.H.G.Wijekoon
Chief Executive Officer/Director

(Sgd.)
A.K.Pathirage
Chairman

The accounting policies and notes as set out in pages 151 to 199 form an integral part of these financial statements.

29 June 2017
Colombo

Statement of Changes in Equity

Year ended 31 March 2017	Stated capital Rs.	Retained earnings Rs.	Available for sale reserve Rs.	Revaluation reserve Rs.	Statutory reserve Fund Rs.	Total Rs.
Balance as at 01 April 2015	**1,404,523,150**	**425,844,276**	**Nil**	**Nil**	**119,267,968**	**1,949,635,394**
Adjustment on correction of error (Note 30)	Nil	(260,645,246)	Nil	Nil	Nil	(260,645,246)
Transferred to/(from) during the year	Nil	Nil	Nil	Nil	Nil	Nil
Balance as at 01 April 2015 - restated	**1,404,523,150**	**165,199,030**	**Nil**	**Nil**	**119,267,968**	**1,688,990,148**
Profit for the year as reported in the 2016 financial statements	Nil	368,960,782	Nil	Nil	Nil	368,960,782
Adjustment on correction of error (Note 30)	Nil	(295,818,435)	Nil	Nil	Nil	(295,818,435)
Restated profit for the year	Nil	73,142,347	Nil	Nil	Nil	73,142,347
Other comprehensive income for the year	Nil	4,388,764	(50,657,400)	58,265,408	Nil	11,996,772
Total comprehensive income for the year	Nil	77,531,111	(50,657,400)	58,265,408	Nil	85,139,119
Dividends paid	Nil	(76,245,543)	Nil	Nil	Nil	(76,245,543)
Issue of Shares for Convertible Debts	288,092,285	Nil	Nil	Nil	Nil	288,092,285
Transferred to/(from) during the year	Nil	(73,792,156)	Nil	Nil	73,792,156	Nil
Balance as at 31 March 2016	**1,692,615,435**	**92,692,442**	**(50,657,400)**	**58,265,408**	**193,060,124**	**1,985,976,009**
Balance as at 1 April 2016	**1,692,615,435**	**92,692,442**	**(50,657,400)**	**58,265,408**	**193,060,124**	**1,985,976,009**
Profit for the year	Nil	364,799,887	Nil	Nil	Nil	364,799,887
Other comprehensive income for the year	Nil	(4,026,339)	(10,777,099)	30,000,000	Nil	15,196,562
Total comprehensive income for the year	Nil	360,773,548	(10,777,099)	30,000,000	Nil	379,996,449
Dividends paid	Nil	(73,838,735)	Nil	Nil	Nil	(73,838,735)
Transferred to/(from) during the year	Nil	(72,959,977)	Nil	Nil	72,959,977	Nil
Balance as at 31 March 2017	**1,692,615,435**	**306,667,278**	**(61,434,499)**	**88,265,408**	**266,020,101**	**2,292,133,723**

The accounting policies and notes as set out in pages 151 to 199 form an integral part of these financial statements.

Statement of Cash Flows

Year ended 31 March	Notes	2017 Rs.	2016 Rs. Restated
Cash flows from operating activities			
Net profit before taxation		461,573,941	90,580,632
Adjustments for			
Depreciation	21.1	68,792,809	74,342,567
Amortisation of intangible assets	20	10,272,052	10,322,277
Profit on disposal of property, plant and equipment and real estate	7	Nil	(12,497,650)
(Profit)/loss from sale of vehicles & real estate	7	(52,914,133)	1,878,014
(Gain)/loss from disposal of available for sale investments	6	(15,115,988)	Nil
Gain from remeasuring investments held for trading		Nil	(12,879,000)
Impairment charge bad and doubtful debts	8	368,754,483	711,845,582
Provision for defined benefit plans	26	5,323,680	6,643,902
Interest expenses	4	2,291,408,431	2,002,506,266
Exchange loss on FMO loan	9.2	15,670,800	18,340,000
Operating profit before working capital changes		**3,153,766,074**	**2,891,082,590**
Decrease in lease and hire purchase receivables		486,538,999	1,614,385,236
Increase in loans & receivables		(3,049,254,496)	(2,884,558,915)
(Increase)/Decrease in financial investments - Loans and Receivables		208,127,442	(1,585,949,858)
Decrease in financial investments - Held for maturity		Nil	1,480,769,217
Increase in financial investments - Available for sale		(6,491)	(38,600,268)
(Increase)/Decrease in other non financial assets		(44,658,352)	32,538,620
Increase in amounts due to customers		1,993,270,442	1,692,001,256
Increase in other non financial liabilities		13,110,843	974,592
Cash generated from operations		**2,760,894,461**	**3,202,642,471**
Interest paid		(2,291,408,431)	(2,002,506,266)
Taxes paid		(96,480,948)	(7,622,285)
Defined benefit plan costs paid		(7,266,767)	(1,663,646)
Proceeds from sale of vehicles & real estate		481,598,410	8,891,224
Net cash generated from operating activities		**847,336,724**	**1,199,741,497**
Cash flows from investing activities			
Purchase of property, plant and equipment	21.1	(34,595,287)	(68,742,767)
Purchase of intangible assets	20	(72,570,801)	(14,091,559)
Proceeds from disposal of property, plant and equipment		Nil	25,615,008
Net cash used in investing activities		**(107,166,088)**	**(57,219,317)**
Cash flows from financing activities			
Dividends paid	12	(73,838,735)	(76,245,543)
Proceeds from bank loans		1,300,000,000	1,258,888,820
Repayment of bank loans and lease		(974,200,140)	(832,084,294)
Proceeds from securitization loan		500,000,000	Nil
Repayment of other borrowed funds		(1,395,391,732)	(1,635,689,800)
Net cash (used in) / generated from financing activities		**(643,430,607)**	**(1,285,130,817)**
Net Increase/ (decrease) in cash and cash equivalents		96,740,029	(142,608,637)
Cash and cash equivalents at the beginning of the year		295,225,170	437,833,807
Cash and cash equivalents at the end of the year		**391,965,199**	**295,225,170**
Reconciliation of cash and cash equivalents			
Cash, bank balance and short term investments	13	754,813,493	509,280,659
Bank overdrafts	22	(362,848,294)	(214,055,489)
		391,965,199	**295,225,170**

The accounting policies and notes as set out in pages 151 to 199 form an integral part of these financial statements.

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 22 January 2009.

1.2 Principal activities and nature of operations

During the year, the principal activities of the Company were granting specialised business loans, regular business loans, vehicle and machinery loans, personal financing, leasing and hire purchase and fund mobilisation.

1.3 Parent enterprise and ultimate parent enterprise

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

1.4 Date of authorisation for issue

The Financial Statement of Softlogic Finance PLC for year ended 31 March 2017 was authorized for issue in accordance with a resolution of the Board of Directors dated 29 June 2017.

1.5 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of these Financial Statements of the Company and the Group as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of compliance

The financial statements of the company, as at 31 March 2017 and for the year then ended, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKAS), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the companies act No. 07 of 2007.The financial statements of the Company have been prepared on a historical cost basis, unless otherwise indicated.

2.2 Functional and presentation currency

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

2.3 Comparative information

The financial statements provide comparative information in respect of the previous period. An additional statement of financial position as at 01 April 2015 is presented in these financial statements due to the correction of an error retrospectively.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year. Previous year's figures and phrases have been re-arranged whenever necessary to conform to current presentation.

2.4 Presentation of Financial Statements

The assets and liabilities of the Company in the Statement of Financial Position are grouped by nature and listed in order that reflects their relative liquidity. An analysis regarding recovery within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 37 (Current & Non-Current analysis of Assets & Liabilities). No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position of the company only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss of the Company unless required or permitted by any accounting standard or interpretation thereon.

2.5 Materiality & Aggregation

In compliance with Sri Lanka Accounting Standards - LKAS 01 on "Presentation of Financial Statements", each material class of similar items are presented separately in these Financial Statements. Items of dissimilar nature or functions are presented separately unless they are immaterial.

2.6 Sri Lanka Accounting Standards issued but not yet effective as at 31st March 2017

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

SLFRS 9 – Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 15 – Revenue from contracts with customers

Sri Lanka Accounting Standard SLFRS 15 – (Revenue from Contracts with Customers) establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including Sri Lanka Accounting Standard LKAS 18 – (Revenue), Sri Lanka Accounting Standard LKAS 11 – (Construction Contracts) and IFRIC 13 (Customer Loyalty Programmes). Sri Lanka Accounting Standard SLFRS 15 – (Revenue from Contracts with Customers) is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

SLFRS 16 – Leases

Sri Lanka Accounting Standard SLFRS 16 – Leases provides a single lessee accounting model, requiring leases to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value even though lessor accounting remains similar to current practice. Those currently classified as operating leases will create on balance sheet long-term asset and lease creditor. This supersedes: Sri Lanka Accounting Standard LKAS 17 – Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC 15 Operating Leases - Incentives; and SIC 27 Evaluating the substance of Transactions Involving the legal form of a lease. Earlier application is permitted for entities that apply Sri Lanka Accounting Standard SLFRS 15 –Revenue from Contracts with Customers. Sri Lanka Accounting Standard SLFRS 16 – Leases is effective for annual reporting periods beginning on or after 1st January 2019.

The following amendments and improvements are not expected to have a significant impact on the Company's financial statements.

LKAS 7 Disclosure Initiative – Amendments to LKAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Company.

LKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to LKAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

SLFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to SLFRS 2

The Institute of Chartered Accountants issued amendments to SLFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

2.7 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Further, management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

Accounting judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key significant accounting judgements, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in respective notes.

Going concern

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

Impairment Losses on Lease and Hire Purchase Receivables and Loans and Receivables

The Company reviews it's individually significant Leases, Hire Purchase, Loans and Receivables at each reporting date to assess whether an impairment loss should be recorded in the Statement of profit or loss. In particular, management judgement is required in the estimation of the amount and timing of future cash flow when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ from the estimate, resulting in future changes to the allowance.

Leases, Hire Purchase, Loans and Receivables that have been assessed individually and found not to be impaired and all insignificant Leases, Hire Purchase, Loans and Receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment take account of data from the Leases, Hire Purchase, Loans and Receivables portfolio (such as level of arrears, characteristics of assets, evaluations by marketing staff etc.).

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.

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 that include the use of mathematical models. The inputs of these models are derived from observable market data where possible, but if this is not available, judgements such as discount rates, default rate assumptions, etc. is required to establish fair values.

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.

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.

Significant Accounting Policies

Useful life-time of the property, plant and equipment and intangible assets

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 estimation uncertainty.

Defined benefit plans

The cost of the post-employment benefit obligation is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates and expected future salary increment rate of the Company. (Refer Note 26)

Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Unless the probability of occurrence is remote, contingent liabilities are not recognised in the statement of financial position but are disclosed in the statement of financial position. (Refer Note 34)

2.8 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements of the Company, unless otherwise indicated. The accounting policies have been consistently applied by the Company where applicable.

2.8.1 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.

2.8.2 Taxation

2.8.2.1 Current Taxes

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.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2.8.2.2 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.

2.8.2.3 VAT on financial services

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

2.8.3 Financial instruments – initial recognition and subsequent measurement

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial assets instruments are recognised initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss according to Sri Lanka Accounting Standard (LKAS 39) - "Financial Instruments: Recognition and measurement".

Transaction costs in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through Statement of profit or loss.

In respect of financial assets and liabilities held at fair value through profit or loss, any changes in fair value from the trade date to settlement date are accounted in the Statement of profit or loss, while for available-for-sale financial assets, any changes in fair value from the trade date to settlement date are accounted in the other comprehensive income.

2.8.3.1 Recognition Initial measurement of financial instruments

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.

2.8.3.2 Classification and Subsequent measurement of Financial assets

At inception a financial asset is classified in one of the following categories:

- Financial investments at fair value through profit or loss
  - Financials investments held for trading
  - Financials investments designated at fair value through profit or loss
- Loans and receivables
- Held to maturity financial assets
- Available-for-sale financial assets

The subsequent measurement of financial assets depends on their classification.

a. Financial assets at fair value through profit or loss

A financial investment is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

Financial Assets Held for Trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short term profit or position taking.

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'net gain/ (loss) from trading'.

The Company evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets.

Financial assets held for trading include instruments such as government securities. that have been acquired principally for the purpose of selling or repurchasing in the near term.

Financial Assets Designated at Fair Value through Profit or Loss

The Company designates financial assets as fair value through profit or loss when;

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the assets on a different basis.
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The asset contains one or more embedded derivatives which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets designated at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'net gain / (loss) on financial investments held for trading' in the Statement of profit or loss. Interest earned or incurred is accrued in 'interest income' using the Effective Interest Rate (EIR), while dividend income is recorded in other operating income when the right to the payment has been established.

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

b. Loans and receivables

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

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Company, upon initial recognition, designates as available-for-sale.
- Those for which the Company may not recover substantially all of its initial investment, other than due to 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 amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'interest income' in the Statement of profit or loss. The losses arising from impairment are recognised in 'impairment charge for loans and advances, Lease and Hire Purchase financial assets' in the Statement of profit or loss. Loans and advances, lease rentals receivables & stock out on hire and other financial assets are classified as loans and receivables.

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.

Unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the Statement of profit or loss in Impairment losses on financial investments and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognised in profit or loss. Dividends earned whilst holding available for sale financial investments are recognised in the Statement of profit or loss as 'other operating income' when the right to payment has been established.

2.8.3.3 Classification and Subsequent Measurement of Financial Liabilities

At inception, a financial liability is classified in one of the following categories:

- Financial liabilities at fair value through profit or loss
  - Financial liabilities held for trading
  - Financial liabilities designated at fair value through profit or loss
- At amortized cost

The subsequent measurement of financial liabilities depends on their classification.

Financial Liabilities at Amortized Cost

Financial liabilities issued by the Company that are not designated as fair value through profit or loss are classified as liabilities under 'due to banks', 'due to customers' and 'other borrowed funds' as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity, under conditions that are potentially unfavorable to the entity or settling the obligation by delivering variable number of entity's own equity instruments.

After initial recognition, such financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortization is included in 'interest expenses' in the Statement of profit or loss. Gains and losses are recognised in the Statement of profit or loss when the liabilities are derecognized.

2.8.3.4 Reclassification of financial instruments

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Statement of profit or loss.

The Company may reclassify a non–derivative trading asset out of the 'held for trading' category and into the 'Loans and Receivable' category if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the discretion of management, and is determined on an instrument by instrument basis.

2.8.3.5 Derecognition of financial assets and financial liabilities

(i) Financial assets

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

- The rights to receive cash flows from the asset have expired or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
  - The Company has transferred substantially all the risks and rewards of the asset

    or
  - The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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

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

(ii) Financial liabilities

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

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

Significant Accounting Policies

2.8.4 Impairment of financial assets

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

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

Loans & receivables that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and receivables in groups of assets with similar risk characteristics. This is to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effect of which are not yet evident. The collective assessment takes into account data from the loan portfolio such as, loan ownership types, levels of arrears, industries etc.

a. Financial assets carried at amortised cost- Lease and Hire Purchase / Loans and Receivables

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.

Individually assessment of impairment

The Company first assess individually whether objective evidence of impairment exists for financial assets that are individually significant

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

- Known cash flow difficulties experienced by the borrower
- Past due contractual payments of either principal or interest
- Breach of loan covenants or conditions
- The probability that the borrower will enter bankruptcy or other financial realizations, and
- Legal action instigated against the borrower.

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.

Collective assessment of impairment

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

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.

b. Write off of loans and receivables

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

c. 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.

2.8.5 Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks of losses on financial assets. The collateral comes in various forms such as cash, securities, real estate, gold and other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and subsequently as and when required.

2.8.6 Reversals of impairment

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

2.8.7 Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a current enforceable legal right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.8.8 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their average quoted market price or average dealer price quotations without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist and other relevant valuation models.

2.8.9 Property, plant and equipment and Intangible assets

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

Significant Accounting Policies

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. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

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.

Intangible assets

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

Useful Life of intangible assets

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

2.8.10 Impairment of non-financial assets

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

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimate the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of profit or loss.

2.8.11 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 consist of cash in hand, deposits in banks net of outstanding bank overdrafts and reverse repurchase agreements. Investments with short maturities i.e. those having original maturities of three months or less from the date of acquisition are also treated as cash equivalents.

2.8.12 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 and at the value of related asset extinguished for vehicles repossessed.

c. Repossessed vehicles

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

2.8.13 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 recognized as an interest expense. The expense relating to any provision is presented in the Statement of profit or loss net of any reimbursement.

2.8.14 Defined benefit plans – gratuity

All the employees of the Company are eligible for gratuity under the Payment 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 as at 31 March 2017.

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.

Employees those who have resigned or whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable to the last month in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

The gratuity liability is not externally funded.

2.8.15 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.

2.8.16 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 (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

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

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 and available for sale 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.

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. Revenue from the real estate sale is recognised when the significant risks and rewards of ownership of the property have passed to the buyer.

Accounting for overdue charges

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

Dividend Income

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

2.8.17 Recognition of 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.

2.8.18 Statement of cash flows

The Cash flow statement is prepared using the indirect method, as stipulated in LKAS 7 – "Statement of Cash Flows". Cash and cash equivalents comprise cash in hand, cash at bank, bank overdraft, placement with banks (with original maturity of three months or less) and investment in reverse repurchase agreements.

2.8.19 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.

Notes to the Financial Statements

Year ended 31 March	2017 Rs.	2016 Rs. Restated
3 INTEREST INCOME		
Interest income from lease and hire purchase		
Finance leasing	125,781,153	264,739,079
Hire purchases	235,226,920	365,423,143
Interest income from loans and advances		
Personal loans	565,183,041	742,455,988
Gold loans	165,937,905	112,369,615
Revolving loans	170,290,325	114,006,003
SME loans	2,079,956,672	1,705,570,574
Consumer loans	14,666,305	55,848,066
Educational Loan	732,573	Nil
Other lending & investments	279,354,769	197,668,502
	3,637,129,665	**3,558,080,969**

Year ended 31 March	2017 Rs.	2016 Rs.
4 INTEREST EXPENSES		
Due to customers		
Interest on time deposits	1,849,032,372	1,445,129,299
Interest on certificate of deposits	Nil	782,111
Interest on savings deposits	3,950,665	5,060,461
Due to banks		
Interest on bank borrowings	122,298,895	75,394,395
Interest on finance lease	626,018	501,713
Other borrowed funds		
Interest on securitisation	54,672,379	6,637,338
Interest on commercial papers	26,559,832	195,156,343
Interest on debentures	234,268,270	273,844,605
	2,291,408,431	**2,002,506,263**
5 FEE AND COMMISSION INCOME		
Documentation & processing fees	105,825,341	124,258,290
Upfront fee on SME Loans	485,080,019	351,373,020
Sundry income	11,404,346	11,493,454
	602,309,706	**487,124,764**
6 TRADING INCOME		
Dividend income	1,012,500	5,048,432
Gain on disposal of investment in unit trust	15,115,988	Nil
Gain from remeasuring investments held for trading	Nil	12,879,000
	16,128,488	**17,927,432**
7 OTHER OPERATING INCOME		
Profit on disposal of property, plant and equipment	Nil	12,497,650
Profit / (Loss) from sale of real estates	53,753,789	(8,776)
Profit/(Loss) from sale of vehicles	(839,656)	(1,869,238)
Income on hire	3,536,698	5,699,486
Capital gain on treasury bonds	Nil	1,146,060
	56,450,831	**17,465,182**

8 IMPAIRMENT CHARGE/(REVERSAL) FOR LOANS AND OTHER LOSSES

Year ended 31 March	2017	2016
	Rs.	Rs.
		Restated
Collective Impairment		
Lease	9,404,286	55,914,950
Hire purchase	9,941,727	98,058,029
SME & Other Loans	85,885,003	226,815,366
Personal Loans	105,972,551	152,176,026
	211,203,568	**532,964,372**
Specific Impairment		
Lease	Nil	1,763,487
Hire purchase	Nil	8,811,757
Revolving loans	(17,961,088)	19,672,622
Consumer Loans	1,077,099	8,418,382
Share Loans	3,132,342	30,573,441
Gold loans	667,451	(1,688,512)
Other charges receivables	3,635,010	25,996,203
Bad debt recoveries	(72,067,028)	(128,044,598)
	(81,516,214)	**(34,497,218)**
Bad Debt Written offs		
Unrecovered balances of Repossessed Vehicles	61,095,932	213,378,428
Sundry Debtors	81,859,993	Nil
SME & Other Loans	76,448,209	Nil
Other charges receivables	8,715,339	Nil
Consumer Loans	3,409,697	Nil
Revolving loans	7,537,960	Nil
	239,067,129	213,378,428
	368,754,483	**711,845,582**

Year ended 31 March	2017	2016
	Rs.	Rs.
9 OPERATING EXPENSES		
Operating expenses include the following;		
9.1 Personnel Costs		
Defined contribution plan costs - EPF & ETF	42,076,048	39,990,431
Defined benefit plan costs	5,323,680	6,643,902
Directors' remuneration	37,591,900	33,182,329
Other staff related expenses	356,075,634	419,951,336
	441,067,262	**499,767,998**
9.2 Other Operating Expenses		
Auditors' remuneration	1,508,970	1,029,971
Secretarial fees	1,858,798	1,614,730
Exchange loss on FMO loan	15,670,800	18,340,000
Other overhead expenses	582,970,544	603,119,628
	602,009,112	**624,104,329**

Notes to the Financial Statements

Year ended 31 March	2017 Rs.	2016 Rs. Restated
10 INCOME TAX		
The major components of income tax expense for the years ended 31 March are as follows :		
Current income tax		
Current income tax charge	97,883,667	71,649,265
Over Provision of prior year	(94,575,279)	(4,171,605)
Deferred income tax		
Deferred taxation charge/(reversal)	93,465,666	(50,039,375)
Income tax expense reported in the statement of comprehensive income	**96,774,054**	**17,438,285**
10.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows :		
Accounting profit before income tax	**461,573,941**	**90,580,632**
At the statutory income tax rate of 28%	**129,240,703**	**25,362,577**
Tax effect of Deductible expenses and allowable credits	(149,381,195)	(146,159,104)
Tax effect of Non deductible expenses	49,416,846	93,902,331
Tax effect of Lease Capital generation	68,607,313	98,543,461
Adjustment of taxes in respect of prior years	(94,575,279)	(4,171,605)
Deferred tax charge/ (reversal)	93,465,666	(50,039,375)
	96,774,054	**17,438,285**
Effective tax rate (%)	**20.97%**	**19.25%**
Effective tax rate (excluding deferred tax) (%)	**21.21%**	**79.10%**
Accounting profit before tax on financial services	**529,714,541**	**157,709,329**
Effective tax rate (%)	**18.27%**	**11.06%**
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.		
Net profit for the year	364,799,888	73,142,350
Number of ordinary shares used as the denominator		
Weighted average number of ordinary shares	59,070,988	52,388,179
Basic earnings per share	**6.18**	**1.40**

Year ended 31 March	2017 Rs.	2016 Rs.
12 DIVIDENDS PAID		
Paid during the year	73,838,735	76,245,543
Dividends on ordinary shares:	**73,838,735**	**76,245,543**
Dividend per share	**1.25**	**1.50**

Year ended 31 March	2017	2016
	Rs.	Rs.
13 CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	427,658,645	436,305,737
Other deposits and investments - original maturity less than 3 months	327,154,849	72,974,922
	754,813,493	**509,280,659**
14 FINANCIAL INVESTMENTS- AVAILABLE FOR SALE		
Equity securities at fair value - Quoted (Note 14.1)	84,862,980	80,517,600
Equity securities at fair value - Unquoted (Note 14.2)	99,330,600	99,330,600
	184,193,580	**179,848,200**

14.1 Equity securities -Quoted

	No of Shares 31 March 2017 Rs.	Cost of investment 31 March 2017 Rs.	Market value 31 March 2017 Rs.	No. of shares 31 March 2016 Rs.	Cost of investment 31 March 2016 Rs.	Market value 31 March 2016 Rs.
National Development Bank	607,901	69,023,479	84,862,980	477,000	53,901,000	80,517,600

14.1.1 Reclassification of financial assets at fair value through profit or loss (FVTPL) to available-for-sale (AFS)

The Company reclassified their investments in National Development Bank PLC (NDB) equity shares into Available For Sale (AFS) from financial assets in the Fair Value Through Profit or Loss (FVTPL) category on 31 July 2015 as approved by the Board of Directors, who resolved that the investments would no longer be held for the purpose of sale in the near term. This decision was taken after considering the potential synergies between the NDB and companies in the Softlogic Group, and taking in to account the strategic intent of the holding.

Details of amount reclassified from financial assets at Fair Value Through Profit or Loss (FVTPL) to Available for Sale (AFS) at 31 July 2015 is as follows.

	Rs.
Total Value of Reclassification	131,175,000

Fair value gains recorded in the Statement of Comprehensive Income, at the beginning of the financial period, at the date of the reclassification and at the financial period end are given bellow;

	Fair Value/ Carrying Value Rs.	Impact on Income Statement Rs.	Impact on Comprehensive Income Rs.
As at 01 April 2015	118,296,000	Nil	Nil
As at 31 July 2015	131,175,000	12,879,000	Nil
As at 31 March 2016	80,517,600	Nil	(50,657,400)
As at 31 March 2017	84,862,980	Nil	(10,777,099)

Fair value loss of Rs. 50.66 million for the year ended 31 March 2016 and Rs.10.78 million for the year ended 31 March 2017 would have been recognised in the income statement if financial assets at fair value through profit or loss (FVTPL) had not been reclassified in to available-for-sale.

Notes to the Financial Statements

14.2 Equity securities - Un quoted

	No of Shares 31 March 2017 Rs.	Cost of investment 31 March 2017 Rs.	Market value 31 March 2017 Rs.	No of shares 31 March 2016	Cost of investment 31 March 2016 Rs.	Market value 31 March 2016 Rs.
Cargills Agriculture and Commercial Bank Ltd	7,400,000	99,300,000	99,300,000	7,400,000	99,300,000	99,300,000
Credit Information Bureau	100	30,600	30,600	100	30,600	30,600
	7,400,100	**99,330,600**	**99,330,600**	**7,400,100**	**99,330,600**	**99,330,600**

Year ended 31 March	2017 Rs.	2016 Rs.
15 FINANCIAL INVETSMENTS-LOANS AND RECEIVABLES		
Fixed Deposits (original maturity greater than 3 months)	139,001,017	275,581,049
Repo Investments	1,638,821,400	1,710,368,809
	1,777,822,416	**1,985,949,858**

16 The company modified the classification of fixed deposits and repo investments for better presentation purposes to reflect more appropriately the investments held by the company for investment purposes. Comparative amounts in the Statement of Financial Position were restated for consistency. As a result, Rs. 1,777,822,416 was reclassified from 'cash and cash equivalents' to 'financial investments-loans and receivables'.

Year ended 31 March	2017 Rs.	2016 Rs. Restated
17 LEASE AND HIRE PURCHASE RECEIVABLES		
Gross investment in leases & hire purchases	1,372,285,252	1,898,435,356
(-) Rentals received in advance	(326,046)	(1,177,300)
(-) Unearned income	(210,815,006)	(269,047,524)
Total gross investment in lease & hire purchases	1,161,144,200	1,628,210,532
(-) Allowance for specific impairment	(41,709,437)	(40,677,623)
(-) Allowance for collective impairment	(170,118,088)	(143,302,316)
Net lease and hire purchases	**949,316,675**	**1,444,230,593**
Lease & hire purchase rentals receivable within one year		
Lease & hire purchase rentals receivable within one year	1,013,517,354	1,408,000,332
(-) Unearned income	(131,311,909)	(172,911,596)
Total rentals receivable within one year	**882,205,445**	**1,235,088,736**
Lease & hire purchase rentals receivable within one to five years		
Lease and hire purchase rentals receivable within 1-5 years	358,441,852	496,325,837
(-) Unearned income	(79,503,097)	(96,135,928)
Gross rentals receivable within one to five years	**278,938,755**	**400,189,909**

Year ended 31 March		2017 Rs.	2016 Rs. Restated
17.1	**Net lease, hire purchase and loans receivables**		
	Gross investment in leases and hire purchases		
	- Leases	963,828,176	1,033,926,229
	- Hire purchase contracts	408,457,076	864,509,127
	(-) Unearned income		
	- Leases	(179,805,766)	(151,293,308)
	- Hire purchase contracts	(31,009,240)	(117,754,216)
	(-) Rentals received in advance		
	- Leases	(326,046)	(1,177,300)
	Leases net before impairment allowance	783,696,364	881,455,621
	Hire Purchase net before impairment allowance	377,447,836	746,754,911
		1,161,144,200	**1,628,210,532**
	(-) Allowance for impairment		
	(-) Allowance for specific impairment		
	- Leases	27,823,741	31,865,893
	- Hire purchase contracts	13,885,670	8,811,732
	(-) Allowance for collective impairment		
	- Leases	50,165,412	89,853,933
	- Hire purchase contracts	119,952,676	53,448,383
	Net investment in leases and hire purchases		
	- Leases	**705,707,210**	**759,735,795**
	- Hire purchase contracts	**243,609,490**	**684,494,797**
		949,316,700	**1,444,230,591**
17.2	**Movement in Impairment allowance for leases and hire purchases**		
	Balance as at the beginning of the year	**183,979,940**	**102,629,978**
	Net impairment charge for the year	119,817,723	426,005,862
	Write offs during the year	(91,970,164)	(344,655,900)
	Balance as at end of the year	**211,827,499**	**183,979,940**
	Movement in specific impairment allowance for leases and hire purchases		
	Balance as at the beginning of the year	40,677,623	26,442,244
	Net impairment charge for the year	93,001,952	272,032,857
	Write offs during the year	(91,970,164)	(257,797,478)
	Balance as at end of the year	**41,709,411**	**40,677,623**

Notes to the Financial Statements

Year ended 31 March		2017 Rs.	2016 Rs. Restated
Movement in collective impairment allowance for leases and hire purchases			
Balance as at the beginning of the year		143,302,316	76,187,733
Net impairment charge for the year		26,815,772	153,973,005
Write offs during the year		-	(86,858,422)
Balance as at end of the year		**170,118,088**	**143,302,316**

18 LOANS AND RECEIVABLE

		2017 Rs.	2016 Rs. Restated
Loans and receivable		20,143,055,009	17,690,158,101
(-) Unearned income		(1,831,992,612)	(2,207,752,325)
Gross loans and receivables		18,311,062,397	15,482,405,775
(-) Allowance for specific impairment		(212,550,619)	(263,671,097)
(-) Allowance for collective impairment		(433,188,233)	(337,163,856)
Net loans and receivable		**17,665,323,546**	14,881,570,822

18.1 Product wise analysis of loans and receivables

		2017 Rs.	2016 Rs. Restated
Short term loans receivable		Nil	Nil
Revolving loans receivable		1,054,812,746	663,798,213
Consumer loans receivable	114,827,823		
(-) Unearned income	(17,068,375)	97,759,448	107,696,393
Personal loans receivable	2,650,581,649		
(-) Unearned income	(432,907,412)	2,217,674,237	3,011,655,375
Gold loans receivable		822,790,857	610,384,558
SME & mortgage loans receivable	15,500,041,934		
(-) Unearned income	(1,382,016,825)	14,118,025,109	11,088,871,236
Allowance for impairment (Note 18.2)		(645,738,852)	(600,834,953)
		17,665,323,546	**14,881,570,822**

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

		2017 Rs.	2016 Rs. Restated
Revolving loans receivable		13,577,173	48,346,255
Consumer loans receivable		2,456,002	27,467,029
Personal loans receivable		306,233,554	197,049,052
Gold loan receivable		726,810	59,359
SME & mortgage loans receivable		322,745,312	327,913,259
		645,738,852	**600,834,953**

18.3 Movement in impairment allowance for other loans and receivables

		2017 Rs.	2016 Rs. Restated
Balance as at the beginning of the year		600,834,953	278,382,302
Net impairment charge for the year		265,501,772	571,686,834
Write offs during the year		(133,565,335)	(205,432,193)
Set offs during the year		(87,395,865)	(43,801,990)
Balance as at end of the year		**645,738,852**	**600,834,953**

	Year ended 31 March	2017 Rs.	2016 Rs. Restated
18.4	**Movement in specific impairment allowance for other loans and receivables**		
	Balance as at the beginning of the year	263,671,097	81,512,922
	Net impairment charge for the year	(2,803,991)	182,158,175
	Write offs during the year	(37,732,158)	Nil
	Set offs during the year	(10,947,656)	Nil
	Balance as at end of the year	**212,550,619**	**263,671,097**
18.5	**Movement in collective impairment allowance for other loans and receivables**		
	Balance as at the beginning of the year	337,163,856	196,869,380
	Net impairment charge for the year	268,305,763	389,528,659
	Write offs during the year	(95,833,177)	(205,432,193)
	Set offs during the year	(76,448,209)	(43,801,990)
	Balance as at end of the year	**433,188,233**	**337,163,856**
19	**OTHER NON FINANCIAL ASSETS**		
	Prepayments and other receivable (19.1)	243,570,150	348,458,393
	Vehicle stock (19.2)	25,643,568	58,694,787
	Real estate stock	82,798,724	423,762,980
		352,012,443	**830,916,160**
19.1	**Prepayments and other receivable**		
	Advance, deposits and prepayments	104,849,857	66,486,374
	Withholding Tax Receivable	51,037,451	80,918,415
	Value Added Tax (VAT)	57,874,817	34,038,097
	Nation Building Tax (NBT)	6,950,820	3,001,007
	Other receivable (19.1.1)	101,632,957	247,155,241
	Impairment for other receivable	(78,775,752)	(83,140,741)
		243,570,150	**348,458,393**
19.1.1	**Other receivable**		
	Insurance paid on behalf of customers	30,015,586	42,669,373
	Other charges receivables	45,154,015	88,024,934
	Other Receivables	26,463,356	116,460,935
		101,632,957	**247,155,241**
19.2	**Vehicle stock**		
	Trading vehicle stock	7,400,000	13,618,968
	Repossessed vehicle stock	46,618,234	107,003,981
	Impairment allowance on vehicle stock	(28,374,665)	(61,928,162)
		25,643,568	**58,694,787**

Notes to the Financial Statements

20 INTANGIBLE ASSETS

	Balance as at 01 April 2016	Additions 01 April 2016 to 31 March 2017	Disposals 01 April 2016 to 31 March 2017	Reclassifications 01 April 2016 to 31 March 2017	Balance as at 31 March 2017
	Rs.	Rs.	Rs.	Rs.	Rs.
Computer software					
Gross carrying amount	68,246,076	72,570,801	-	(5,024,535)	135,792,343
Accumulated depreciation	(30,815,040)	(10,272,052)	-	360,802	(40,726,290)
Net book values	37,431,036	62,298,750	-	(4,663,733)	95,066,053

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
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost / Revaluation								
Balance As At 01 April 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 As 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**
Additions	Nil	2,063,406	8,993,222	2,447,339	Nil	16,934,327	4,156,993	34,595,287
Reclassifications (Note 20)	Nil	Nil	5,024,535	Nil	Nil	Nil	Nil	5,024,535
Revaluations	30,000,000	Nil	Nil	Nil	Nil	Nil	Nil	30,000,000
Disposals	Nil	Nil	Nil	Nil	(709,428)	Nil	Nil	(709,428)
Balance As At 31 March 2017	**150,000,000**	**84,813,406**	**217,747,900**	**80,511,516**	**18,494,492**	**122,682,076**	**19,953,562**	**694,202,952**
Accumulated Depreciation								
Balance As At 01 April 2015	Nil	3,738,513	100,851,647	39,394,631	19,212,961	31,046,734	16,519,211	210,763,697
Charge for the year	Nil	4,374,672	35,379,233	9,962,102	2,997,813	14,057,450	7,571,277	74,342,547
Revaluations	Nil	(8,113,185)	Nil	Nil	Nil	Nil	Nil	(8,113,185)
Disposals	Nil	Nil	Nil	(387,254)	(13,246,640)	Nil	(11,418,336)	(25,052,230)
Balance As At 31 March 2016	**Nil**	**Nil**	**136,230,880**	**48,969,479**	**8,964,134**	**45,104,184**	**12,672,152**	**251,940,829**
Charge for the year	Nil	4,186,280	30,782,209	10,683,329	2,897,988	17,021,861	3,221,141	68,792,808
Reclassifications (Note 20)	Nil	Nil	360,802	Nil	Nil	Nil	Nil	360,802
Revaluations	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Disposals	Nil	Nil	Nil	Nil	(709,428)	Nil	Nil	(709,428)
Balance As At 31 March 2017	**Nil**	**4,186,280**	**167,373,892**	**59,652,808**	**11,152,694**	**62,126,045**	**15,893,293**	**320,385,012**
Net Book Value								
Balance As 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
Balance As At 31 March 2017	150,000,000	80,627,126	50,374,008	20,858,707	7,341,798	60,556,031	4,060,269	373,817,940

21 PROPERTY, PLANT AND EQUIPMENT (Contd.)

	Balance as at 01 April 2016	Additions 01 April 2016 to 31 March 2017	Revaluations 01 April 2016 to 31 March 2017	Disposals 01 April 2016 to 31 March 2017	Balance as at 31 March 2017
	Rs.	Rs.	Rs.	Rs.	Rs.
21.2 The Company fixed assets consists of below leased assets					
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	8,888,820	Nil	Nil	Nil	**8,888,820**
Office equipment	707,000	Nil	Nil	Nil	**707,000**
Total value of depreciable assets	16,817,520	Nil	Nil	Nil	**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	1,296,321	1,481,470	Nil	Nil	**2,777,791**
Office equipment	707,000	Nil	Nil	Nil	**707,000**
Total depreciation	9,222,847	**1,481,470**	**Nil**	**Nil**	**10,704,317**
Total carrying amount of leased assets	**7,594,673**	**(1,481,470)**	**Nil**	**Nil**	**6,113,203**

21.3 During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs. 34,595,287 /- (2016 - Rs. 68,742,767 /-).
Cash payments amounting to Rs. 34,595,287 /- (2016 - Rs. 59,853,947 /-) was paid during the year for purchases of Property, Plant & Equipment.

21.4 The details of freehold land and buildings which are stated at valuation are as follows:
Freehold Land

Location	Land extend	Method of Valuation	Date of the Valuation	Valuer	Significant unobservable inputs (Level 3)	Revalued Amount (Rs.)	Interrelationship between key unobservable inputs and Fair value measurements
No. 13, De Fonseka place, Colombo 4.	0A-0R-12.6P	Direct Capital Comparison method	28th Februrary 2017	Mr. G. W. G. Abeygunawardene (Chartered Valuation Surveyor)	Rs.12,500,000/- per perch	150,000,000	Positive correlated sensitivity

21.4 The details of freehold land and buildings which are stated at valuation are as follows (Contd.):

Freehold Building

Location	Square Feet	Method of Valuation	Date of the Valuation	Valuer	Significant unobservable inputs (Level 3)	Revalued Amount (Rs.)	Interrelationship between key unobservable inputs and Fair value measurements
No. 13, De Fonseka place, Colombo 4.	16,850	Direct Capital Comparison method	28th Februrary 2017	Mr. G.W.G. Abeygunawardene (Chartered Valuation Surveyor)	Rs.6,500 - Rs.8000 per square feet	81,100,000	Positive correlated sensitivity

21.5 The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation is as follows:

Class of Assets	Cost Rs.	Cumulative Depreciation if assets were carried at cost Rs.	Net Carrying Amount 2017 Rs.	Net Carrying Amount 2016 Rs.
Land	62,181,178	-	62,181,178	62,181,178
Building	92,480,006	12,883,343	79,596,663	82,157,257

Year ended 31 March	2017 Rs.	2016 Rs.
22 DUE TO BANKS		
Bank overdrafts	362,848,294	214,055,489
Bank loans (22.3)	993,847,786	666,488,591
Finance lease creditors (22.2)	6,298,601	7,857,936
	1,362,994,681	**888,402,016**

22.1 Maturity of due to banks

	2017			2016		
	Payable within one year Rs.	Payable after one year Rs.	Total Rs.	Payable within one year Rs.	Payable after one year Rs.	Total
Bank overdrafts	362,848,294	Nil	362,848,294	214,055,489	Nil	214,055,489
Bank loans (22.3)	780,360,286	213,487,500	993,847,786	327,979,091	338,509,500	666,488,591
Finance lease creditors (22.2)	1,701,384	4,597,217	6,298,601	1,559,335	6,298,601	7,857,936
	1,144,909,964	**218,084,717**	**1,362,994,681**	**543,593,915**	**344,808,101**	**888,402,016**

22.2 Finance lease creditors

	As at 31 March 2017 Rs.	Not later than 1 year Rs.	Later than 1 year and not later than 5 years Rs.
Gross liability	7,284,509	2,185,353	5,099,156
Finance charge allocated to future periods	(985,908)	(483,969)	(501,939)
Net liability	**6,298,601**	**1,701,384**	**4,597,217**

22.3

Bank Loans	Type of the loan	Amortised cost	Interest rates	Securities pledged
Bank				
Commercial Bank of Ceylon PLC	Term Loan	156,592,836	AWPLR+2.50%	Nil
Commercial Bank of Ceylon PLC	Revolving short term loan	251,009,971	15%	Nil
Hatton National Bank PLC	Term Loan	200,279,850	AWPLR+1%	Nil
Seylan Bank	Term Loan	183,575,265	AWPLR+ 2%	Mortgage over lease and hire purchase receivables for Rs.300,000,000
People's Bank	Revolving short term loan	202,389,863	AWPLR+ 4.5%	Mortgage over lease receivables for Rs.250,000,000

	2017			2016		
	Payable within one year Rs.	Payable after one year Rs.	Total Rs.	Payable within one year Rs. Restated	Payable after one year Rs. Restated	Total Rs. Restated
23 DUE TO CUSTOMERS						
Time deposits	14,008,336,208	1,986,055,112	15,994,391,320	12,461,285,795	1,521,942,995	13,983,228,789
Savings deposits	54,082,607	Nil	54,082,607	67,820,264	Nil	67,820,264
Certificate of deposits	Nil	Nil	Nil	4,154,432	Nil	4,154,432
	14,062,418,815	**1,986,055,112**	**16,048,473,927**	12,533,260,491	1,521,942,995	14,055,203,485

Year ended 31 March	2017 Rs.	2016 Rs. Restated
24 OTHER BORROWED FUNDS		
Securitization (24.2)	509,217,694	Nil
FMO Loan (24.2)	315,551,687	311,727,460
Commercial papers	Nil	860,582,454
Debentures (24.3)	1,483,627,770	2,015,808,168
	2,308,397,150	**3,188,118,082**

Notes to the Financial Statements

	2017			2016		
	Payable within one year Rs.	Payable after one year Rs.	Total Rs.	Payable within one year Rs.	Payable after one year Rs.	Total Rs.
24.1 Other borrowed funds						
Securitization	336,642,690	172,575,004	509,217,694	Nil	Nil	Nil
FMO Loan	12,080,886	303,470,800	315,551,687	Nil	311,727,460	311,727,460
Commercial papers	Nil	Nil	Nil	860,582,454	Nil	860,582,454
Debentures	18,627,770	1,465,000,000	1,483,627,770	500,000,000	1,515,808,168	2,015,808,168
	367,351,346	**1,941,045,804**	**2,308,397,150**	**1,360,582,454**	**1,827,535,628**	**3,188,118,082**

24.2 Securitizations and other bank facilities

Bank	Type of the loan	Amortised cost Rs.	Interest rates	Securities pledged
FMO Loan	Convertible Debt	315,551,687	LIBOR+7%	Nil
Bank of Ceylon-Trust 1	Securitization	509,217,694	14%	Mortgage over personal loans receivables

24.3 Debentures

Unsecured, unlisted, subordinated, redeemable debentures

	Annual interest rate	Interest payment frequency	Issued date	Maturity Date	Face Value Rs.	Amortised cost Rs.
Debentures	15.5%	Quarterly	29-Nov-13	28-Nov-18	65,000,000	69,270,144
					65,000,000	69,270,144

Listed debentures

	Annual interest rate	Interest payment frequency	Allotment date	Maturity Date	Face Value Rs.	Amortised cost Rs.
Debenture category						
Type A -	10%	Quarterly	29-Aug-14	28-Aug-19	949,870,000	959,611,341
Type B -	Three (03) Months Net Treasury Bill Rate plus 1.50%	Quarterly	29-Aug-14	28-Aug-19	450,130,000	454,746,284
					1,400,000,000	1,414,357,626
Total Debentures					**1,465,000,000**	**1,483,627,770**

Year ended 31 March	2017 Rs.	2016 Rs. Restated
25 OTHER NON FINANCIAL LIABILITIES		
Accrued expenses	7,786,676	15,383,745
Related Party Payables (25.1)	4,980,602	Nil
Other payables	84,135,673	68,408,363
	96,902,951	**83,792,108**

Year ended 31 March		2017 Rs.	2016 Rs.
25.1 Related Party Payables	**Relationship**		
Softlogic BPO Services (Pvt) Ltd	Affiliated Company	408,135	Nil
Softlogic Corporate Service (Pvt) Ltd	Affiliated Company	Nil	Nil
Nextage (Pvt) Ltd	Affiliated Company	117,742	Nil
Softlogic Life PLC	Group Company	(443,404)	Nil
Softlogic Information Technologies (Pvt) Ltd	Affiliated Company	116,434	Nil
Softlogic Stock Brokers (Pvt) Ltd	Group Company	3,993,547	Nil
Softlogic Capital PLC	Group Company	505,098	Nil
Softlogic Destination (Pvt) Ltd	Affiliated Company	110,800	Nil
Central Hospital Limited	Affiliated Company	172,250	Nil
		4,980,602	**Nil**

Year ended 31 March	2017 Rs.	2016 Rs.
26 RETIREMENT BENEFIT OBLIGATION		
At beginning of year	14,855,344	14,263,852
Current service cost	3,573,721	5,146,198
Interest cost	1,749,959	1,497,704
Transfer of liability form Group Company	768,734	Nil
Actuarial losses/(gains)	5,539,610	528,426
Gain) /losses due to changes in assumptions	(1,513,271)	(4,917,190)
Benefits paid	(8,035,501)	(1,663,646)
At end of the year	**16,938,596**	**14,855,344**
The amounts recognised in the statement of comprehensive income are as follows		
Current service cost	3,573,721	5,146,198
Interest cost	1,749,959	1,497,704
	5,323,680	**6,643,902**
Amounts recognised in the other comprehensive income are as follows		
Liability (gain) /losses due to changes in assumptions	(1,513,271)	(4,917,190)
Liability experience (gain)/losses during the year	5,539,610	528,426
	4,026,339	**(4,388,764)**

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 2017. The principal assumptions used for this purpose are as follows:

Year ended 31 March	2017	2016
Discount rate per annum	12.9%	11.8%
Annual salary increments rate	8%	8%
Retirement age	55	55

Discount Rate as at 31 March	2017	2016
	Rs.	Rs.
Effect on Retirement Benefit Obligation due to 1% increase in discount rate	(1,198,213)	(1,143,016)
Effect on Retirement Benefit Obligation due 1% decrease in discount rate	1,353,731	1,297,335

Salary Increment Rate as at 31 March	2017	2016
	Rs.	Rs.
Effect on Retirement Benefit Obligation 1% increase in Salary Increment rate	1,376,106	1,298,364
Effect on Retirement Benefit Obligation 1% decrease in Salary Increment rate	(1,236,409)	(1,162,607)

Average remaining working life of employees is 7.26 years as at 31 March 2017.

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation of the Company at the end of the financial year and include benefits attributable to estimated future employee service.

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

Year ended 31 March	2017	2016
	Rs.	Rs.
		Restated
Property, Plant & Equipment	161,744,266	136,537,577
Lease Capital Balance	82,106,896	229,666,494
Taxable Temporary Differences	243,851,163	366,204,071
Retirement Benefit Obligation	(16,938,596)	(14,855,344)
Unclaimed Impairment Provisions	Nil	(418,700,669)
Unclaimed Tax Losses	Nil	(39,541,443)
Total Taxable/(Deductible) Temporary Differences (net)	226,912,567	(106,893,385)
Applicable Tax Rate	28%	28%
Net Deferred Tax Liabilities / (Assets)	**63,535,519**	**(29,930,148)**

Deferred Tax Liabilities

	2017		2016	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
At beginning of the year	366,204,071	102,537,140	346,632,424	97,057,079
Originating/(reversing) during the year	(122,352,908)	(34,258,814)	19,571,647	5,480,061
At the end of the year	**243,851,163**	**68,278,326**	**366,204,071**	**102,537,140**
Deferred Tax Asset				
At beginning of the year	473,097,456	132,467,288	274,813,754	76,947,851
Originating during the year	(456,158,860)	(127,724,481)	198,283,702	55,519,436
At the end of the year	**16,938,596**	**4,742,807**	**473,097,456**	**132,467,288**

Net deferred tax liability/(assets)

As at 31 March	2017 Rs.	2016 Rs. Restated
At beginning of the year	(29,930,147)	20,109,228
Income statement release	93,465,666	(50,039,375)
At the end of the year	**63,535,519**	**(29,930,147)**

	2017		2016	
	Number	Rs.	Number	Rs.
28 STATED CAPITAL				
Issued and fully paid ordinary shares	59,070,988	1,692,615,435	59,070,988	1,692,615,435
No. of shares at the beginning of the year	59,070,988	1,692,615,435	50,830,362	1,404,523,150
Shares issued during the year for covertible debts (FMO Loan)	Nil	Nil	8,240,626	288,092,285
No of shares at the end of the year	**59,070,988**	**1,692,615,435**	**59,070,988**	**1,692,615,435**

29 RESERVES

	Statutory reserve fund	Revaluation Reserve	Available for sale reserve	Total
	Rs.	Rs.	Rs.	Rs.
As at 01 April 2015	119,267,968	Nil	Nil	119,267,968
Transfers during the year	73,792,156	Nil	Nil	Nil
Gain on revaluation of land and buildings	Nil	58,265,408	Nil	58,265,408
Net loss on available for sale assets	Nil	Nil	(50,657,400)	(50,657,400)
As at 31 March 2016	**193,060,124**	**58,265,408**	**(50,657,400)**	**126,875,976**
Transfers during the year	72,959,977	Nil	Nil	72,959,977
Gain on revaluation of land and buildings	Nil	30,000,000	Nil	30,000,000
Gain/(Loss) arising on remeasuring available for sale financial investments	Nil	Nil	4,338,889	4,338,889
Gain on available for sale investment transferred to profit or loss	Nil	Nil	(15,115,988)	(15,115,988)
As at 31 March 2017	266,020,101	88,265,408	(61,434,500)	234,174,842

Statutory reserve fund

Reserve fund is a statutory reserve created in compliance with the Central Bank Direction No.01 of 2003. The amount transferred is not less than 20% of the net profit after taxation.

30 CORRECTION OF ERROR RESTATEMENT NOTE

During the year Company adopted a revised methodology (impairment model) and data inputs for estimating the impairment for Loans, Leases and Hire purchase to be in compliance with Sri Lanka Financial Reporting Standards (LKAS 39). Due to the unavailability of historical information and the impracticability in assessing the related impairement adjustments as at 01 April 2015, the prior year figures were restated as at 31 March 2016.

Loans, lease and hire purchase balances were restated as at 1 April 2015 for the reconciliation difference between the sub ledger and general ledger.

The company also identified deficiencies in assessing the impairment of other non financial assets being carried forward over several years and adjusted for the corresponding amounts as at 01 April 2015 and 31 March 2016 respectively.

Deffered tax asset/liability as at 31 March 2016 has been restated for the tax effect on resulting temporary differences pertaining to additional impairement based on impairment model and an estimation error pertaining to the deferred tax liability.

	As at 31 March 2016 Rs.	As at 01 April 2015 Rs. Restated
Impact on equity (increase/(decrease) in equity)		
Leases and Hire purchase receivables	(146,564,333)	(2,194,187)
Loans and receivables	(385,083,042)	(168,521,416)
Other non financial assets	(18,043,251)	(95,691,220)
Income Tax Receivable	Nil	3,693,215
Deffered tax asset	29,930,147	Nil
Total Assets	**(519,760,479)**	**(262,713,609)**
Due to customers	368,363	368,363
Other non financial liabilities	5,744,762	1,700,000
Income Tax Payable	(56,162,160)	Nil
Deferred tax liabilities	13,345,834	Nil
Total Liabilities	(36,703,201)	2,068,362
Net impact on equity	**(556,463,680)**	**(260,645,247)**

Year ended 31 March	2016 Rs.
Impact on statement of profit or loss (increase/(decrease) in profit)	
Interest income	(48,242,021)
Impairment/ writen off for loans and other losses	(306,638,469)
Other operating income	(6,051,283)
VAT & NBT on financial services	21,837,355
Income tax expense	43,275,982
Net impact on profit for the year	**(295,818,435)**
Impact on basic earnings per share (EPS) (increase/(decrease) in EPS)	
Basic Earnings per share	(5.65)

31 FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

31. FINANCIAL RISK MANAGEMENT (Contd.)

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 (IRMC) with the ultimate objective of to deliver superior shareholder value between risk and return. This Committee consists of two independant non executive directors, one non executive director, two executive directors including CEO, COO and 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, 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.

	2017	2016
	Carrying amount	Carrying amount
	Rs.	Rs.
Financial assets subject to market risk		
Financial investments - Available for sale	184,193,580	179,848,200
	184,193,580	**179,848,200**

	2017 Carrying amount Rs.	2016 Carrying amount Rs.
Financial Liabilities subject to market risk		
Due to banks	1,105,686,108	880,544,080
Other borrowed funds	770,297,971	761,857,460
	1,875,984,079	**1,642,401,540**

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 equity Rs.
31 March 2017.		
Quoted shares – (Colombo Stock Exchange)	+ 10%	8,486,298
	-10%	(8,486,298)
31 March 2016.		
Quoted shares – (Colombo Stock Exchange)	+ 10%	8,051,760
	-10%	(8,051,760)

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 2017 Rs.	31 March 2016 Rs. Restated
Fixed Interest rate instruments:		
Financial assets	21,331,469,710	19,000,880,132
Financial liabilities	17,843,881,680	16,489,322,043
Floating interest rate instruments:		
Financial assets	Nil	Nil
Financial liabilities	**1,875,984,079**	**1,642,401,540**

31. FINANCIAL RISK MANAGEMENT (Contd.)

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's financial 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 Rs.	Effect on profit Rs.
2017		
Floating interest rate instruments	+25 b.p	4,689,960
	-25 b.p	(4,689,960)
2016		
Floating interest rate instruments		
	+25 b.p	4,106,004
	-25 b.p	(4,106,004)

Interest Rate Risk exposure on financials assets and Liabilities

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

As at 31 March 2017

	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.	Non-interest bearing Rs.	Total Rs.
Financial Assets						
Cash and cash equivalents	Nil	Nil	Nil	Nil	754,813,493	754,813,493
Financial investments - Available for sale	Nil	Nil	Nil	Nil	184,193,580	184,193,580
Financial Investments - Loans and Receivables	1,777,822,416	Nil	Nil	Nil	Nil	1,777,822,416
Lease and hire purchase receivables	477,903,897	143,952,227	198,178,846	129,281,705	Nil	949,316,675
Loans and receivables	7,582,288,837	7,584,713,431	2,291,430,178	206,891,100	Nil	17,665,323,546
	9,838,015,150	**7,728,665,658**	**2,489,609,024**	**336,172,805**	**939,007,073**	**21,331,469,710**
Financial Liabilities						
Due to banks	1,107,107,622	251,289,841	3,881,854	715,363	Nil	1,362,994,680
Due to customers	7,237,007,073	6,780,267,604	1,863,670,498	167,528,753	Nil	16,048,473,927
Other borrowed funds	518,523,823	569,118,507	1,220,754,820	-	Nil	2,308,397,150
	8,862,638,518	**7,600,675,952**	**3,088,307,172**	**168,244,116**	**Nil**	**19,719,865,758**
Interest Rate sensitivity gap	975,376,632	127,989,706	(598,698,148)	167,928,689	939,007,073	1,611,603,952

As at 31 March 2016 - Restated	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.	Non-interest bearing Rs.	Total Rs.
Financial Assets						
Cash and cash equivalents	Nil	Nil	Nil	Nil	509,280,659	509,280,659
Financial investments - Available for sale	Nil	Nil	Nil	Nil	179,848,200	179,848,200
Financial Investments - Loans and Receivables	1,985,949,858	Nil	Nil	Nil	Nil	1,985,949,858
Lease and hire purchase receivables	675,394,091	342,485,608	381,200,980	45,149,914	Nil	1,444,230,593
Loans and receivables	5,572,588,749	6,107,615,100	2,814,451,970	386,915,003	Nil	14,881,570,822
	6,247,982,840	**6,450,100,708**	**3,195,652,950**	**432,064,917**	**689,128,859**	**19,000,880,132**
Financial Liabilities						
Due to banks	880,921,263	1,182,152	3,557,757	2,740,844	Nil	888,402,016
Due to customers	7,234,797,590	5,298,462,900	872,766,599	649,176,396	Nil	14,055,203,485
Other borrowed funds	1,152,853,982	1,020,394,100	65,000,000	949,870,000	Nil	3,188,118,082
	9,268,572,835	**6,320,039,152**	**941,324,356**	**1,601,787,240**	**Nil**	**18,131,723,583**
Interest Rate sensitivity gap	(3,020,589,995)	130,061,556	2,254,328,594	(1,169,722,323)	689,128,859	869,156,549

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 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.

31. FINANCIAL RISK MANAGEMENT (Contd.)

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 credit 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.

	31 March 2017		31 March 2016 - Restated	
	Maximum exposure to credit risk	Net exposure	Maximum exposure to credit risk	Net exposure
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	754,813,493	Nil	509,280,659	Nil
Financial investments - Available for sale	184,193,580	184,193,580	179,848,200	179,848,200
Financial Investments - Loans and Receivables	1,777,822,416	1,777,822,416	1,985,949,858	1,985,949,858
Lease and hire purchase receivables	949,316,675	Nil	1,444,230,593	Nil
Loans and receivables	17,665,323,546	13,246,902,718	14,881,570,822	11,056,700,772
Total Financial Assets	**21,331,469,710**	**15,208,918,714**	**19,000,880,132**	**13,222,498,830**

Concentration of credit risk

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

	2017	2016
	Rs.	Rs.
		Restated
Concentration by Sector (Gross)		
Agriculture	906,824,469	922,323,560
Manufacturing	2,306,231,711	764,555,021
Tourism	851,342,046	2,294,543,338
Transport	642,059,570	676,792,818
Construction	655,549,793	5,196,414,079
Trading	10,243,490,697	543,654,767
Services	1,547,205,003	7,807,911,389
Other	4,362,636,972	1,382,398,486
	21,515,340,261	**19,588,593,457**
Concentration by location (Gross)		
Western	10,225,834,708	9,718,782,920
Uva	531,324,873	349,405,722
North Western	1,764,146,751	1,260,262,089
Southern	2,715,860,021	2,901,979,612
Central	2,483,783,129	2,591,989,954
North Central	1,540,520,285	1,281,426,711
Sabaragamuwa	1,167,969,525	867,444,533
Northern	1,085,900,969	617,301,914
	21,515,340,261	**19,588,593,457**

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 2017	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	754,813,493	Nil	Nil	754,813,493
Financial investments - Available for sale	184,193,580	Nil	Nil	184,193,580
Financial Investments - Loans and Receivables	1,777,822,416	Nil	Nil	1,777,822,416
Lease and hire purchase receivables	375,633,072	635,985,095	149,526,033	1,161,144,200
Loans and receivables	12,948,673,206	3,968,454,029	1,393,935,162	18,311,062,397
Total financial assets	**16,041,135,768**	**4,604,439,124**	**1,543,461,195**	**22,189,036,086**

31. FINANCIAL RISK MANAGEMENT (Contd.)

31 March 2016 - Restated	Neither past due nor impaired Rs.	Past due but not impaired Rs.	Individually impaired Rs.	Total Rs.
Cash and cash equivalents	509,280,659	Nil	Nil	509,280,659
Financial investments - Available for sale	179,848,200	Nil	Nil	179,848,200
Financial Investments - Loans and Receivables	1,985,949,858	Nil	Nil	1,985,949,858
Lease and hire purchase receivables	873,066,515	614,968,329	140,175,688	1,628,210,532
Loans and receivables	13,447,686,903	484,726,549	1,549,992,324	15,482,405,775
Total financial assets	**16,995,832,135**	**1,099,694,878**	**1,690,168,012**	**19,785,695,025**

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

	Past due but not impaired				
	Less than 30 days	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	Total Rs.
As at 31 March 2017	1,524,579,800	735,640,973	389,958,054	1,954,260,298	4,604,439,124
As at 31 March 2016 - Restated	**201,529,142**	**122,968,858**	**92,016,976**	**683,179,902**	**1,099,694,878**

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 2017	Less than 3 months	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	754,813,493	Nil	Nil	Nil	754,813,493
Financial investments - Available for sale	184,193,580	Nil	Nil	Nil	184,193,580
Financial Investments - Loans and Receivables	Nil	1,777,822,416	Nil	Nil	1,777,822,416
Lease and hire purchase receivables	614,257,386	242,065,637	331,160,297	184,696,967	1,372,180,287
Loans and receivables	8,305,538,324	8,736,609,323.91	2,746,257,928.64	240,830,780.21	20,029,236,357
Total financial assets	**9,103,989,289**	**10,756,497,377**	**3,077,418,226**	**425,527,747**	**24,118,246,133**
Financial Liabilities					
Due to banks	797,319,845	95,405,515	139,789,706	728,451	1,033,243,516
Due to customers	7,501,058,984	7,341,276,641	2,127,136,393	203,316,648	17,172,788,666
Other borrowed funds	116,032,925	730,447,372	1,920,092,962	Nil	2,766,573,259
Total financial liabilities	**8,414,411,753**	**8,167,129,528**	**4,187,019,061**	**204,045,099**	**20,972,605,442**

At 31 March 2016 - Restated	Less than 3 months	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	509,280,659	Nil	Nil	Nil	509,280,659
Financial investments - Available for sale	179,848,200	Nil	Nil	Nil	179,848,200
Financial Investments - Loans and Receivables	Nil	1,985,949,858	Nil	Nil	1,985,949,858
Lease and hire purchase receivables	677,628,914	501,381,805	518,041,782	58,894,831	1,755,947,332
Loans and receivables	5,987,253,408	7,293,901,874	3,603,224,899	476,560,639	17,360,940,820
Total financial assets	**7,354,011,181**	**9,781,233,537**	**4,121,266,681**	**535,455,470**	**21,791,966,869**
Financial Liabilities					
Due to banks	459,132,458	130,953,515	174,604,686	193,302,053	957,992,711
Due to customers	7,262,566,525	5,812,319,089	1,362,642,271	426,248,099	14,863,775,985
Other borro wed funds	774,514,284	880,574,719	689,991,404	1,471,762,679	3,816,843,085
Total financial liabilities	**8,496,213,267**	**6,823,847,323**	**2,227,238,361**	**2,091,312,830**	**19,638,611,781**

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	2017 Rs.	2016 Rs. Restated
Average for the year	15.89%	14.04%
Maximum for the year	18.15%	18.20%
Minimum for the year	13.45%	11.99%

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:

As at 31 March	2017 Rs.	2016 Rs.
Cash in Hand & Bank Balances	427,658,645	436,305,737
Deposits in Commercial Banks free from lien	466,155,865	339,179,272
Sri Lanka Government Treasury Bills and Treasury Bonds, maturing within one year, free from any lien or charge	1,638,821,400	1,683,789,500
Total Liquid Assets as at end of March	**2,532,635,910**	**2,409,238,098**

31. FINANCIAL RISK MANAGEMENT (Contd.)

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

	2017		2016	
			Restated	Restated
	Encumbered	Unencumbered	Encumbered	Unencumbered
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	Nil	754,813,493	Nil	509,280,659
Financial investments - Available for sale	Nil	184,193,580	Nil	179,848,200
Financial Investments - Loans and Receivables	Nil	1,777,822,416	Nil	1,985,949,858
Lease and hire purchase receivables	550,000,000	399,316,675	250,000,000	1,194,230,593
Loans and receivables	1,746,426,523	15,918,897,023	Nil	14,881,570,822
Other non financial assets	Nil	352,012,443	Nil	830,916,160
Intangible assets	Nil	95,066,053	Nil	37,431,036
Property, plant & equipment	Nil	373,817,940	Nil	373,351,729

* Encumbered- Pledged as collateral in borrowings

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

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 2016 and 31 March 2017.

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, deposits from customers, less cash and cash equivalents.

	31 March 2017	31 March 2016
	Rs.	Rs.
		Restated
Due to banks	1,362,994,681	888,402,016
Due to customers	16,048,473,927	14,055,203,485
Other borrowed funds	2,308,397,150	3,188,118,082
Less cash and cash equivalents	(754,813,493)	(509,280,659)
Net debt	**18,965,052,266**	**17,622,442,924**
Total capital	2,292,133,723	1,985,976,009
Capital and net debt	**21,257,185,988**	**19,608,418,933**
Gearing ratio	**89.22%**	**89.87%**

32 FAIR VALUE ESTIMATION

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 and financial instruments carried at fair value by valuation methods.

Fair value 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.

	2017				
	Fair Value Measurement				
	Level 1	Level 2 Rs.	Level 3 Rs.	Total Fair Value Rs.	Carrying Value Rs.
Financial Assets					
Cash and cash equivalents	754,813,493	Nil	Nil	754,813,493	754,813,493
Financial investments - Available for sale	84,862,980	Nil	99,330,600	184,193,580	184,193,580
Financial Investments - Loans and Receivables	Nil	1,777,822,416	Nil	1,777,822,416	1,777,822,416
Lease and hire purchase receivables	Nil	949,303,516	Nil	949,303,516	949,316,675
Loans and receivables	Nil	17,307,181,257	Nil	17,307,181,257	17,665,323,546
Financial Liabilities					
Due to banks	Nil	1,362,486,094	Nil	1,362,486,094	1,362,994,681.1
Due to customers	Nil	Nil	15,960,467,858	15,960,467,858	16,048,473,927.5
Other borrowed funds	Nil	1,535,790,632	Nil	1,535,790,632	2,308,397,150.3

	2016 - Restated				
	Fair Value Measurement				
	Level 1	Level 2 Rs.	Level 3 Rs.	Total Fair Value Rs.	Carrying Value Rs.
Financial Assets					
Cash and cash equivalents	509,280,659	Nil	Nil	509,280,659	509,280,659
Financial investments - Available for sale	80,517,600	Nil	99,330,600	179,848,200	179,848,200
Financial Investments - Loans and Receivables	Nil	1,985,949,858	Nil	1,985,949,858	1,985,949,858
Lease and hire purchase receivables	Nil	1,349,799,513	Nil	1,349,799,513	1,444,230,593
Loans and receivables	Nil	14,989,068,755	Nil	14,989,068,755	14,881,570,822
Financial Liabilities					
Due to banks	Nil	888,048,277	Nil	888,048,277	888,402,016
Due to customers	Nil	13,969,574,053	Nil	13,969,574,053	14,055,203,485
Other borrowed funds	Nil	3,160,779,716	Nil	3,160,779,716	3,188,118,082

Level 1

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.

Level 2

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

Level 3

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

33 FINANCIAL INSTRUMENTS BY CATEGORY

(a) Financial Instruments

31 March 2017	Loans and receivables	Fair value through profit or loss Rs.	Available for sale Rs.	Held to maturity Investments Rs.	Total Rs.
Assets as per the statement of financial position					
Cash and cash equivalents	754,813,493	Nil	Nil	Nil	754,813,493
Financial investments - Available for sale	Nil	Nil	184,193,580	Nil	184,193,580
Financial Investments - Loans and Receivables	1,777,822,416	Nil	Nil	Nil	1,777,822,416
Lease and hire purchase receivables	949,316,675	Nil	Nil	Nil	949,316,675
Loans and receivables	17,665,323,546	Nil	Nil	Nil	17,665,323,546
	20,392,462,637	**Nil**	**184,193,580**	**Nil**	**21,331,469,710**

31 March 2017	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities as per the statement of financial position			
Due to banks	Nil	1,362,994,681	1,362,994,681
Due to customers	Nil	16,048,473,927	16,048,473,927
Other borrowed funds	Nil	2,308,397,150	2,308,397,150
	Nil	**19,719,865,759**	**19,719,865,759**

31 March 2016 - Restated	Loans and receivables	Fair value through profit or loss Rs.	Available for sale Rs.	Held to maturity Investments Rs.	Total Rs.
Assets as per the statement of financial position					
Cash and cash equivalents	509,280,659	Nil	Nil	Nil	509,280,659
Financial investments - Available for sale	Nil	Nil	179,848,200	Nil	179,848,200
Financial Investments - Loans and Receivables	1,985,949,858	Nil	Nil	Nil	1,985,949,858
Lease and hire purchase receivables	1,444,230,593	Nil	Nil	Nil	1,444,230,593
Loans and receivables	14,881,570,822	Nil	Nil	Nil	14,881,570,822
	18,821,031,932	**Nil**	**Nil**	**Nil**	**19,000,880,132**

31 March 2016 - Restated	Liabilities at fair value through profit or loss Rs.	Other financial liabilities Rs.	Total Rs.
Liabilities as per the statement of financial position			
Due to banks	Nil	888,402,016	888,402,016
Due to customers	Nil	14,055,203,485	14,055,203,485
Other borrowed funds	Nil	3,188,118,082	3,188,118,082
	Nil	**18,131,723,583**	**18,131,723,583**

34 COMMITMENTS AND CONTINGENCIES

	2017 Rs.	2016 Rs.
Contingent Liabilities		
Guarantees issued to banks and other institutions	3,000,000	4,650,000
Commitments		
Commitment for unutilised facilities	3,009,243,979	1,388,735,214
Capital commitment for software	28,611,720	Nil

Analysis of commitment and contingencies by remaining contractual maturities

31 March 2017	Less than 3 months	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.
Contingent Liabilities					
Guarantees issued to banks and other institutions	3,000,000	Nil	Nil	Nil	3,000,000
	3,000,000	-	Nil	Nil	3,000,000
Commitments					
Commitment for unutilised facilities	3,009,243,979	Nil	Nil	Nil	3,009,243,979
Capital commitment for software	Nil	28,611,720	Nil	Nil	28,611,720
	3,009,243,979	**Nil**	**Nil**	**Nil**	**3,009,243,979**

35 EVENTS AFTER THE BALANCE SHEET DATE

There are no events occurring after the reporting date which require adjustments to or disclosure in the financial statements

36 RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

36.1 Transactions with Key Management Personnel (KMPs)

Key managerial personnel includes members of the Board of Directors of the Company and of it's Holding Company.

	2017	2016
	Rs.	Rs.
Short-term employee benefits	37,591,900	33,182,329
	37,591,900	**33,182,329**

36.1.1 Transaction,arrangements and agreements invloving KMPs and their close members of the family (CMFS)

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

		2017	2016
		Rs.	Rs.
Statement of financial position	**Reported Under**		
Liabilities			
Time Deposits	Due to customers	84,500,000	107,462,188
Savings Deposits	Due to customers	172,005	-
Statement of comprehensive income			
Interest expense on customer deposits	Interest expenses	8,087,106	6,326,123
Other Transactions			
Dividend Paid on shareholding		271,258	404,781

Notes to the Financial Statements

36.1.4 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 period ended March 31, 2017.

	Relationship	As at 31 March 2017 Receivables/ (Payables) Rs.	Loans, Advances & Investments Rs.	Borrowings/ Deposits Rs.	Income Earned Rs.	Cost Incurred Rs.
Softlogic Capital PLC	Parent Company	(505,098)	Nil	Nil	Nil	40,408,110
Softlogic Corporate Services (Pvt) Ltd	Affiliated Company	Nil	Nil	Nil	Nil	1,909,420
Softlogic Life Insurance PLC	Group Company	443,404	Nil	Nil	2,175,588	6,676,694
Asian Alliance Insurance General Ltd **	Group Company	Nil	Nil	Nil	1,056,451	956,705
Softlogic Stock Brokers (Pvt) Ltd	Group Company	(3,993,547)	Nil	Nil	Nil	3,905,817
Softlogic Retail (Pvt) Ltd	Affiliated Company	Nil	Nil	13,236,028	Nil	4,280,472
Softlogic Communications (Pvt) Ltd	Affiliated Company	Nil	Nil	Nil	Nil	14,251
Softlogic Computers (Pvt) Ltd	Affiliated Company	Nil	Nil	Nil	Nil	1,164,055
Softlogic Information Technologies (Pvt) Ltd	Affiliated Company	(116,434)	Nil	Nil	Nil	15,521,647
Softlogic Automobiles (Pvt) Ltd	Affiliated Company	Nil	Nil	Nil	4,692,755	Nil
Softlogic BPO Services (Pvt) Ltd	Affiliated Company	(408,135)	Nil	Nil	Nil	27,377,036
Softlogic Brands (Pvt.) Ltd	Affiliated Company	Nil	Nil	Nil	Nil	4,520,365
Softlogic Destination Management (Pvt) Ltd	Affiliated Company	(110,800)	Nil	Nil	Nil	1,023,930
Softlogic Properties (Pvt.) Ltd	Affiliated Company	Nil	Nil	Nil	51,147,000	Nil
Central Hospital Ltd	Affiliated Company	(172,250)	Nil	Nil	Nil	884,600
Odel PLC	Affiliated Company	Nil	Nil	Nil	Nil	250,000
Nextage (Pvt) Ltd	Affiliated Company	(117,742)	Nil	Nil	Nil	982,753
BPM One (Pvt.) Ltd	Affiliated Company	Nil	Nil	Nil	Nil	1,000,000
Future Automobiles (Pvt) Ltd	Affiliated Company	Nil	Nil	Nil	Nil	31,429

**Asian Alliance Insurance General Limited was a Group company till 30 September 2016.

Plant & Equipment Purchased / (sold) Rs.	Guarantees Obtained Rs.	Nature and terms of the transaction	The rationale for entering into the transaction
Nil	Nil	Technical & management fees	Normal business activity of the company
Nil	Nil	Secretarial services	Normal business activity of the company
Nil	Nil	Rent reimbursements for utilising branch spaces. Debenture interest cost at 16%, 17% for 36 months which were settled during the year	To manage working capital requirment of the company & normal business activity of the company
Nil	Nil	Incentive on providing insurance business. Cost of general insurance policies	Normal business activity of the company
Nil	Nil	Interest cost on fixed deposit accepted and withdrawn during the year at the rate of 9.5% to 12.5% per annum. Payable for investment arranged in shares	To manage working capital requirment of the company & normal business activity of the company
3,163,487	Nil	Fixed deposit accepted at 12.25% to 13% per annum for one year and interest cost on it. Savings accepted at 7.55% and interest cost on it. Fixed assets purchase and depreciation on purchased fixed assets	To manage working capital requirment of the company & normal business activity of the company
Nil	Nil	Depreciation on purchased fixed assets	Normal business activity of the company
181,700	Nil	Fixed assets purchase and depreciation on purchased fixed assets	Normal business activity of the company
5,991,949	Nil	Fixed assets purchase and depreciation on purchased fixed assets	Normal business activity of the company
Nil	Nil	Income from hiring vehicles	Normal business activity of the company
Nil	Nil	Hardware managed services	Normal business activity of the company
Nil	Nil	Depreciation on purchased fixed assets	Normal business activity of the company
Nil	Nil	Air line ticketing, hotel reservation and VISA related services	Normal business activity of the company
(351,500,000)	Nil	Selling land which was purchased for investment purpose	One off investment activity
Nil	Nil	Obtaining training center / auditorium facilities	Normal business activity of the company
Nil	Nil	Hoarding space rental	Normal business activity of the company
Nil	Nil	Commision on cordinating advertising & promotions events with media	Normal business activity of the company
Nil	Nil	IT consultancy services	Normal business activity of the company
Nil	Nil	Vehicle repair services	Normal business activity of the company

Notes to the Financial Statements

37. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	2017			2016		
	Within 12 Months Rs.	After 12 Months Rs.	Total as at 31 March 2017 Rs.	Within 12 Months Rs. Restated	After 12 Months Rs. Restated	Total as at 31 March 2016 Rs. Restated
Assets						
Cash and cash equivalents	754,813,493	Nil	754,813,493	509,280,659	Nil	509,280,659
Financial investments - Available for sale	Nil	184,193,580	184,193,580	Nil	179,848,200	179,848,200
Financial Investments - Loans and Receivables	1,777,822,416	Nil	1,777,822,416	1,985,949,858	Nil	1,985,949,858
Lease and hire purchase receivables	621,856,124	327,460,551	949,316,675	1,017,879,699	426,350,894	1,444,230,593
Loans and receivables	15,167,002,268	2,498,321,278	17,665,323,546	11,680,203,849	3,201,366,973	14,881,570,822
Other non financial assets	352,012,443	Nil	352,012,443	830,916,160	Nil	830,916,160
Income Tax Receivable	37,010,401	Nil	37,010,401	Nil	Nil	Nil
Deferred tax asset	Nil	Nil	Nil	Nil	29,930,147	29,930,147
Intangible assets	Nil	95,066,053	95,066,053	Nil	37,431,036	37,431,036
Property, plant & equipment	Nil	373,817,940	373,817,940	Nil	373,351,729	373,351,729
Total Assets	**18,710,517,145**	**3,478,859,402**	**22,189,376,547**	**16,024,230,225**	**4,248,278,979**	**20,272,509,204**
Liabilities						
Due to banks	1,358,397,463	4,597,217	1,362,994,680	882,103,415	6,298,601	888,402,016
Due to customers	14,017,274,676	2,031,199,251	16,048,473,927	12,533,260,490	1,521,942,995	14,055,203,485
Other borrowed funds	1,087,642,330	1,220,754,820	2,308,397,150	2,173,248,082	1,014,870,000	3,188,118,082
Other non financial liabilities	96,902,951	Nil	96,902,951	83,792,108	Nil	83,792,108
Income Tax Payable	Nil	Nil	Nil	56,162,160	Nil	56,162,160
Retirement benefit obligations	Nil	16,938,596	16,938,596	Nil	14,855,344	14,855,344
Deferred tax liabilities	Nil	63,535,519	63,535,519	Nil	Nil	Nil
Total liabilities	**16,560,217,421**	**3,337,025,403**	**19,897,242,824**	**15,728,566,255**	**2,557,966,940**	**18,286,533,195**

38. BUSINESS SEGMENT INFOMRATION

The company's segmental reporting is based on the following operating segments: Leasing, Hire purchase, SME, Term and Mortgage Loans, Personal 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		Hire Purchases		SME,Term and Mortgage Loans		Personal Loans		Other Loans and Receivables		Unallocated		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Rs.	Rs. Restated	Rs.	Rs. Restated	Rs.	Rs. Restated	Rs.	Rs. Restated	Rs.	Rs. Restated	Rs.	Rs. Restated		Rs. Restated
Interest Income	125,781,153	264,739,079	235,226,920	365,423,143	2,079,956,672	1,705,570,574	565,183,041	742,455,988	351,627,109	282,223,683	279,354,769	197,668,502	3,637,129,665	3,558,080,969
Interest Expense	-	-	-	-	-	-	-	-	-	-	(2,291,408,431)	(2,002,506,266)	(2,291,408,431)	(2,002,506,266)
Net Interest Income	**125,781,153**	**264,739,079**	**235,226,920**	**365,423,143**	**2,079,956,672**	**1,705,570,574**	**565,183,041**	**742,455,988**	**351,627,109**	**282,223,683**	**(2,012,053,662)**	**(1,804,837,765)**	**1,345,721,233**	**1,555,574,702**
Fees and Commission Income	2,463,464	3,273,806	1,594,770	2,580,324	564,591,647	409,050,852	-	-	22,255,479	60,726,329	11,404,346	11,493,454	602,309,706	487,124,764
Net Trading Income/(Loss)	-	-	-	-	-	-	-	-	-	-	16,128,488	17,927,432	16,128,488	17,927,432
Other Operating Income	-	-	-	-	-	-	-	-	-	-	56,450,831	17,465,182	56,450,831	17,465,182
Total Operating Income	**128,244,617**	**268,012,885**	**236,821,689**	**368,003,466**	**2,644,548,320**	**2,114,621,426**	**565,183,041**	**742,455,988**	**373,882,588**	**342,950,012**	**(1,928,069,996)**	**(1,757,951,696)**	**2,020,610,259**	**2,078,092,081**
Impairment Charge for Loans and Advances	(9,404,286)	(57,678,437)	(71,037,660)	(320,248,214)	(162,333,212)	(226,815,366)	(105,972,551)	(152,176,026)	(20,006,774)	45,072,462	-	-	(368,754,483)	(711,845,582)
Net Operating Income	**118,840,330**	**210,334,447**	**165,784,030**	**47,755,252**	**2,482,215,108**	**1,887,806,059**	**459,210,491**	**590,279,962**	**353,875,814**	**388,022,475**	**(1,928,069,996)**	**(1,757,951,696)**	**1,651,855,776**	**1,366,246,499**
Depreciation of Property, Plant and Equipment	(2,038,446)	(2,202,894)	(3,764,276)	(4,067,954)	(42,035,045)	(45,426,161)	(8,983,574)	(9,708,310)	(6,252,426)	(6,756,831)	(5,719,042)	(6,180,417)	(68,792,809)	(74,342,567)
Amortization of Intangible Assets	(304,378)	(305,866)	(562,077)	(564,825)	(6,276,618)	(6,307,307)	(1,341,415)	(1,347,974)	(933,604)	(938,169)	(853,960)	(858,135)	(10,272,052)	(10,322,277)
Personal Expenses	-	-	-	-	-	-	-	-	-	-	(441,067,262)	(499,767,998)	(441,067,262)	(499,767,998)
Other Operating Expenses	-	(128,262)	(855,180)	(2,112,674)	(4,647,956)	(3,289,187)	-	-	(16,588,107)	(27,250,036)	(579,917,870)	(591,324,170)	(602,009,113)	(624,104,329)
Segement Profit before VAT on Financial Services	**116,497,507**	**207,697,425**	**160,602,497**	**41,009,799**	**2,429,255,489**	**1,832,783,404**	**448,885,501**	**579,223,678**	**330,101,677**	**353,077,438**	**(2,955,628,129)**	**(2,856,082,416)**	**529,714,541**	**157,709,329**
VAT & NBT on Financial Services													(68,140,600)	(67,128,697)
Segment Profit Before Tax	**14,069,220**	**2,684,055**	**25,980,790**	**4,956,485**	**290,123,146**	**55,348,241**	**62,004,041**	**11,828,820**	**43,153,836**	**8,232,673**	**39,472,454**	**7,530,357**	**461,573,941**	**90,580,632**
Income Tax Expense													(96,774,054)	(17,438,285)
Profit for the Year	**14,069,220**	**2,684,055**	**25,980,790**	**4,956,485**	**290,123,146**	**55,348,241**	**62,004,041**	**11,828,820**	**43,153,836**	**8,232,673**	**39,472,454**	**7,530,357**	**364,799,887**	**73,142,347**
Total Assets	**705,707,210**	**761,174,074**	**243,609,490**	**669,108,983**	**13,795,279,797**	**10,760,957,977**	**1,911,440,683**	**2,841,819,697**	**1,958,603,041**	**1,292,740,684**	**3,574,736,326**	**3,946,707,790**	**22,189,376,547**	**20,272,509,205**
Total Liabilities	**632,808,574**	**686,606,420**	**218,444,947**	**603,560,394**	**12,370,245,346**	**9,706,771,534**	**1,713,991,348**	**2,563,423,684**	**1,756,281,895**	**1,166,098,641**	**3,205,470,716**	**3,560,072,524**	**19,897,242,826**	**18,286,533,197**

Supplementary Information

Gold Loans

A friend in need is a friend indeed! Our Gold Loan product is the ideal choice for your immediate cash needs, whether it is for your personal or business requirements. With attractive rates, an extensive branch network and superior customer service, we offer a range of flexible settlement options to suit your individual needs.

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 29.7 % as at 31st March 2017. The number of public shareholders as at 31st March 2017 was 1,477.

4 Distribution of Shareholding as at 31st March 2017

There were 1,482 Registered shareholders as at 31st March 2017.

No. of Shares held From	To	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
1	1,000	966	65.18%	297,127	0.50%
1,001	10,000	379	25.57%	1,446,792	2.45%
10,001	100,000	115	7.76%	3,485,131	5.90%
100,001	1,000,000	17	1.15%	4,616,958	7.82%
Over 1,000,000		5	0.34%	49,224,980	83.33%
	Total	**1,482**	**100.00%**	**59,070,988**	**100.00%**

5 Analysis Report of Shareholders as at 31st March 2017

Category	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
Individual	1,376	92.85%	6,145,458	10.40%
Institutional	106	7.15%	52,925,530	89.60%
Total	**1,482**	**100.00%**	**59,070,988**	**100.00%**
Resident	1,478	99.73%	58,925,449	99.75%
Non-resident	4	0.27%	145,539	0.25%
Total	**1,482**	**100.00%**	**59,070,988**	**100.00%**

6 Twenty Major Shareholders as at 31st March 2017

Shareholder	No. of Shares as at 31/03/2017	%
Softlogic Capital PLC	28,493,841	48.24
Pan Asia Banking Corporation PLC/Softlogic Capital PLC	12,015,240	20.34
Vanik Incorporation Ltd	5,376,068	9.10
LB Finance Ltd	2,090,000	3.54
Mr. Kalappuarachchige Don Dammika Perera	1,249,831	2.12
Softlogic Holdings PLC	779,969	1.32
First Capital Ltd	678,179	1.15
People's Leasing & Finance PLC / Mr. L. P. Hapangama	587,912	1.00
Waldock Mackenzie Ltd / HI-Line Trading (Pvt) Ltd	512,495	0.87
Mr. Pasqual Handi Dayananda Waidyathilaka	248,294	0.42
Mr. Asok Kariyawasam Pathirage	228,000	0.39
Seylan Bank Plc/ Shashimaal Ruhash Fernando	227,786	0.39
Seylan Bank Plc/ Govindasamy Ramanan	200,000	0.34
Mr. Wetthinge Jinadasa	189,466	0.32
Andaradeniya Estate Pvt. Ltd	151,138	0.26
Mrs. Pamela Christine Cooray	132,444	0.22
Elgin Investments Ltd	130,339	0.22
First Capital Markets Ltd/Commercial Credit and Finance PLC	130,000	0.22
Mr. Imbulana Appuhamilage Noel Gunasekera	106,982	0.18
Asha Financial Services Ltd / Ms. H. C. Kalansooriya	106,654	0.18

7 Share Trading Information

	2016/17
Highest (Rs.)	46.90
Lowest (Rs.)	29.00
Closing (Rs.)	31.00
Turnover (Rs.)	173,173,456.00
No. of shares Traded	4,616,502
No. of Trades	2,788

8 Equity Information

	2016/17
Earnings per share (Rs.)	6.18
Dividend per share (Rs.)	Rs.1.25
Dividend pay out	20%
Net Asset Value per share (Rs.)	38.80

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. All of these Debentures were redeemed on 27th August 2016.

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.

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%	100.01	100.01	100.01
B - CRL-BC-27/08/16 B-16.5	16.50%	-	-	Not Traded
C - CRL-BC-27/08/16 C-16	16.00%	-	-	Not Traded
A - CRL-BC-29/08/19 A-10	10.00%	88.05	88.05	88.05
B - CRL-BC-29/08/19 B-7.69	3 Month Net Treasury Bill Rate + 1.5%	-	-	Not Traded

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%	15.87%	25-May-16
B - CRL-BC-27/08/16 B-16.5	16.50%	-	Not Traded
C - CRL-BC-27/08/16 C-16	16.00%	-	Not Traded
A - CRL-BC-29/08/19 A-10	10.00%	14.83%	4-Jul-16
B - CRL-BC-29/08/19 B-7.69	3 Month Net Treasury Bill Rate + 1.5%	-	Not Traded

Ratios

	2016/17
Debt to Equity Ratio (Times)	8.68
Interest Cover (Times)	1.23
Liquid Assets Ratio / Quick Asset Ratio (%) - Statutory Minimum 10%	15.78

Interest rate of comparable government securities

	2016/17
(Below rates are excluding 10% withholding tax)	
3 Year Treasury Bond	12.38%
5 Year Treasury Bond	12.64%

Ten Year Summary

(Rs.'000)	2016/17*	2015/16* Restated	2014/15* Restated	2013/14*	2012/13*	2011/12*	2010/11	2009/10	2008/09	2007/08
OPERATING RESULTS										
Gross Income	4,312,019	4,080,598	3,972,902	3,338,543	2,277,546	1,534,039	650,610	346,881	309,382	206,663
Profit Before Tax	529,715	157,709	270,934	228,450	233,180	194,928	84,787	26,162	17,761	21,853
Taxation	164,915	84,567	54,444	62,796	69,126	74,101	16,251	2,558	3,862	7,666
Profit After Tax	364,800	73,142	216,490	165,654	164,053	120,827	68,536	23,605	13,899	14,187
As at 31 March										
ASSETS										
Investments	1,962,016	2,165,798	2,059,796	1,600,660	193,668	70,486	299,225	105,031	13,232	42,077
Loans & Advances	17,665,324	14,881,571	12,432,979	3,887,396	3,412,910	1,985,510	283,956	30,793	28,294	46,035
Lease/HP Rentals Receivables	949,317	1,444,317	3,095,119	8,324,788	7,221,967	6,004,641	3,371,328	1,526,854	1,002,663	833,206
Vehicle Stocks	25,644	58,695	262,585	375,798	105,235	10,209	4,855	10,288	10,259	-
Real Estate Stocks	82,799	423,763	356,885	59,723	37,858	39,258	16,647	15,848	15,365	-
Property & Equipment	373,818	373,352	333,803	312,247	177,863	176,248	39,587	17,413	23,332	28,260
Other Assets	1,130,460	1,444,775	1,472,666	3,699,127	2,069,302	1,534,250	298,478	161,481	74,129	75,417
	22,189,377	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
LIABILITIES										
Public Deposits	16,048,474	14,055,203	12,363,202	9,312,743	6,956,951	4,681,850	1,584,807	821,816	406,768	225,480
Borrowings	3,671,392	4,076,520	5,581,737	6,484,267	4,234,833	3,717,284	2,008,094	633,222	453,121	497,749
Other Liabilities	177,377	154,810	117,191	1,153,180	822,422	568,527	314,311	195,149	93,404	101,684
	19,897,243	18,286,533	18,062,130	16,950,191	12,014,206	8,967,661	3,907,212	1,650,187	953,293	824,913
SHAREHOLDERS' FUNDS										
Share Capital/Stated Capital	1,692,615	1,692,615	1,404,523	1,003,231	1,003,231	1,003,231	468,174	200,646	200,646	200,646
Reserves & Retained Earnings	599,518	293,361	284,467	306,318	201,366	104,849	63,012	16,875	13,335	(564)
	2,292,134	1,985,976	1,688,990	1,309,549	1,204,597	1,108,080	531,186	217,521	213,981	200,082
SHARE INFORMATION										
Earnings Per Share (Rs.)	6.18	1.40	5.44	4.42	3.66	4.38	3.07	1.18	0.69	0.71
Net Assets Per Share (Rs.)	38.80	33.62	33.23	34.96	32.16	29.79	19.86	10.84	10.66	9.97
Debt to Equity Ratio (times)	8.68	9.21	10.69	12.94	9.97	8.09	7.36	7.59	4.46	4.12
OTHER INFORMATION										
No. of Employees	490	491	521	502	467	550	291	103	48	33
Supporting Network	31	30	18	17	17	16	9	8	8	8

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 Wednesday the 16th day of August 2017 at 10.00 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 31st March 2017 together with the Report of the Auditors thereon.

2) To re-elect Mr. C J E Corea who retires by rotation in terms of Articles 91 and 92 of the Articles of Association, as a Director of the Company.

3) To re-elect Mr. D T C Soza 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. A Russell-Davison who retires in terms of Article 97 of the Articles of Association, as a Director of the Company.

5) To reappoint the retiring Auditors, Messrs. Ernst & Young as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.

6) To authorize the Directors to determine and make donations for the year ending 31st March 2018 and up to the date of the next Annual General Meeting.

By Order of the Board

SOFTLOGIC CORPORATE SERVICES (PVT) LTD

(Sgd.)
SECRETARIES

24th July 2017

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 10.00 a.m. on Monday the 14th day of August 2017, 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 H K M Perera	of Colombo or failing him*
Mr A Russell-Davison	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 10.00 a.m. on Wednesday the 16th day of August 2017 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 2017 together with the Report of the Auditors thereon.	☐	☐
2)	To re-elect Mr. C J E Corea who retires by rotation in terms of Articles 91 & 92 of the Articles of Association, as a Director of the Company.	☐	☐
3)	To re-elect Mr. D T C Soza who retires by rotation in terms of Articles 91 & 92 of the Articles of Association, as a Director of the Company	☐	☐
4)	To re-elect Mr. A Russell-Davison who retires in terms of Article 97 of the Articles of Association, as a Director of the Company.	☐	☐
5)	To reappoint Messrs. Ernst & Young, as Auditors and to authorize the Directors to determine their remuneration.	☐	☐
6)	To authorize the Directors to determine and make Donations	☐	☐

....

*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 the 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 10.00 a.m. on Monday the 14th day of August 2017, 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)

Notes

Notes

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 Business Act No. 42 of 2011.

Registered under the Finance Leasing Act No. 56 0f 2000.

Approved Credit Agency under the Mortgage Act No. 06 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 a 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. Hiran Kenneth Marcel Perera

Management Committee

Mr. Harris Premaratne - Deputy Chairman

Mr. Nalin Wijekoon - Director/CEO

Mrs. Indresh Fernando - COO

Mrs. Nimali Monika Ranasinghe - DGM

Mr. Nalaka De Silva - DGM

Mr. Kumara Kongahawatta - AGM

Secretaries

Softlogic Corporate Services (Pvt) Ltd

Auditors

Ernst & Young
Chartered Accountants

Legal Advisors to the Company

Nithya Partners

Bankers

Commercial Bank of Ceylon PLC

Seylan Bank PLC

Hatton National Bank PLC

People's Bank

Pan Asia Banking Corporation PLC

Sampath Bank PLC

Bank of Ceylon

Nations Trust Bank PLC

DFCC Bank PLC

Deutche Bank

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