Softlogic Finance

ANNUAL REPORT 2017/18

A CLEAR VISION WITH FORWARD MOMENTUM

www.softlogicfinance.lk

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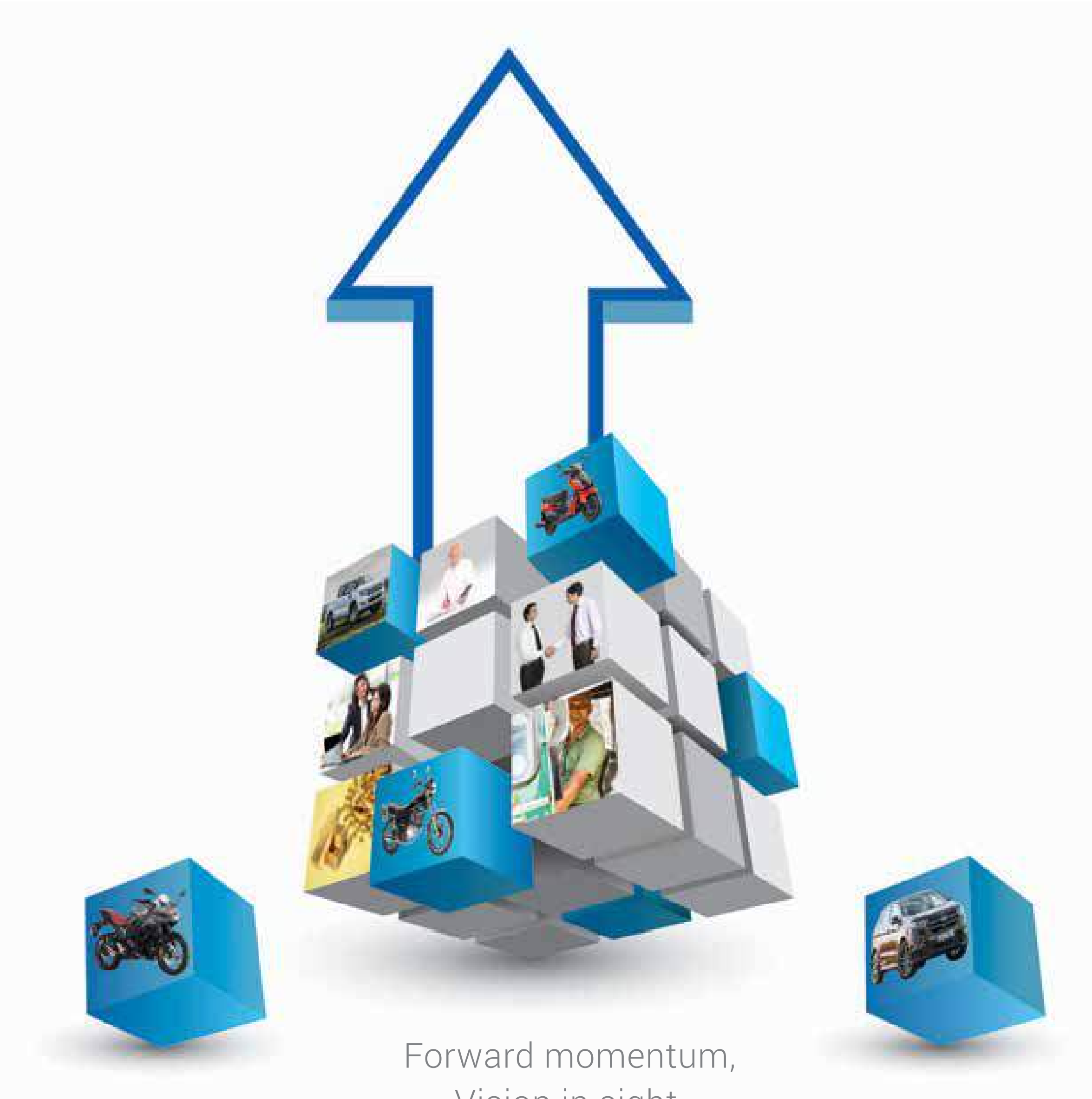

Forward momentum,
Vision in sight,
Led with passion and conviction,
Reinforced with stability and might,
Strengthened through experience,
Wisdom and understanding,
Stepping forth,
to an era of growth,
In an industry,
Where hidden opportunities,
We turn to endless possibilities,
We come to you as
Softlogic Finance PLC

A Clear Vision with
Forward Momentum!

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About Us

With the reengineering of our business model and the repositioning of the value proposition we offer to our esteemed clientele, we are on a quest to achieve business and service excellence. Armed with our new product-mix and backed by refined backend processes and operational risk management strategies, we have positioned ourselves to serve our customers with a greater range of financial solutions that have been designed to service their personal and commercial financial requirements.

ABOUT US

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

Our corporate machinery has been designed and driven to give primacy to the interests of all our stakeholders in our pursuit to build a sustainable business that can withstand the vagaries of the industrial and economic environment that we operate in.

In this quest, the integrated value creation process that we have championed through our Business Model has contributed significantly to ensuring that we are geared towards developing and sustaining a holistic growth drive that positively impacts all our stakeholders.

Investors – Our decision making process and our short term and long term financial objectives have always been aligned with the aspirations 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 – Our actions have undoubtedly proven that we regard our employees as the lifeblood of our company. We focus on professionally developing them so that they would continue to add strategic value to our business. Further, as a part of our employee value proposition, we offer our employees a rewarding, safe and challenging work environment for them to professionally and personally excel in.

Customers – The expectations of our customers always take the forefront in our business operations. Our financial solutions have been designed with the demands of our customer segments in mind and we are not afraid to aggressively restructure existing products or introduce new solutions to cater to the evolving aspirations of our clientele. 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 and Suppliers – Our commitment to fostering and maintaining long term, mutually beneficial relationships with our suppliers and business partners has been instrumental in developing the overall value proposition that we offer our clientele. Our engagement mechanism with them is collaborative and we have committed ourselves to ethical and transparent business practices.

The Environment – All our business decisions and operational activities have been designed to ensure that we operate in an environmentally sustainable manner and invest in environmental conservation initiatives.

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

OUR REPORTING PHILOSOPHY

REPORTING CONTEXT

Welcome to our third Integrated Annual Report! As a company that is committed to delivering responsible and transparent financial solutions to its customers, our objective is to present actionable and relevant information to all our stakeholders in order 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 effectively communicate our value creation story to our stakeholders in a multi-dimensional and cohesive manner.

Our focus is on delivering sustainable value creation to all our stakeholders that could withstand the vagaries of the industry that we operate in. This demands an intrinsic awareness and a penetrative insight into our value creation process, our responsibilities to our stakeholders and the economic, social and environmental impacts that our business produces. 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 directed towards the economic, social and environmental impacts that our business yields, considering it is our belief that the value we create should tangibly impact all these three spectrum.

Further, we recognise the responsibility that we have during this value creation process to our diverse set of stakeholders. In this context, we have comprehensively discussed the corporate governance and integrated risk management processes that provide adequate checks, balances and safeguards with regard to 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 the Integrated Reporting methodology to shed 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. Further, 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 buttressed by the identification of the factors affecting our identified key stakeholders and the sustainability initiatives championed 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 2017/2018 ending on 31st March 2018. No restatements of any financial or non-financial information have been effected with regard to the previous financial year, unless otherwise specifically stated.

The reported Financial Statements as at and up-to 31st March 2018 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 2017 version of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka. Further, disclosures have also been made as per the Listing Rules of the Colombo Stock Exchange and the Companies Act No. 07 of 2007.

EXTERNAL ASSURANCE

External Assurance for the Financial Statements and its accompanying notes has been obtained from Messrs. Ernst and Young and their independent opinion is stated in the Independent Auditor's Report in Page 150.

OUR JOURNEY

2006/2007

Obtained the Registered Finance Company Licence from the Central Bank of Sri Lanka and started mobilising customer deposits

2007/2008

For the first time in its history, the Company's Total Asset Base passed the Rs. 1 Bn mark

2015/2016

Softlogic Finance PLC aggressively expands its geographical footprint, opening 12 branches during a single financial year

2016/2017

Softlogic Finance PLC launches its Education Loan Product

2017/2018

Softlogic Finance PLC re-launches its full range of leasing products and also introduces the "Atha Hitha" Small Business Loan product

2008/2009

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

2010/2011

Softlogic Holdings PLC acquires Capital Reach Leasing PLC in August 2010

2011/2012

Softlogic Finance PLC launches Personal Loan and Gold Loan Products

2012/2013

Softlogic Finance PLC successfully obtains a USD 10 Million Loan from FMO; being only the 3rd Finance Company at the time to secure a foreign loan

2013/2014

Softlogic Finance PLC introduces its SME loan product

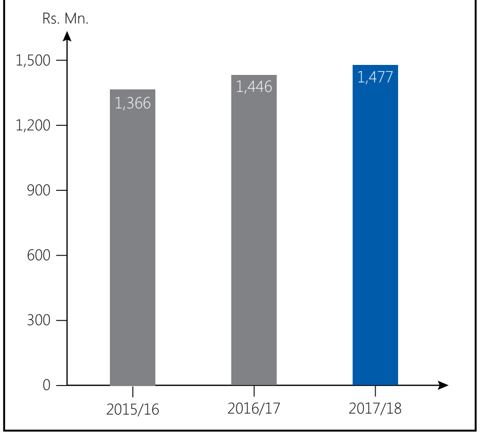
2014/2015

Softlogic Finance PLC issues a Rs. 1.4 Billion Listed, Secured Debenture, being the first ever AAA rated debenture issuance in the country

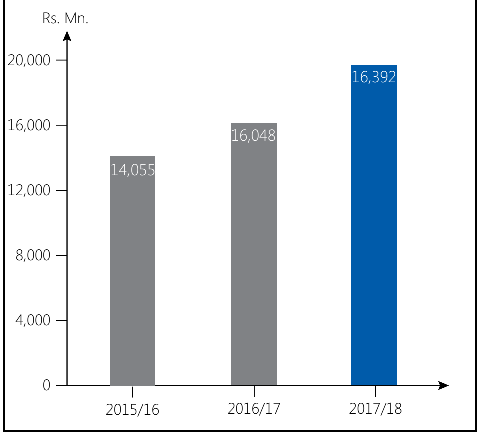
FINANCIAL HIGHLIGHTS

	2017/18	2016/17	Change
OVERVIEW OF FINANCIAL PERFORMANCE			
Financial Results (Rs. Mn)			
Total Gross Income	4,146	4,179	-1%
Interest Income	3,524	3,432	3%
Interest Expenses	2,561	2,291	12%
Net Interest Income	962	1,140	-16%
Other Income	623	747	-17%
Total Operating Income	1,585	1,887	-16%
Total Operating Expenses	1,184	1,122	6%
Impairment Charges	108	441	-75%
Profit Before Tax (PBT)	292	324	-10%
Taxation (Income Tax & VAT & NBT on Financial Services)	74	80	-8%
Profit After Tax (PAT)	219	244	-10%
Financial Position (Rs. Mn)			
Total Assets	21,680	21,706	0%
Loans and Receivables	15,811	17,040	-7%
Lease and Hire Purchase Receivables	1,567	949	65%
Customer Deposits	16,392	16,048	2%
Total Borrowed Funds (Rs.)	2,917	3,671	-21%
Shareholders' Funds (Rs. Bn)	2,280	1,842	24%
Financial Ratios & Indicators			
Cost to Income Ratio (%)	74.72	59.46	1526 bps
Return on Average Assets (ROA) – Before Tax (%)	0.89	1.36	-47 bps
Return on Average Equity (ROE) – After Tax (%)	10.61	13.97	-336 bps
Earnings Per Share (EPS) (Rs.)	3.70	4.14	-11%
Earnings Yield (%)	10.57	13.34	-277 bps
Dividend Per Share (Rs.)	1.65	1.25	32%
Dividend Yield (%)	4.71	4.03	68 bps
Dividend Cover (Times)	2.24	3.31	-32%
Dividend Payout Ratio (%)	44.55	30.22	1433 bps
Net Assets Value Per Share (Rs.)	33.57	31.18	8%
Market Price Per Share (Closing) (Rs.)	35.00	31.00	13%
Market Capitalisation (Rs.) (Mn.)	2,070	1,831	13%
Price to Earnings (Times)	9.46	7.49	26%
Core Capital Ratio (%) (Minimum Requirement 5%)	12.67	11.83	84 bps
Total Risk Weighted Capital Ratio (%) (Minimum 10%)	11.42	11.26	16 bps

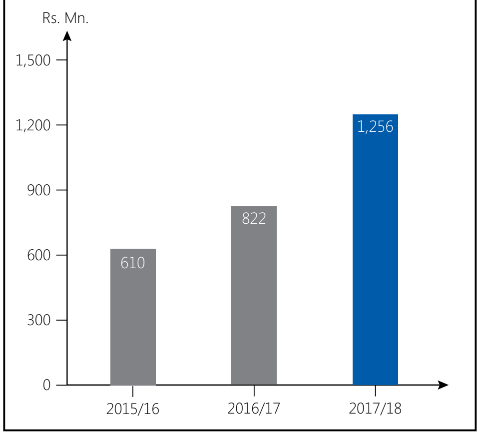
Net Operating Income



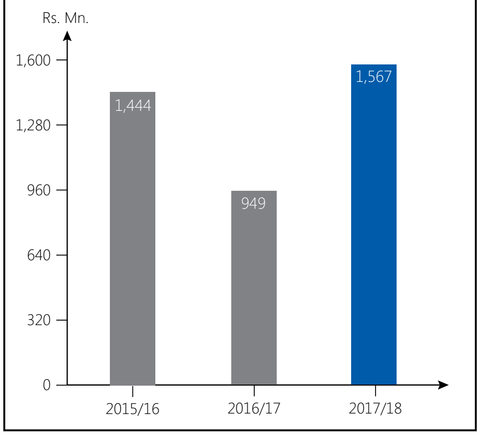
Customer Deposits Base



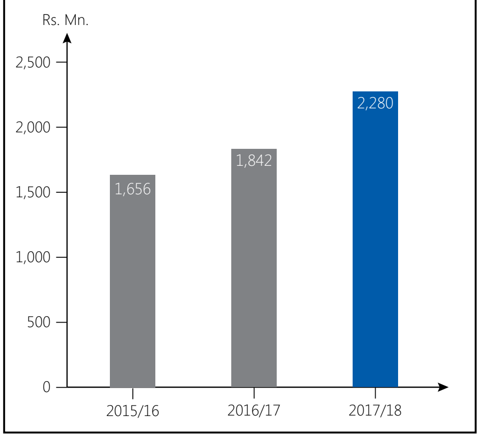
Gold Loan Portfolio



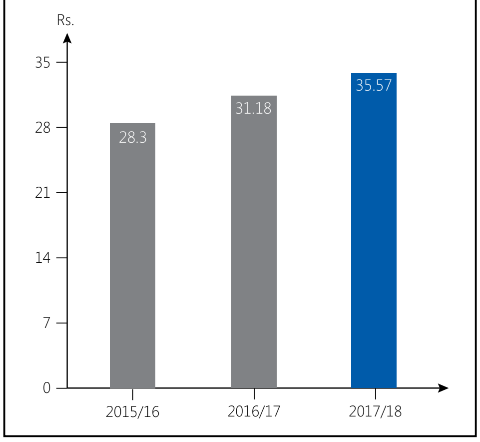
Lease and Hire Purchase Receivables



Shareholders' Funds



Net Assets Per Share



ANNUAL HIGHLIGHTS

SENKADAGALA BRANCH RELOCATION

With the intention of providing our growing clientele with a more spacious and convenient location to conduct their business with us, we relocated our Senkadagala Branch in June 2017 to a more modern and central location.

BAMBALAPITIYA BRANCH RELOCATION

In June 2017, we shifted our Branch in Pamankada to a more spacious and centralised location in Bambalapitiya to serve our clientele better at a more convenient location.

KOTTAWA BRANCH UPGRADE

Our presence in Kottawa was cemented with the upgrading of our gold loan centre to a spacious and conveniently located branch in August 2017.

KALUTARA BRANCH UPGRADE

Our Kalutara location was upgraded from a gold loan centre to a branch in September 2017 at a very spacious and central location in the city and provides our customers access to our full range of financial services.

GOLD LOAN RS. 1 BILLION ACHIEVEMENT

We set to achieve a Gold Loan Portfolio of Rs. 1 Billion by December 2017. As a result of our concerted marketing efforts and the consistent operational support provided to our network, we were able to reach this Rs. 1 Billion milestone by November 2017.

GAMPAHA BRANCH UPGRADE

We continued the extension of our geographical footprint to Gampaha with the upgrading of our gold loan centre to a Branch in December 2017 in a spacious and modern location at the heart of the city.

SOFTLOGIC FINANCE & SUZUKI MOTORS PARTNERSHIP LAUNCH EVENT

We entered into a strategic partnership with Suzuki Motors Ltd, a subsidiary of the Softlogic Holdings, to exploit group synergies and offer customised, value added leasing solutions to Suzuki motor bicycles.

MOTOR BICYCLE & THREE WHEEL LEASING CAMPAIGN LAUNCH

Backed by intensive marketing efforts, we launched a leasing campaign specifically targeting motor bicycles and three wheelers with the objective of aggressively growing our leasing portfolio.

ATHA HITHA SMALL BUSINESS LOAN LAUNCH

In October 2017, we launched a specialised working capital solution called "Atha Hitha" for small businesses seeking access to instant and flexible financing.

KOTAHENA BRANCH UPGRADE

In October 2017, we made our foray into the heart of Kotahena with the conversion of our gold loan centre to a fully fledged, modern branch.

KOTTE RAJAMAHA VIHARAYA CSR PROJECT

We continued the expansion of our groundbreaking "Clean Zone" initiative with the launch of this CSR initiative at the Rajamaha Viharaya in Kotte.

APPOINTMENT OF THE NEW DEPUTY CHAIRMAN

Softlogic Finance PLC appointed veteran banker, Mr. Aaron Russell-Davison as its Executive Deputy Chairman. He brings with him over 20 years of banking experience and was previously the Global Head of Debt Capital Markets for Standard Chartered Bank, based in Singapore. He was also a former Director of Standard Chartered Bank, Credit Suisse and Hypoverinsbank.

CHAIRMAN'S MESSAGE

MIXED FORTUNES, LESSONS LEARNT AND OPPORTUNITIES SEIZED

It is with a sense of excitement that I present to you the Annual Report of Softlogic Finance PLC for the financial year 2017/18. Boosted by our collective determination to continuously excel and face challenges head on, we were able to ward off and withstand a host of macro-economic challenges posed by the persistent economic upheaval that continues to affect all major economic sectors.

Hence, as a result of the combined effect of a volatile economy and persistent natural disasters, we experienced downward pressure on our bottom line during the 2017/18 financial year. In this context, on a year-on-year basis, our Net Profit after Tax contracted to Rs. 219 Mn from Rs. 244 Mn, thus signifying a contraction of 10%. This depression in profitability was primarily triggered by the drops in our key lending portfolios that had an adverse effect on our ability to generate interest income. More specifically, the inclement weather conditions and the economic slowdown unfavorably affected the performance of our strategically important SME loan product, with this particular portfolio experiencing a portfolio decline and thus leading towards a significant slowdown in the growth of our interest income.

This served as a key turning point for us as a business and we seized this situation as a key learning opportunity to redefine and reengineer our business model and the accompanying strategy. During this journey of redefining and repositioning ourselves, we were mindful to ensure that our new business model and strategy would be adequately geared to withstand all existing and expected economic and industry challenges.

A LANDSCAPE OF HEIGHTENED ECONOMIC VOLATILITY

During 2017, just as in 2016, the Sri Lankan economy followed a trend of economic deceleration, thus posting a real GDP growth of only 3.1%, down from even the modest figure of 4.5% recorded in 2016. An increased average annual inflation rate of 7.7% coupled with the general economic slowdown meant that a sense of economic uncertainty and stagnation was felt across all the major sectors of the economy. This is very evident when taking the sectorial performance of the economy into consideration. In light of the ever-present natural disasters that continue to hammer our nation, the Agriculture sector, which accounts for 6.9% of the economy actually contracted by 0.8%. Comparative slowdowns in growth were experienced in the Industry and Service sectors too.

Boosted by our collective determination to continuously excel and face challenges head on, we were able to ward off and withstand a host of macro-economic challenges posed by the persistent economic upheaval that continues to affect all major economic sectors

Further compounding the tight economic conditions were the market interest rates adopting an increasing trend as a result of the restrictive monetary policy stance adopted. As a result, the deposit and lending rates increased, in effect raising the cost of funds in the economy. Additionally, driven by the high market rates in place, the industry experienced a slowdown in private sector credit growth. This slowdown in private sector credit growth was experienced in all the 3 major sectors of the economy. During 2017, credit growth slowed down to 14.7% in comparison to the 21.9% growth experienced in 2016.

Hence, in the context of our industry operating space, as a result of the stifled private sector credit growth, the overall economic stagnation experienced, along with the inclement weather conditions plaguing the country, the LFC and SLC sectors were able to only record nominal growth and subdued profitability, accompanied by increasing NPLs.

SOWING THE SEEDS OF CHANGE

With an eye on the future, we took steps to make a host of appointments to the Company's Board and its corporate and senior management cadre. The overarching rationale for these appointments was having the right people in place at the right positions to drive our new business model and its accompanying growth strategies.

In the context of the Board, we appointed veteran banker, Mr. Aaron Russell-Davison as our new Executive Deputy Chairman, with effect from 20th April 2018. He was initially appointed to our Board in June 2017. Over his illustrious career of over 20 years, he has held numerous leadership positions

With an eye on the future, we took steps to make a host of appointments to the Company's Board and its corporate and senior management cadre. The overarching rationale for these appointments was having the right people in place at the right positions to drive our new business model and its accompanying growth strategies

at a range of international banks. Further, we appointed another veteran banker, Mr. Nilantha Bastian to our fold and he brings with him over 18 years of banking experience; his last appointment being as HSBC's Country Head of Retail Banking and Wealth Management for Sri Lanka and Maldives. Additionally, in order to bring his vast experience of over 30 years in the fields of IT and Operations into the fray, we brought on board one of the co-founders of the Softlogic Group, Mr. Harish Kaimal. Whilst wishing them all the very best in their new appointments, I am confident that they will help redefine and forge an exciting new direction for our company.

In the context of our corporate and senior management cadre, we appointed a host of experienced industry professionals to strengthen our internal management team so as to drive our newly forged business model and enhance the strategic positioning of our company in the backdrop of a highly competitive external environment and current and future industry dynamics.

A STRATEGIC SHIFT WITH AN EYE ON THE FUTURE

With our endgame being defined as being able to confidently face any macroeconomic, industry and competitor challenges, we set about reengineering our business model and redefining the value proposition that we are to offer to our stakeholders. Thus, our intention is to foster and maintain a healthy lending portfolio with added weightage on collateralised lending.

With regard to collateralised lending, the scope of our new business model allows us to accommodate a range of asset backed products at appropriate profit margins. With the operationalisation of our new business model, we have also introduced a high-margin product named "Atha Hitha" targeting small established businesses with creditworthiness qualifying for formal financial inclusion. This product has been introduced in order to generate healthy profit margins for the Company whilst supporting local midsized entrepreneurs in the urban and rural economies.

Moreover, when considering our completely remodeled and repositioned leasing product, we offer a vast range of customised and tailor-made leasing solutions, catering to the entire spectrum of market segments in the economy. In essence, the newly defined and reengineered value proposition of our leasing product extends to solutions encompassing all bases of the leasing market space, including motor cycles, three wheelers, commercial vehicles used in transportation and construction, machinery, personal vehicles and dual purpose vehicles.

Furthermore, the accelerated strengthening and diversification of our lending product portfolio does not stop there. With the dawn of the new financial year, we undertook a preplanned controlled and structured rollout of our Vehicle Loan and Factoring products into identified markets.

APPRECIATION

My sincere gratitude and heartfelt appreciation goes out to our valuable customers for the trust and confidence they have continued to place in us.

I am also immensely grateful to all our shareholders, whose trust and confidence in us provide us with the strength to drive our business towards becoming the preferred Non-Bank Financial Institution in Sri Lanka.

I would also like to take this opportunity to express my appreciation to the officials of the Central Bank of Sri Lanka and the officers of the other regulatory bodies for the vital role they play and the significant contributions that they make towards the maintenance and enforcement of prudent and forward thinking practices and regulatory measures across the industry.

My sincere thanks go out to my Board of Directors who continue to make vital contributions to the shaping of the strategic direction of Softlogic Finance in the face of numerous economic and industry challenges. Special mention needs to be made of the pivotal contributions made towards the advancement of our organisation, by our outgoing Deputy Chairman, Mr. Harris Premaratne, who retired from the Board in January 2018, in line with the Central Bank of Sri Lanka's statutory age-based requirements.

Finally, I extend my appreciation to the Softlogic Finance team for their perseverance and their steadfast resolve to win in the face of seemingly insurmountable challenges.

(Sgd.)
Ashok Pathirage
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

A SNAPSHOT OF OUR PERFORMANCE

The 2017/18 financial year proved to be one of mixed fortunes for Softlogic Finance PLC. We were considerably challenged from many fronts but our unwavering determination allowed us to redefine and evolve ourselves and remain steadfast in our vision to be the preferred non-bank financial institution in Sri Lanka.

Unrelenting jolts from a depressed economy, persistent weather calamities, industry challenges and a subdued SME sector caused our profitability to drop by 10% in the face of drops in key lending portfolios.

Further, our issues with robust income generation were compounded by the rise in funding costs in line with the increase of market interest rates.

However, in order to ensure that we are better prepared for such macroeconomic and industry related obstacles in the future, we made the decision to redefine and reengineer our business model to cultivate a lending portfolio with a healthy and sustainable mix of asset backed and non-asset backed loans.

A HARSH ECONOMIC CLIMATE

For the year 2017 also, in real terms, Sri Lanka continued to post subdued and decelerated economic growth figures and this trend has been encapsulated in GDP growth being restricted to only 3.1% in 2017, compared to the 4.5% growth recorded in 2016. This prevailing economic slowdown, along with a growing inflationary climate, where the average annual inflation rate reached 7.7% compared to the 4.0% in existence in 2016, continued to affect all the major sectors of the economy.

During 2017, the Agriculture sector, which accounts for 6.9% of the economy contracted by 0.8% in light of the adverse weather conditions that continued to impact the country. Further, a slowdown was also experienced in the Industry sector of the economy. During 2017, Industry related economic activities, which account for 26.8% of the economy, grew only by 3.9%, compared to the 5.8% growth achieved in 2016. Growth in this sector was notably stifled as a result of the deceleration of the growth in construction, mining and quarrying activities. With regard to the Services sector of the economy, which represents 56.8% of the GDP, grew only by 3.2% compared to the 4.7% growth achieved in the previous year.

During 2017, the private sector credit growth decelerated significantly to 14.7%, on a year on year basis, when compared to the 21.9% growth experienced in 2016 as a result of the tight monetary policy stance adopted by the CBSL. This subdued credit growth situation unraveled due to the high market interest rates regime in place. In effect, the credit growth in all major sectors slowed down due to this stance. Hence, credit growth in the Services and Industry sectors of the economy expanded only by 8.3% and 19.6% respectively in 2017, compared to the significant growth of 35.4% and 22.2% in 2016, respectively. Similarly, with regard to the Agriculture sector, credit growth in 2017 reduced to 14.1%, from the 17.0% growth enjoyed in 2016.

> We have backed up these new product introductions and new market entries with carefully constructed operational risk management strategies and internal control systems to act as checks and balances for the operational rollout of these products.

In the context of the tight monetary policy conditions that were prevalent in the economy during 2017, market interest rates continued their increasing trend. However, towards the end of the year, certain market interest rates stabilised or adopted a downward trend, in reflection of improved market liquidity conditions. More specifically, commercial banks' deposit and lending interest rates also continued to increase during the majority of 2017, thus having the effect of raising the cost of funds in the economy. With regard to the Average Weighted Deposit Rate (AWDR), it stood at 9.07% by the end of 2017, in comparison to its 8.17% position at the end of 2016. Further, by the end of 2017, the increase of the Average Weighted Fixed Deposit Rate (AWFDR) moderated at 11.48% from its 10.46% position at the end of 2016.

The domestic money market liquidity continued to remain in deficit during the first seven months of the calendar year. Notably, when considering rupee liquidity, its highest deficit was recorded in June 2017. However, towards the latter part of the year, money market liquidity reached surplus levels as a result of the consistent purchase of foreign exchange by the CBSL and the part conversion of the International Sovereign Bond (ISB) obtained by the Government.

The LFC and SLC sectors experienced only modest growth during the year due to the subdued private sector credit growth, deteriorating profitability and increasing NPLs. This depressed customer assets and deposit liabilities growth trend continued into the first quarter of 2018 also. The obstructive practices adopted with respect to motor vehicle lending in order to restrict the importation of vehicles, the elevated market interest rates, persistent natural disasters and the general economic slowdown heavily contributed to the deceleration in credit growth. Further, during 2017, the asset quality in the sector continued to deteriorate progressively due to severe weather conditions and the lackluster economic environment. Moreover, it is noteworthy that when analysing sector profitability for the April 2017 to March 2018 period, Interest Expenses increased by 20%, Loan Loss Provisioning increased by 133% and the Profit After Tax reduced by 16%.

CHIEF EXECUTIVE OFFICER'S REVIEW

The company has already taken a number of calculated strategic steps to confidently and decisively tackle future macroeconomic and industry challenges and ensure that it is steadfast in its commitment to sustainable value creation for all its stakeholders.

AN INSIGHT INTO OUR PERFORMANCE

The country's economic slowdown and the persistent weather woes plaguing several parts of the country proved to have a significant dampening effect on our financial performance for the 2017/18 financial year. As a result of this challenging operating environment, one of our key income generators, the SME loan product, was significantly affected and experienced a portfolio decline. With this economic depression and the catastrophic weather conditions badly affecting the SME sector of our economy, in addition to the contraction of lending, the NPLs of this product also began to increase. Particularly with the inclement weather conditions in the North, North Central, North Western, Sabaragamuwa and Southern provinces of the country, around 10 of our branches were adversely affected, thus contributing to the Company's lending activities being unfavorably affected.

The primary victim of our total lending portfolio drop and NPL increases was our topline performance. As a result, our Interest Income only grew marginally by 3% during the financial year 2017/18. In addition to the Interest Income, our Non-Interest Income too was impacted by comparatively lower processing fees from SME loans and thus accounted for a 17% decrease on a year-on-year basis.

A key challenging factor to the financial performance of the 2017/18 financial year was the significant increase in funding costs as a result of the notable increase in the policy interest rates. Hence, our Interest Costs rose by 12% during the year and had a significant adverse impact on our cost structure. However, we were able to maintain our Interest Costs increase of 12% below the industry Interest Costs increase of 20% with our effective ALCO management.

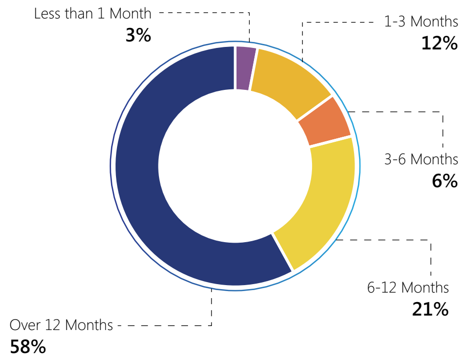
The company's Cost-to-Income ratio witnessed an increase from the previous year's position of 59% to 75% primarily due to the decrease in the Company's topline. The company's actual operating costs were strictly monitored and managed and only resulted in a marginal year-on-year growth of 6%. This was achieved as a result of the Company's continuous and concerted efforts to review and re-engineer its internal processes and operational workflows to cut down non-value adding processes, operational wastage and introduce a host of various other cost saving and cost management techniques.

When considering the loan impairment charges for the 2017/18 financial year, it is to be noted that the net impairment charge incurred is significantly lower than the charge incurred in the previous financial year. This 75% decrease was primarily as a result of correcting the LGD and PD ratios as evaluated by our external consultants. The impairment model in use currently has been designed with key input from external professional advisors and we will continuously review this impairment model with advice from our external consultants, whilst paying close attention to and taking into consideration the country and economic situation.

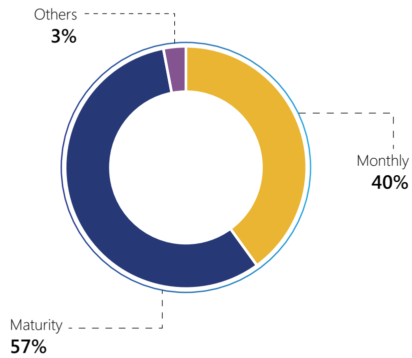
Compared to the incurring of an income tax charge for the previous year, the Company was able to effect an income tax reversal for the 2017/18 financial year as a result of an overstatement in income during the prior years.

In the context of our liquidity position, as a result of our sound and forward thinking liquidity management strategies, we were able to maintain very comfortable levels of liquidity, well above statutory limits, right throughout the year. Further, we maintained un-utilised bank credit lines right throughout the year. Moreover, our concerted efforts have proved fruitful in the careful crafting of a stable deposit base, with the majority of the deposits being for periods of over 1 year and carrying maturity based payment methods. Additionally, our focus on individual retail investments meant that we have progressively been able to reduce our Top 20 single client exposure. In order to manage our interest costs in the future, we are in a consistent and continuous push towards maturity based long term deposit investments. To this end, we have introduced our innovative "5 in 1" Fixed Deposit product, offering a choice of 5 withdrawal points over a 5 year period. Additional steps to reduce our funding expenses are in the pipeline, with the planned introduction of Savings products for children and ladies with a host of special features to maintain and grow a resilient Savings portfolio and in effect, reduce our interest expenses.

Period-wise Analysis of Our Fixed Deposit Portfolio as at 31st March 2018



Payment Method Based Analysis of Our Fixed Deposit Portfolio as at 31st March 2018



Additionally, it is to be noted that, in March 2018, the Company took steps to convert the remaining USD 2 million tranche of the convertible loan obtained from FMO, to equity. This debt to equity conversion resulted in an increase in equity by Rs. 310 million and improved the Company's total share capital to Rs. 2 Bn. As a result of this debt to equity conversion, our deposit mobilisation and lending capabilities have been reinforced and increased and there will no doubt, be a positive impact on our profitability with the reduction in interest costs.

TAKING ON THE FUTURE WITH CONFIDENCE

The company has already taken a number of calculated strategic steps to confidently and decisively tackle future macroeconomic and industry challenges and ensure that it is steadfast in its commitment to sustainable value creation for all its stakeholders. In this context, we have set in motion the reengineering of our business model with the intention of ensuring that we are well equipped to face anticipated economic, industry and competitor challenges. In this regard, we are focused on nurturing a healthy lending portfolio mix, primarily consisting of high margin non-asset backed products and comparatively low margin asset-backed products. In the collateralised category, our restructured business model is also focusing on high margin asset-backed products like three wheeler and motor bicycle leasing and gold loans.

This strategic shift towards fostering this new mix has been initiated with the intention of increasing our Net Interest Margin (NIM) to derive higher yields from our asset base and in turn increase our profitability.

In order to achieve our desired lending product mix, we have set in motion a host of operational strategies to bring in a higher percentage of both high and low margin collateralised lending. In this regard, our arsenal of products boast special customised leasing packages for motor vehicle leasing, three wheeler and motor cycle leasing, vehicle loans, gold loans and mortgage loans. Considering our approach to high margin non-asset backed lending, where we have planned to maintain a comparatively lower customer asset base, we have introduced our "Atha Hitha" Small Business Loans product with the intention of catering to an identified key market segment that is rapidly growing and ripe for formal financial accessibility. This small business loan product is tailor-made for rapidly growing established small businesses that require quick cash and flexibility in payments, operating in dynamic and conducive markets and regions. Additionally, it is also noteworthy to state that, with the dawn of the new financial year, the Company has rolled out its Factoring product, with a carefully designed and structured market penetration plan that aims to produce a healthy and consistently income generating portfolio.

With regard to our existing SME working capital product, we will be continuing this product in a measured scale, focusing on catering to existing customers with timely debt servicing and to highly creditworthy new customers.

We have backed up these new product introductions and new market entries with carefully constructed operational risk management strategies and internal control systems to act as checks and balances for the operational rollout of these products. Further, in order to ensure that best-in-class customer service and convenience is delivered to our clientele, we have taken active steps to refine and reengineer the operational pipelines of our existing and new products. Moreover, we have executed special recruitment drives to hire specialised personnel for our three wheeler and motor cycle leasing products. We have also hired a number of experienced industry professionals as product heads to drive the growth and maintain the asset quality of these newly introduced products. As part of our new business model, we have also established a dedicated department for the training of our marketing staff on our new products and providing them with the relevant credit appraisal training on these new products.

In line with the operationalisation of our new business model, it is noteworthy to specially state that we have heavily invested ourselves in driving our re-launched leasing product portfolio. In furtherance of our efforts to diversify and aggressively drive our lending portfolio, we took steps to redefine, refine and reposition the value proposition that we offer to our leasing clientele, with the re-launch of our entire leasing product range, along with the new additions to our range. Through this re-launch, we expanded the market segments that we serve with the introduction of specific tailor-made products for the motor cycle and three wheeler segments. This re-launch was backed up by an extensive multi-layered, multi-channel marketing campaign that continues to bring unprecedented exposure to our leasing product and corporate brand. We took our efforts a step further, with the establishment of a strategic partnership with Suzuki Motors Lanka Limited, a subsidiary of Softlogic Holdings PLC, to jointly promote and offer customised and value added motor cycle leasing packages to the clients of Suzuki Motors. We have already begun to experience the fruits of our labor, with our Net Leasing Portfolio recording a year-on-year growth of 104%.

NET LEASING PORTFOLIO
104%
Y-o-Y Growth

Based on the identification of the great market potential that our Gold Loan product has in our new business model, we worked towards redefining our target market segments and expanding our market scope to drive our Gold Loan product further. Therefore, we set about planning out and executing an extensive island-wide marketing campaign and laying down the operational foundation with checks and balances for accelerated business growth. The result was an unprecedented 52% year on year growth in our Gold Loan portfolio.

GOLD LOAN PORTFOLIO
52%
Y-o-Y Growth

With our sights firmly set on accelerated business growth, new product innovations and service excellence, we are in the process of implementing an integrated IT system tailor made for finance companies and we plan to complete the entire process by March 2019. This new integrated system will allow us to introduce new lending and deposit products to complement our realigned business model and serve as a catalyst for improved client management and support service excellence.

Whilst restructuring and repositioning our business model to achieve a healthy portfolio mix, we have taken cognisance of and welcome the new core capital and capital adequacy regimes introduced by the CBSL and we firmly believe that these measures would help further improve the risk appetite of the industry and help drive voluntary consolidation in the industry and ultimately benefit all industry stakeholders.

THE RIGHT FOUNDATION

In order to drive the Company's future growth plans, the Board has appointed veteran banker, Mr. Aaron Russell-Davison as its Executive Deputy Chairman. He brings with him over 20 years of banking experience and was previously the Global Head of Debt Capital Markets for Standard Chartered Bank, based in Singapore. He was also a former Director of Standard Chartered Bank, Credit Suisse and Hypoverinsbank. To further strengthen Board composition, steps were taken to appoint another veteran banker, Mr. Nilantha Bastian, who carries with him over 18 years of banking experience at HSBC Sri Lanka, with the last 6 years as HSBC's Country Head of Retail Banking and Wealth Management for Sri Lanka and Maldives. Moreover, the Board welcomed Mr. Haresh Kaimal, a co-founder of the Softlogic Group into its fold and he brings with him over 30 years of multi-faceted experience in IT and Operations.

To help drive these deliberate strategic shifts, we effected certain changes in our corporate and senior management with the appointment of seasoned industry professionals to the positions of Chief Operating Officer, Chief Financial Officer Chief Credit Officer, Chief Internal Auditor, Head of Recoveries, Head of Legal and Head of Compliance.

With the appointment of the new Recovery Head, we have undertaken to restructure our recoveries function in order to intensify our recovery efforts and establish controls and recovery strategies to arrest future NPLs. Moreover, action has also been taken to refine and enhance the legal filing and legal recovery process.

Hence, we have taken a multitude of proactive actions to ensure that we continue to create sustainable value to our stakeholders in the medium and long term, whilst amplifying our position as a dynamic competitive force in our industry.

ACKNOWLEDGEMENTS

I would like to take this opportunity to express my sincere appreciation to our Chairman Mr. Ashok Pathirage and the other members of the Board of Directors for their invaluable contributions and the guidance they have given throughout this challenging and volatile year, in light of a myriad economic and industry challenges. I would also like to extend my heartfelt gratitude to Mr. Harris Premaratne, who retired from the Board and the position of Deputy Chairman, in line with the Central Bank's statutory age-based requirements. The immense contribution he made to the Company's business growth, network expansion and the reengineering of internal processes and controls helped shape this company to become a competitive force to be reckoned with, in the industry.

Further, during the year, two of our Directors, Mr. Iftikar Ahamed and Mr. Hiran Perera resigned voluntarily and I would like to take this opportunity to thank them profusely for their contributions to the growth and management of this company.

Moreover, I would also like to convey my appreciation to the officers of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and all other regulatory bodies for the vital role they play in maintaining and enforcing prudent practices and regulatory measures across the industry. Furthermore, I take this opportunity to thank the external auditors, Messrs. Ernst and Young for the vital contributions that they have made to our organisation.

I conclude by expressing my sincere appreciation to the Softlogic Finance team whose commitment and tenacity were instrumental in facing the numerous and persistent 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
Executive Director/CEO

BOARD OF DIRECTORS

MR. NALIN WIJEKOON
EXECUTIVE DIRECTOR/CEO

MR. AARON RUSSELL-DAVISON
DEPUTY CHAIRMAN

MR. ASHOK PATHIRAGE
CHAIRMAN

MR. CHRIS COREA
INDEPENDENT
NON-EXECUTIVE
DIRECTOR

MR. DUSHAN SOZA
INDEPENDENT
NON-EXECUTIVE
DIRECTOR

MR. NILANTHA BASTIAN
INDEPENDENT
NON-EXECUTIVE
DIRECTOR

MR. HARESH KAIMAL
NON-EXECUTIVE
DIRECTOR

BOARD OF DIRECTORS' PROFILES

MR. ASHOK PATHIRAGE

Chairman

Mr. Ashok Pathirage, recognised as a visionary leader in Sri Lanka's corporate world, is the founding member and Chairman/ Managing Director of the Softlogic Group, one of Sri Lanka's leading conglomerates. He manages over 50 companies with a pragmatic vision, providing employment to more than 10,000 employees. Mr. Pathirage gives strategic direction to the Group, which has a leading market presence in four vertical sectors – Retail & Telco, Healthcare Services, Financial Services & IT and Leisure & Automotive.

The Asiri Hospital chain is the country's leading private healthcare provider and has achieved technological milestones in medical innovation in Sri Lanka's private healthcare services sector. Softlogic Holdings PLC, Softlogic Capital PLC, Softlogic Life Insurance PLC, Softlogic Finance PLC, Asiri Hospital Holdings PLC, Asiri Surgical Hospital PLC and Odel PLC are all listed in the Colombo Stock Exchange, where he serves as the Chairman/Managing Director. Mr. Pathirage is also the Deputy Chairman of National Development Bank PLC and the Chairman of NDB Capital Holdings Limited.

MR. AARON RUSSELL-DAVISON

Deputy Chairman

(Appointed as Deputy Chairman w.e.f. 20th April 2018)

Mr. Russell-Davison joined the Board of Softlogic Finance PLC in June 2017. With over twenty years of banking experience, he was most recently the Global Head of Debt Capital Markets for Standard Chartered Bank, based in Singapore.

He has also served as a Board Director of Standard Bank, Credit Suisse and Hypoverinsbank. Mr. Russell-Davison has held a series of other senior investment banking positions in Hong Kong, Singapore and London during his career.

He graduated from the University of Western Australia in 1991 with a Bachelor of Arts in Asian History and Politics. He also serves as an Independent Non-Executive Director at Amana Bank.

MR. NALIN WIJEKOON

Executive Director/CEO

Mr. Wijekoon functioned as the Chairman of the Finance Houses Association of Sri Lanka (FHA) for the years 2013/14 and 2014/15. He also served as a Board Director of the Credit Information Bureau from 2015 to 2017. He was appointed as CEO of Softlogic Finance PLC in February 2013. Prior to him been appointed as CEO, he served as the Deputy CEO of the Company. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, 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 from 1978 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 37 years of experience in the Financial Sector.

MR. CHRIS COREA

Independent Non-Executive 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, 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.

MR. DUSHAN SOZA

Independent Non-Executive Director

Mr. Dushan Soza is currently the Managing Director of BPMOne (Pvt) Ltd., an IT solutions and consulting company. He has more than 30 years of varied experience as a leader and CEO in local and international organisations. His key capabilities are in People Leadership and Governance, Strategy, Brand Marketing and Infrastructure Development. He has in depth experience in setting up and running BPO operations and is largely credited for having introduced BPO to Sri Lanka and the setting up of Financial and Legal Service Centers of Excellence.

Mr. Soza was formerly the Managing Director of WNS Global Services (Pvt) Ltd, Sri Lanka having joined and set up the Office in the early 2000s and during his tenure of 14 years, grew it to be the largest and hired over 2,000 professionals. 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 served on the Boards of the Export Development Board and the Consumer Affairs Authority.

Mr. Soza 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. He was also a former professional cricketer having captained the Sri Lanka Under-19 team and has played first class cricket.

Mr. Soza will take over the lead position of District Governor of Rotary D3220 comprising Sri Lanka and Maldives in the Rotary year 2018/19.

MR. HARESH KAIMAL

Non-Executive Director

Mr. Haresh Kaimal is a co-founder of the Softlogic Group and a Director since its inception. He was appointed to the Softlogic Finance PLC Board with effect from 1st August 2017. With over 30 years of experience in IT and Operations, he currently heads the IT vertical of the Group and has been instrumental in driving advancements in Information Technology and Enterprise Resource Management within the Softlogic Group. He is also a Director of Odel PLC and Softlogic BPO Services (Pvt) Ltd.

MR. NILANTHA BASTIAN

Independent Non-Executive Director
(Appointed w.e.f. 20th April 2018)

Mr. Nilantha Bastian has over 18 years of banking experience at HSBC Sri Lanka, with the last 6 years as HSBC's Country Head of Retail Banking and Wealth Management for Sri Lanka and Maldives. Mr. Bastian has previously worked with Seylan Bank PLC, in the Advertising industry and also trained at Ernst & Young. He is a Director of and a Consultant to MA'S Tropical Food Processing (Pvt) Ltd and is a Fellow of CIM (UK). Mr. Bastian joined the Softlogic Finance PLC Board with effect from 20th April 2018.

EXECUTIVE MANAGEMENT

MR. AARON RUSSELL-DAVISON
DEPUTY CHAIRMAN

MR. NALIN WIJEKOON
EXECUTIVE DIRECTOR/CEO

MR. LOHIKA FONSEKA
CHIEF OPERATING OFFICER

MR. SANJEEWA PREMAWARDANA
CHIEF FINANCIAL OFFICER

MS. ROSHANI ABEYSUNDARA
CHIEF CREDIT OFFICER

MR. NALAKA DE SILVA
DEPUTY GENERAL MANAGER – LENDING

MR. ASANKA DE ALWIS
HEAD OF RECOVERIES

MS. NADEEKA WIMALATHUNGA
HEAD OF LEGAL

EXECUTIVE MANAGEMENT PROFILES

Mr. AARON RUSSELL-DAVISON

Deputy Chairman
(Appointed as Deputy Chairman w.e.f. 20th April 2018)

Mr. Russell-Davison joined the Board of Softlogic Finance PLC in June 2017. With over twenty years of banking experience, he was most recently the Global Head of Debt Capital Markets for Standard Chartered Bank, based in Singapore.

He has also served as a Board Director of Standard Bank, Credit Suisse and Hypoverinsbank. Mr. Russell-Davison has held a series of other senior investment banking positions in Hong Kong, Singapore and London during his career.

He graduated from the University of Western Australia in 1991 with a Bachelor of Arts in Asian History and Politics. He also serves as an Independent Non-Executive Director at Amana Bank.

Mr. NALIN WIJEKOON

Executive Director/Chief Executive Officer

Mr. Wijekoon functioned as the Chairman of the Finance Houses Association of Sri Lanka (FHA) for the years 2013/14 and 2014/15. He also served as a Board Director of the Credit Information Bureau from 2015 to 2017. He was appointed as CEO of Softlogic Finance PLC in February 2013. Prior to him been appointed as CEO, he served as the Deputy CEO of the Company. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, 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 from 1978 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 37 years of experience in the Financial Sector.

Mr. LOHIKA FONSEKA

Chief Operating Officer

Mr. Fonseka carries with him over 24 years of experience in the Banking & Finance Sectors and has held Senior Management positions in several organisations in Sri Lanka. He has obtained his MBA from the University of Wales, Cardiff, UK, his BA (Hons) in Business Accounting from the University of Lincolnshire & Humberside, UK and his Diploma in Banking from the Institute of Bankers of Sri Lanka. He is an Associate Member of CIM (UK).

He started his career at Hatton National Bank as a Banking Assistant and held different positions in Seylan Bank PLC, Mercantile Leasing Ltd and Orient Finance PLC. Prior to joining Softlogic Finance PLC, he was engaged in Colombo Trust Finance PLC as its Chief Executive Officer.

Mr. SANJEEWA PREMAWARDANA

Chief Financial Officer

Mr. Premawardana has over 21 years of experience in the Banking Sector and has held Senior Management positions in several organisations in Sri Lanka. He has completed his Master of Business Administration Degree, specialized in Finance, at the Cardiff Metropolitan University, UK and is a Fellow member of CIMA (UK) and an Associate Member of the Association of Certified Global Management Accountants, USA. He is also a life member of the Association of Professional Bankers of Sri Lanka.

He started his career at Sampath Bank as a Senior Executive and is a Visiting Lecturer for the MBA & MSc programs of the University of West Scotland and Asia e-University. He was engaged in Cargills Bank Ltd as the Head of Finance – Management Reporting prior to joining Softlogic Finance PLC.

Ms. ROSHANI ABEYSUNDARA

Chief Credit Officer

Ms. Abeysundara joined Softlogic Finance PLC as Chief Manager – Credit and currently overlooks the Credit Department as the Chief Credit Officer.

Ms. Abeysundara carries with her over 25 years of experience in the Banking & Finance Sector in a range of disciplines including Relationship Management, Corporate Banking and Credit. She holds memberships in ACCA, CIMA, CIM, AAT & ABE and has participated in numerous training programs on Leadership & Management.

She started her career from Hayleys Limited as a Clerk and held different positions in Maritime Agencies, Keels Business Systems, Banque Indosuez, Standard Chartered Bank, Nations Trust Bank, Union Bank, Amba Research Lanka (Pvt) Ltd. and National Development Bank.

Prior to joining Softlogic Finance PLC, she was engaged with ICICI Bank as its Head of Corporate Banking.

Mr. NALAKA DE SILVA

Deputy General Manager – Lending

Mr. De Silva joined Softlogic Finance PLC with nearly 18 years of experience in the fields of Leasing & Collections with exposure to Litigation & Debt Recovery. He has held managerial positions for over 10 years. Prior to joining Softlogic Finance PLC, he held the position of Manager – Consumer Collections (Consumer Loans & Credit Cards) at Nations Trust Bank PLC. He has managed a large team of collectors, supervisors and assistant managers and was also responsible for their training and development. He has attended many professional training programs in collections and recoveries, held both locally and internationally, with special emphasis on recovery strategy formulation and work-flow designs.

Prior to Nations Trust Bank PLC, he worked for Bartleet Finance PLC for eight years, holding numerous positions. He had also held the position of Labour Welfare Officer at the Diplomatic Labor Welfare Office in Cyprus, representing the Sri Lankan Government and the Foreign Employment Bureau of Sri Lanka. He currently overlooks the Lending Sales division of the Company.

Mr. ASANKA DE ALWIS

Head of Recoveries

Mr. De Alwis counts over 30 years of experience in a multitude of industries including IT & Telecommunications, Retail, Aviation, Advertising, Market Research and Marketing Communications. He joined Softlogic Finance PLC after working overseas where he held multiple executive engagements. He hails from a multi-disciplinary background where he has been actively involved in sales, marketing, communications, staff development, operations management, relationship management and corporate management during his career.

Ms. NADEEKA WIMALATUNGA

Head of Legal

Ms. Wimalatunga transferred to Softlogic Finance PLC from the Asiri Hospitals Group with effect from October 2017 as its Head of Legal and overlooks the Legal Division of the Company. She has over 8 years of experience in the legal field and has held senior management positions in several organisations in Sri Lanka. She entered Sri Lanka Law College in 2007 and enrolled as an Attorney-at-Law of the Supreme Court of Sri Lanka in 2010. She started her career at Ganlaths, Attorneys-at-Law & Notaries Public as a Legal Assistant. Prior to transferring to Softlogic Finance PLC, she was engaged in the Asiri Hospitals Group as its Legal Officer, Group Manager – Legal and also as its Group Manager – Legal & Compliance.

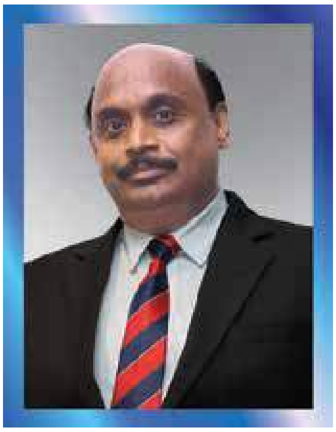
SENIOR MANAGEMENT

Chanura Wijetillake
Assistant General Manager – Compliance

Kumara Kongahawatta
Assistant General Manager – Credit

Kamal Roshan
Chief Internal Auditor

Shehan Uduwara
Chief Manager – Recoveries



Ashok Perera
Chief Manager – FD Mobilization

Channa De Silva
Chief Manager – IT

Harin Perera
Chief Manager – Leasing

Nayomi Seneviratne
Chief Manager – Corporate Branch

REGIONAL AND BRANCH MANAGERS

Manoj Kumar
Assistant General Manager
Southern Region – I and Colombo Region

Dilip Wickramasinghe
Galle

Sudath Siri Kumara
Matara

Nadeesha Abeykoon
Matara Metro

Kosala Peiris
Colombo City Office

Hemantha Silva
Borella

Dhishna Soyza
Business Loans Unit

Kolitha Harshapriya
Weligama

REGIONAL AND BRANCH MANAGERS

Harsha Weerathunga
Assistant General Manager
Central Region

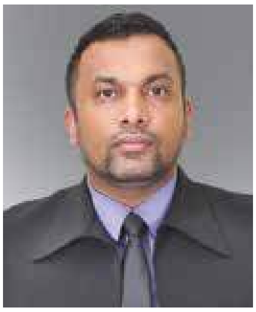
Lakmal Dharmasena
Badulla

Damien Joseph
Hatton

Sachintha Nakandala
Kandy

Christopher Jayasekaran
Nuwara Eliya

Asanka Godakandage
Senkadagala



Malinda Waidyatilleke
Matale

REGIONAL AND BRANCH MANAGERS

Colin Samaratunge
Assistant General Manager
Western Region – I

Manuka Dharmagunarathne
Negombo

Kenard Perera
Kochchikade

Sanjeewa Jayasinghe
Chilaw

Rumesh Asanka
Gampaha

Shanaka Piyaratna
Wattala

Mahinda Dias
Kadawatha

REGIONAL AND BRANCH MANAGERS

Amila Konara
Chief Manager
Western Region – II

Gayan Nawela
Dematagoda

Gihan Hewage
Kotahena

Ashen De Silva
Kottawa

Mayura Adikari
Pettah

Kapila Chandrakumara
Bambalapitiya

Malika Weerathunga
Kalutara

Piyal Jayalath
Nawala

REGIONAL AND BRANCH MANAGERS

Kumara Vidanagamage
Manager
Sabaragamuwa and Southern Region – II
Embilipitiya – Branch Manager

Chandana Vithana
Ratnapura

Ruchira Sameera
Tissamaharama

REGIONAL AND BRANCH MANAGERS

Nishantha Rathnayake
Chief Manager
North Central and North Western Region
Polonnaruwa – Branch Manager

Deeptha Eramudugolla
Kurunegala

Nandana Gajanayake
Anuradhapura

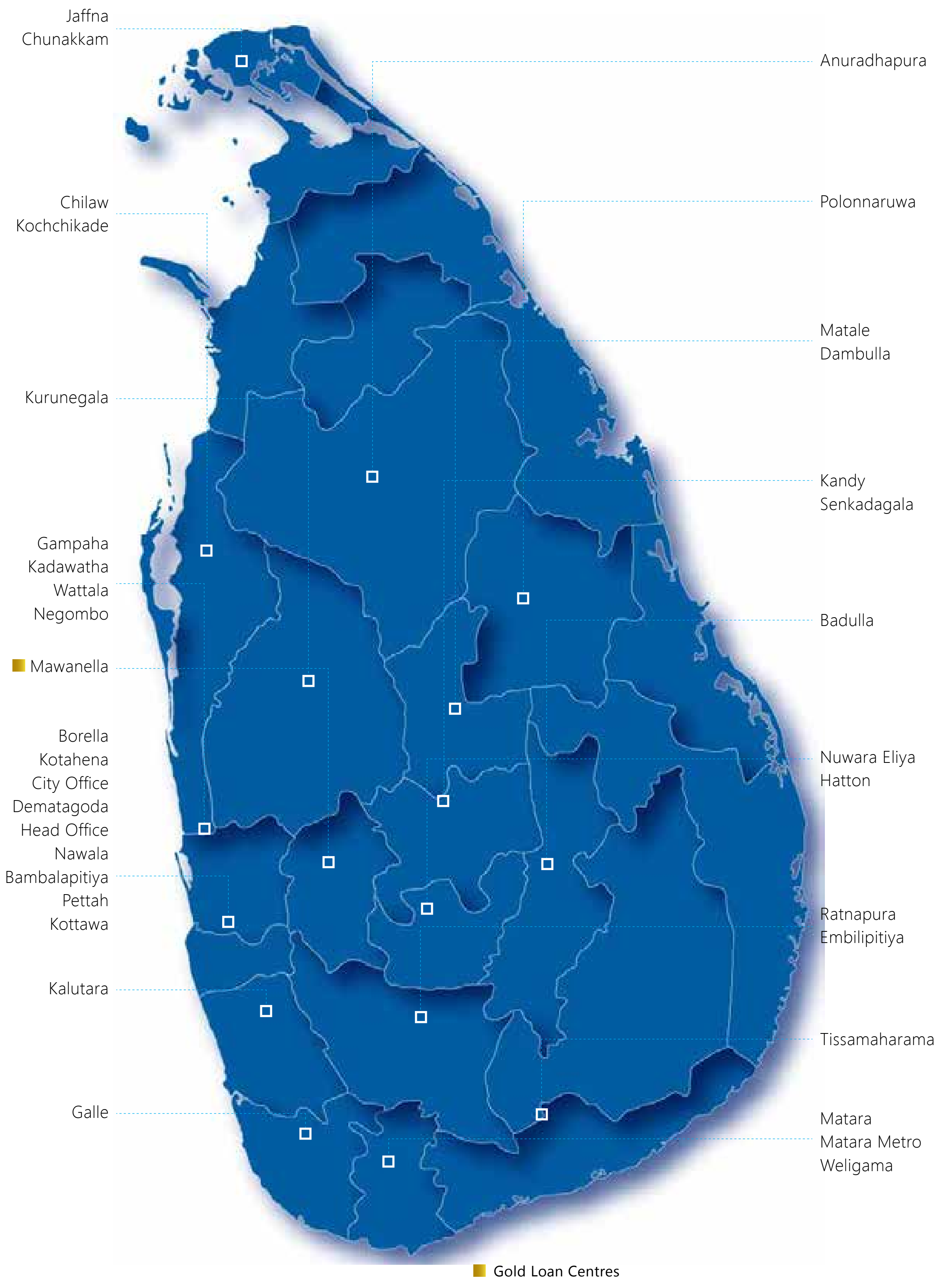
Shehan Gunawardane
Dambulla

REGIONAL AND BRANCH MANAGERS

Senathirajah Thavaseelan
Chief Manager
Northern Region
Jaffna – Branch Manager

Nishangan Mahalingam
Chunnakam

OUR GEOGRAPHICAL FOOTPRINT



OUR APPROACH TO VALUE CREATION

Leasing

The ideal choice for flexibility, affordability and personalised customer service, our full range of leasing solutions provide you with customised 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.

STAKEHOLDER IDENTIFICATION AND ENGAGEMENT

DEFINITION OF THE BUSINESS SCOPE

IDENTIFICATION OF MATERIAL EXTERNAL ENVIRONMENTAL FACTORS

Identification of Stakeholders

Profiling of Identified Stakeholders

Identifying Material Stakeholders Needs

Prioritising Stakeholder Needs

Mapping out the Stakeholder Engagement Process

Engaging with and Managing Stakeholders

Reviewing and Improving the Entire Process based on Stakeholder Responses

THE NEED FOR STAKEHOLDER IDENTIFICATION

Our value creation process has been enriched and enhanced by the implementation of a stakeholder identification and engagement process. Such a formalised process has indeed contributed to the espousal of an all-inclusive methodology that helps us to identify and take proactive actions to fulfill stakeholder demands. This process is continuous and is primarily driven by our Executive 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 on all our stakeholders.

What is expected from this process is that we get an all-encompassing idea of all the actors 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 they would be 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

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

STEP 2 – IDENTIFICATION OF KEY STAKEHOLDERS

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

THE IDENTIFIED KEY STAKEHOLDERS

- Shareholders & Investors
- Customers
- Employees
- Suppliers & Value Added Service Providers
- Regulators
- Society and the Environment

METHODOLOGY FOR STAKEHOLDER ISSUE IDENTIFICATION

We have set in motion a two dimensional approach to assess the significance of stakeholder issues that arise and prioritise them accordingly. This is a continuous process and we are aware that the significance of different stakeholder issues could change overtime.

A broad criteria 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 prioritisation 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. In this light, 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 ENGAGEMENT PROCESS

As per the results of the stakeholder identification and filtration process we decide upon the level of engagement, the frequency of engagement and the methods of engagement with the key stakeholders. These are decided upon internally by our Executive 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 IDENTIFICATION AND ENGAGEMENT

Stakeholder Type	Engagement Approach	Expected Outcomes
Shareholders and 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	■ Personalised 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 ■ Fostering a 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 IDENTIFICATION AND ENGAGEMENT

Stakeholder Type	Engagement Approach	Expected Outcomes
Suppliers and Value Added Service Providers	■ Dedicated personnel to interact with different types of suppliers and service providers on a continuous basis ■ Prioritised engagement with local suppliers ■ Mutually beneficial, long term relationships being the focus during contractual negotiations	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, personalised interaction ■ Uncompromised level of priority for regulatory compliance ■ On-time statutory reporting ■ Ad-hoc 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

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 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 and 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

THE SRI LANKAN ECONOMY

Sri Lanka's real GDP growth continued to contract further during 2017 also to 3.1%, from the growth rate of 4.5% recorded in 2016. Agriculture related activities recorded a contraction of 0.8% against the backdrop of adverse weather conditions that continued from 2016, while a slowdown in economic activity in both services and industrial sectors was also observed. Industry related activities, accounting for 26.8% of real GDP, grew only by 3.9% in 2017. The growth in industrial activities was primarily supported by manufacturing activities, construction activities, and mining and quarrying. However, the growth of construction activities that supported the overall economic growth throughout the post conflict period, with the exception of 2015, decelerated notably during 2017. Further, Services activities, which accounted for 56.8% of real GDP, grew by 3.2% in 2017, on a year-on-year basis, driven by the expansion in financial service activities, wholesale and retail trade, and other personal service activities.

In the context of the expenditure approach of GDP estimates, economic growth in nominal terms was supported by the expansion of both consumption and investment expenditure in 2017. Consumption expenditure, which accounts for the largest share of total expenditure of the economy, recorded a growth of 9.0%in nominal terms during 2017, compared to the modest growth of 3.1% in 2016.

During 2017, the unemployment rate declined to 4.2% from 4.4% in the preceding year. In spite of the low overall unemployment rate, high unemployment among youth, educated groups and females continue to remain a longstanding issue in the country.

With regard to inflation, headline inflation remained broadly above the target during 2017, while core inflation stabilized at desired levels during the latter part of the year. Despite the tight monetary policy stance maintained by the Central Bank of Sri Lanka, the sharp acceleration in food inflation caused by weather related supply disruptions resulted in significant unanticipated upward movements in headline inflation.

When considering trade related activities, exports rebounded during 2017 to record the historically highest value in terms of earnings, thus reversing the lackluster performance in exports. However, the expenditure on imports increased considerably in 2017, mainly due to higher imports related to inclement weather conditions and the increases in international commodity prices. The expansion in the trade deficit, moderation in earnings from tourism, decline in workers' remittances and higher interest payments and reinvested earnings by DIEs led the external current account deficit to widen in 2017. Hence, during the year, the trade deficit widened as a result of the increased expenditure on imports beyond expected levels, which outpaced the considerable increase in earnings from exports.

SRI LANKAN KEY ECONOMIC INDICATORS

Indicator	2017	2016	2015	2014	2013
Real GDP Growth (%)	3.1	4.4	4.8	5.0	3.4
GDP (US$ billion)	87.2	81.8	80.6	79.4	74.3
Inflation (YOY %)	7.1	4.5	4.6	2.1	4.7
Inflation – Annual Average (%)	6.6	4.0	2.2	3.3	6.9
GDP Per Capita Income (US$)	4,065	3,857	3,842	3,821	3,609
Balance of Payment (US$ million)	2,068	(500)	(1,489)	1,369	985
Exchange Rate (Rs/US$)	152.85	149.80	144.06	131.05	130.75

Source: Annual Report 2017, Central Bank of Sri Lanka

SECTORAL PERFORMANCE

	Rate of Change (%)		As a Share of GDP (%)	
Sector	**2017**	**2016**	**2017**	**2016**
Agriculture, Forestry & Fishing	(0.8)	(3.8)	6.9	7.1
Industries	3.9	5.8	26.8	26.6
Services	3.2	4.7	56.8	56.7

Source: Annual Report 2017, Central Bank of Sri Lanka

ECONOMIC REVIEW

Agriculture

Agriculture, forestry and fishing activities declined due to the impact of adverse weather conditions during 2017, as in the previous year. Further, the output of major agricultural crops such as paddy, vegetables, other food crops and coconut declined considerably, mainly due to the drought that prevailed during the year. Paddy production during the two seasons, 2016/17 Maha and 2017 Yala, fell significantly, resulting in a decline in the total paddy production by 46.1%, recording the lowest production during the last decade. Consequently, rice production in 2017 was sufficient to meet only eight months of domestic demand. This drove up retail prices of rice, prompting the government to reduce levies on the importation of rice. Accordingly, rice imports increased during the year to meet the shortfall in domestic production and arrest escalating price pressures. Coconut production was also affected by dry weather conditions that continued from the previous year.

Industries

The growth in industry related activities slowed during 2017 with the deceleration in the growth of construction and mining and quarrying activities. The construction sector, which supported the overall growth of the economy considerably during the post-war era, slowed down significantly to record a growth of 3.1% compared to an expansion of 8.3% in 2016. Meanwhile, mining and quarrying activities also witnessed a slowdown in growth to 5.9% in 2017 from the expansion of 14.4% recorded in the previous year. Value added contribution from electricity, water and waste treatment activities also slowed down considerably during the year to 3.9% from 10.1% in 2016. Meanwhile, manufacturing activities, which accounted for 15.7% of real GDP in 2017, grew at a sluggish rate of 3.9% in 2017, having grown at 3.2 % in 2016. The favourable developments in export oriented industries such as apparel, rubber and plastic products, as well as industries with a high domestic market orientation, such as food and other non-metallic mineral products supported the growth in the manufacturing sector.

Services

The growth rate of services related activities, which accounted for over 56% of real GDP, also moderated during 2017. The growth of services activities, which was recorded at 4.7% in 2016, decelerated to 3.2% in 2017, particularly due to the contraction in public administration and defence activities and the slowdown in transportation activities. Accordingly, transportation activities that contributed to over 10% of GDP in 2017, grew marginally by 0.9 %. However, the growth in services activities was supported by the notable growth of 9.4% in financial services during 2017. Furthermore, wholesale and retail trade, and other personal service activities, which grew at 3.8% and 3.2%, respectively, also contributed positively towards the growth of the services sector.

INFLATION

Despite the tight monetary policy stance maintained by the Central Bank, the sharp acceleration in food inflation caused by weather related supply disruptions resulted in unanticipated upward movements in headline inflation. Revisions to Value Added Tax and Nation Building Tax and higher commodity prices in the global market also contributed to high levels of inflation. Accordingly, headline inflation, as measured by the year-on-year change in both the National Consumer Price Index and the Colombo Consumer Price Index experienced high points, initially in the first quarter of 2017 and then in the last quarter. However, the deceleration in food inflation, partly supported by the government's initiatives to address price escalations, helped inflation to decelerate towards the end of the year. Year-on-year headline inflation based on the NCPI, which was at 8.6%in March 2017 gradually slowed thereafter, before reaching a peak of 8.8% in October 2017 and moderating to 7.3% by the end of 2017. Following a similar trend, year-on-year headline inflation based on the CCPI also rose to 7.3% in March 2017 and peaked at 7.8% in October 2017, before declining to 7.1% by the end of 2017. On an annual average basis, NCPI based headline inflation accelerated to 7.7% by the end of 2017, compared to 4.0% recorded at end 2016, while CCPI based annual average inflation accelerated to 6.6% by the end of 2017, compared to 4.0% by the end of 2016.

EXCHANGE RATE

The external value of the Sri Lankan rupee remained relatively stable in 2017 under a more market based exchange rate policy implemented by the Central Bank during the year. The depreciation pressure on the rupee, which prevailed particularly during the first two months of 2017, moderated thereafter with increased foreign investment to the government securities market and the CSE, and the increase in the conversion of export proceeds. The depreciation pressure on the rupee further eased from May onwards with the receipt of the proceeds from the ISB, the foreign currency term financing facility and disbursements of two tranches of the IMF-EFF programme, which helped improve investor confidence. With these developments and measures taken to develop the foreign exchange market, the rupee remained broadly stable, depreciating by 2.0% against the US dollar during the year. However, reflecting the movements in the cross currency exchange rates against the US dollar, the rupee depreciated significantly against all other major currencies in 2017.

INTEREST RATES

Trends in Interest Rates	2017	2016	2015	2014	2013
Average Weighted Lending Rate (%)	13.88	13.20	11.00	11.91	15.18
Average Weighted Prime Lending Rate (%)	11.55	11.52	7.53	6.26	10.13
Treasury Bill Rate (364 days) (%)	8.90	10.17	7.30	6.01	8.29
Standing Deposit Facility Rate/Repurchase Rate (%)	7.25	7.00	6.00	6.50	6.50

Source: Annual Report 2017, Central Bank of Sri Lanka

Rupee liquidity in the domestic money market remained broadly in deficit during the first seven months of the year before improving to surplus levels, on average, during the latter part of the year. Money market liquidity was at surplus levels at the beginning of the year and remained in surplus until early February 2017. However, excess liquidity declined thereafter and market liquidity remained negative until mid-July 2017. Rupee liquidity recorded the highest deficit of Rs. 51.1 Bn on 30 June 2017. Subsequently, the liquidity level increased to surplus levels until the end of 2017 mainly due to the continuous purchase of foreign exchange by the Central Bank and the conversion of part of the proceeds of the ISB obtained by the government. Hence, liquidity in the domestic money market was in excess of Rs. 24.4 Bn, on average, during the second half of the year.

Reflecting the restrictive monetary conditions, deposit interest rates of commercial banks continued to increase during 2017, although some moderation was observed towards the end of the year. The average weighted deposit rate (AWDR), which reflects the movements in interest rate of all outstanding interest bearing deposits held with commercial banks, increased by 108 basis points to a peak of 9.25% by the end of September 2017 from 8.17% at the end of 2016. Similarly, the average weighted fixed deposit rate (AWFDR), which is based on interest rates of all outstanding time deposits held with commercial banks, also increased by 135 basis points to a peak of 11.81% by the end of September 2017 from 10.46% at the end of 2016. However, following the downward movements in short term interest rates, particularly yields on short term government securities with improved liquidity in the market, both AWDR and AWFDR moved downwards gradually from October 2017 onwards and reached 9.07% and 11.48%, respectively, by the end of 2017, while remaining higher than the interest rates recorded at the end of 2016. Accordingly, the increase in AWDR and AWFDR was 90 basis points and 102 basis points, respectively, from the end of 2016 to the end of 2017.

FISCAL POLICY

The government undertook numerous measures in 2017 to continue with the revenue based fiscal consolidation process, aiming to reduce the budget deficit and the outstanding debt in the medium term.

On the revenue front, the new Inland Revenue Act, No. 24 of 2017, which was enacted in October 2017, was implemented with effect from 01 April 2018. The new Act was drafted with the expectation of simplifying and rationalising the existing income tax structure, broadening the income tax base by removing tax exemptions and strengthening tax administration with a view to enhancing revenue mobilisation from direct taxes.

The significant increase in the revenue collection from VAT and NBT was mainly due to amendments made to the VAT and NBT Acts in November 2016. Raising the VAT rate to 15% from 11%, lowering the registration threshold of VAT to Rs. 3.0 Mn per quarter from Rs. 3.75 Mn per quarter and the imposition of VAT on liquor, cigarettes, coal, perfumes, electrical and electronic goods and telecommunication equipment were the major changes made to the VAT Act in 2016. In addition, changes to NBT included reduction in the registration threshold for NBT to Rs. 3.0 Mn per quarter from Rs. 3.75 Mn per quarter and the removal of NBT exemptions on telecommunication, supply of electricity and lubricants.

MONETARY POLICY

During 2017, the Central Bank continued to conduct its monetary policy within an enhanced monetary policy framework, which is the interim framework in the move towards Flexible Inflation Targeting (FIT) by 2020, wherein inflation is to be stabilized within a range of 4.0-6.0%, thereby creating a macroeconomic environment conducive for growth. In spite of the tight monetary policy stance maintained during the past two years, inflation broadly remained higher than expected during 2017, driven by high food inflation caused by weather related supply disruptions as well as the effect of the tax increases made in 2016.

Reflecting the impact of the continued tight monetary policy stance, both the growth of broad money supply and the growth of credit extended to the private sector by commercial banks decelerated towards the targeted levels by the end of 2017. Growth in credit extended to the private sector by commercial banks continued to decelerate gradually since July 2016 and reached the targeted level by the end of 2017, responding to the high cost of borrowing as reflected by high nominal and real interest rates. The slowdown in the growth of credit disbursements helped contain the monetary expansion that remained at elevated levels during the last two years.

INDUSTRY REVIEW

The performance of the Non-Bank Finance sector during 2017 was subdued as a result of a host of macroeconomic challenges, high market rates, low credit growth, declining profitability and increase in non-performing loans. However, in the overall sectoral context, in terms of assets, the sector expanded in 2017, with an asset growth of 11.8%, representing 7.9% of Sri Lanka's financial system. The fundamentals of the sector remained strong, with capital being maintained at healthy levels along with adequate liquidity buffers well above the regulatory minimum levels.

Further, the sector exhibited a shift in its funding mix, with the increase in assets mainly being funded through deposits whilst the borrowings of the sector declined compared to the high growth recorded during the previous year. Moreover, throughout the year, the Central Bank of Sri Lanka continued to take proactive prudential measures to maintain the stability of the sector with increased and concerted consideration given to the revival of companies with weak financial positions.

By the end of 2017, the sector consisted of 45 LFCs and 6 SLCs. The overall branch network grew by a net of 58 branches to reach 1362 branch locations by the end of 2017.

NON-BANK FINANCE SECTOR PERFORMANCE HIGHLIGHTS

Performance Indicators	2017	2016
Interest Income (Rs. Bn)	231.5	188.9
Net Interest Income (Rs. Bn)	102.7	92.1
Profit After Tax (Rs. Bn)	25.8	31.5
Total Asset Base (Rs. Bn)	1,355.0	1,211.9
Total Net Advances (Rs. Bn)	1,057.1	962.7
Total Deposits (Rs. Bn)	686.7	530.7
Total Borrowings (Rs. Bn)	396.0	438.7
Capital Elements (Rs. Bn)	169.7	146.1
Net Interest Margin (%)	7.7	7.9
Return on Assets (%)	3.2	4.0
Return on Equity (%)	16.1	23.1
Gross NPA Ratio (%)	5.9	5.3
Provision Coverage Ratio (%)	64.0	65.7
Total Advances to Total Assets (%)	78.0	79.4
Liquid Assets to Total Assets (%)	8.9	7.1
Core Capital Adequacy Ratio – Tier I (% of Risk Weighted Assets)	12.4	11.3
Capital Adequacy Ratio – Tier II (% of Risk Weighted Assets)	13.1	11.7

Source: Annual Report 2017, Central Bank of Sri Lanka

ANALYSIS OF SECTOR ASSETS AND LIABILITIES

The total assets of the sector experienced a slowdown in growth during 2017. In this context, sectoral growth was recorded at a rate of 11.8%, compared to the 21.7% growth recorded in 2016. It is to be noted that finance leases accounted for 50% of the loans and advances portfolio composition, followed by other secured loans which accounted for 40%.

Throughout 2017, overall credit expansion strongly indicated clear signs of slowing down the sector growth. The slowdown of credit growth witnessed during the year, compared to 2016 is directly attributable to the fiscal and macroeconomic policy measures taken to cut down on the importation of motor vehicles and lending towards vehicles, the lackluster economic growth witnessed in the economy during the year and high policy interest rates that prevailed in the market. Credit growth of the sector decelerated to 9.8%, compared to 21.0% experienced during 2016. When considering the lending product-wise contribution to this credit growth, about 62% of this growth was through finance leases, while 36% was through secured loans and advances. Further, it is noteworthy that the growth of the finance lease portfolio for the year 2017 was 13%, compared to the growth of 17% recorded in the year 2016.

With regard to the investment activities undertaken by the NBFI sector, the growth of this investment portfolio, which comprises of investment in equities, capital market debt instruments, government securities and investment properties, slowed down considerably during 2017, with a growth rate of only 5.7%, compared to the growth of 12.1% in 2016.

With regard to the funding of the sector's moderate asset growth, customer deposits became the primary funding source in 2017 and accounted for 50.7% of the total liabilities of the sector. Additionally, sector borrowings and capital accounted for 29.2% and 12.5%, respectively.

During 2017, the NBFI sector demonstrated a shift in the funding mix as the expansion was largely funded through the customer deposit mobilisation. The total deposits grew by 29.4% in 2017, compared to the growth of 10.4% in 2016. Time deposits grew by 29.2% compared to the growth of 11.1% in 2016 and savings deposits grew by 35.3% compared to the contraction of 1.7% recorded in the previous year. The sector borrowings represented a negative growth of 9.7% in 2017, compared to the high growth of borrowings of 39.6% experienced during 2016.

In a year-on-year context, the capital elements of the sector increased by 16.1% as at the end of 2017, mainly as a result of the steps taken by companies to enhance the minimum core capital to meet the Rs. 01 Bn requirement by 1 January 2018 as well as through the internally generated profits for the financial year 2016/17.

CREDIT RISK

During 2017, gross non-performing loans (NPLs) portfolio increased by 24% mainly due to the floods that occurred during the first half of 2017, the nationwide drought and the slowing down of the economy. Hence, the gross NPL ratio increased to 5.9% in 2017 from the 5.3% position reported in 2016 due to the increase in gross NPLs and the slowdown in the growth of the loan portfolio. The provision coverage ratio declined to 64.0% in 2017, compared to 65.7% in 2016. Consequently, the net NPL ratio increased to 1.5% in 2017 from 1.2% in 2016, showing signs of deterioration in the asset quality of the sector over time.

LIQUIDITY RISK

The overall statutory liquid assets available in the sector during 2017 showed a surplus of Rs. 35.5 Bn as against the stipulated minimum requirement of Rs. 91.1 Bn. The surplus liquid assets increased during 2017 compared to Rs. 15.4 Bn in 2016 due to the slowdown of lending activities in the sector.

As a result, the liquid assets to total assets ratio increased to 8.9% from 7.1% in 2016. The liquid asset to deposits ratio was well above the statutory minimum requirement of 10.0% of time deposits and borrowings and 15.0% of savings deposits as at the end of 2017.

SECTOR PROFITABILITY

During the year 2017, the net interest income of the sector increased at a slower rate than in 2016, recording a growth of only 11.5%. This was primarily as a result of the increase in interest expenses by 33.1%, compared to the growth of interest income by only 22.6%. Hence, the net interest margin of the sector declined marginally to 7.7% in 2017 from 7.9% in 2016. It is also to be noted that non-interest expenses increased by 21.9%, contributing adversely towards sector profitability, mainly due to the increase in staff costs. The loan loss provisions made against NPLs, which was Rs. 13.5 Bn, increased by Rs. 6 Bn during 2017, when compared to the provision of Rs. 7.6 Bn made in 2016, further affecting the profitability in 2017. Accordingly, the sector posted a profit after tax of Rs. 25.8 Bn, representing an 18.0% decline compared to the profit of Rs. 31.5 Bn recorded in the year 2016, mainly due to increased funding costs and higher loan loss provisions.

CAPITAL FUNDS

With regard to the total regulatory capital of the sector, it improved by 25.1% to Rs. 145.3 Bn, primarily due to efforts taken by the companies to enhance the minimum capital requirement up to Rs. 01 Bn by 01 January 2018 as required, coupled with increases in retained profits.

The capital adequacy ratios of the sector exhibited an increasing trend, in which the core capital and the total capital ratios increased to 12.4% and 13.1%, respectively, compared to 11.3% and 11.7% recorded in year 2016, which was well above the minimum threshold level.

REGULATORY DEVELOPMENTS IN THE SECTOR

The year 2017 saw the Central Bank of Sri Lanka initiating several prudential policy measures to strengthen the supervisory and regulatory framework of LFCs and SLCs with the aim of enhancing the stability and soundness of the sector and increasing the customer confidence in the sector.

In this context, a new direction was issued to revise the LTV ratio for credit facilities in line with the national budget proposal for year 2017. Further, the minimum core capital requirement for LFCs was increased to be completed on a staggered basis, in view of strengthening the capital position of the sector and increasing the capacity to absorb unexpected internal and external shocks. Accordingly, the minimum core capital was increased from Rs. 400 Mn to Rs. 1.0 Bn by 1st January 2018, Rs. 1.5 Bn by 1st January 2019, Rs. 2.0 Bn by 1st January 2020 and Rs. 2.5 Bn by 1st January 2021.

Further, a circular was issued in May 2017, where LFCs and SLCs were allowed to grant concessions to borrowers who have been affected by floods, adverse weather conditions and connected circumstances in terms of the national policy adopted to facilitate the rehabilitation of businesses and normal operations of such borrowers in the national interest.

OUR VALUE CREATION MODEL

VISION, MISSION AND VALUES

CORPORATE PLANNING AND STRATEGY DEVELOPMENT

VALUE DRIVING INPUTS

FINANCIAL CAPITAL
- Budgeted Profitability and Balance Sheet Growth
- Optimum Product Mix
- Capital Structure and Sources of Finance
- Liquid Asset Maintenance
- Pricing
- Statutory Capital Adequacy Requirements

CUSTOMER CAPITAL
- Product Development
- Service Level Development
- Distribution Channel Development
- Branding
- Customer Relationship Management

BUSINESS PARTNER CAPITAL
- Financing Partners and Investment Advisors
- Insurers
- Outsourced Service Providers
- Regulators, CRIB & Rating Agencies

HUMAN CAPITAL
- Talent Acquisition and Retention
- People Development
- Talent Management
- Rewards and Retention
- Disciplinary Monitoring

INTELLECTUAL CAPITAL
- Industry Expertise and Industry Network
- Organisational Knowledge Base
- Best Practices and Process Excellence

INFRASTRUCTURE CAPITAL
- Expansion of the Branch Network
- IT Systems Development

VALUE GENERATION PROCESS

FINANCE AND TREASURY | HUMAN CAPITAL | OPERATIONS

ICT | FACILITIES MANAGEMENT | LEGAL

INTEGRATED RISK MANAGEMENT | INTERNAL AUDIT | COMPLIANCE

FUND MOBILIZATION

- FIXED DEPOSITS
  - RETAIL
  - INSTITUTIONAL
- SAVINGS ACCOUNTS
- FUND RAISING THROUGH BORROWINGS AND ISSUING FINANCIAL INSTRUMENTS

LENDING

SPECIALIZED BUSINESS FINANCING
- SME Working Capital Financing
- "Atha Hitha" Small Business Financing

REGULAR BUSINESS FINANCING
- Term Loans
- Mortgage Loans
- Revolving Loans
- Factoring

VEHICLE AND MACHINERY FINANCING
- Vehicle Loans
- Operating Leases
- Finance Leases – Vehicle/ Machinery

PERSONAL FINANCING
- Personal Cash Loans
- Group Personal Loans
- Education Loans
- Gold Loans
- Loans Against FDs

MARKETING | CREDIT | COLLECTIONS AND RECOVERIES

BEST PRACTICES, INTERNAL POLICIES AND PROCEDURES

RISK MANAGEMENT

CORPORATE GOVERNANCE

OUR VALUE CREATION MODEL

VISION, MISSION AND VALUES

CORPORATE PLANNING AND STRATEGY DEVELOPMENT

ENHANCED AND VALUE DRIVEN OUTPUTS

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

CUSTOMER
- Deposit and 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 Credit Ratings

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

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

STAKEHOLDER IMPACTS

ECONOMIC
- Contribution to State Revenue
- Returns to Shareholders
- Investments made in Branch Network Expansion
- Retention of Profits
- Contribution to Rural Economic Development

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 AND PROCEDURES

RISK MANAGEMENT

CORPORATE GOVERNANCE

CORPORATE STRATEGY ON VALUE CREATION

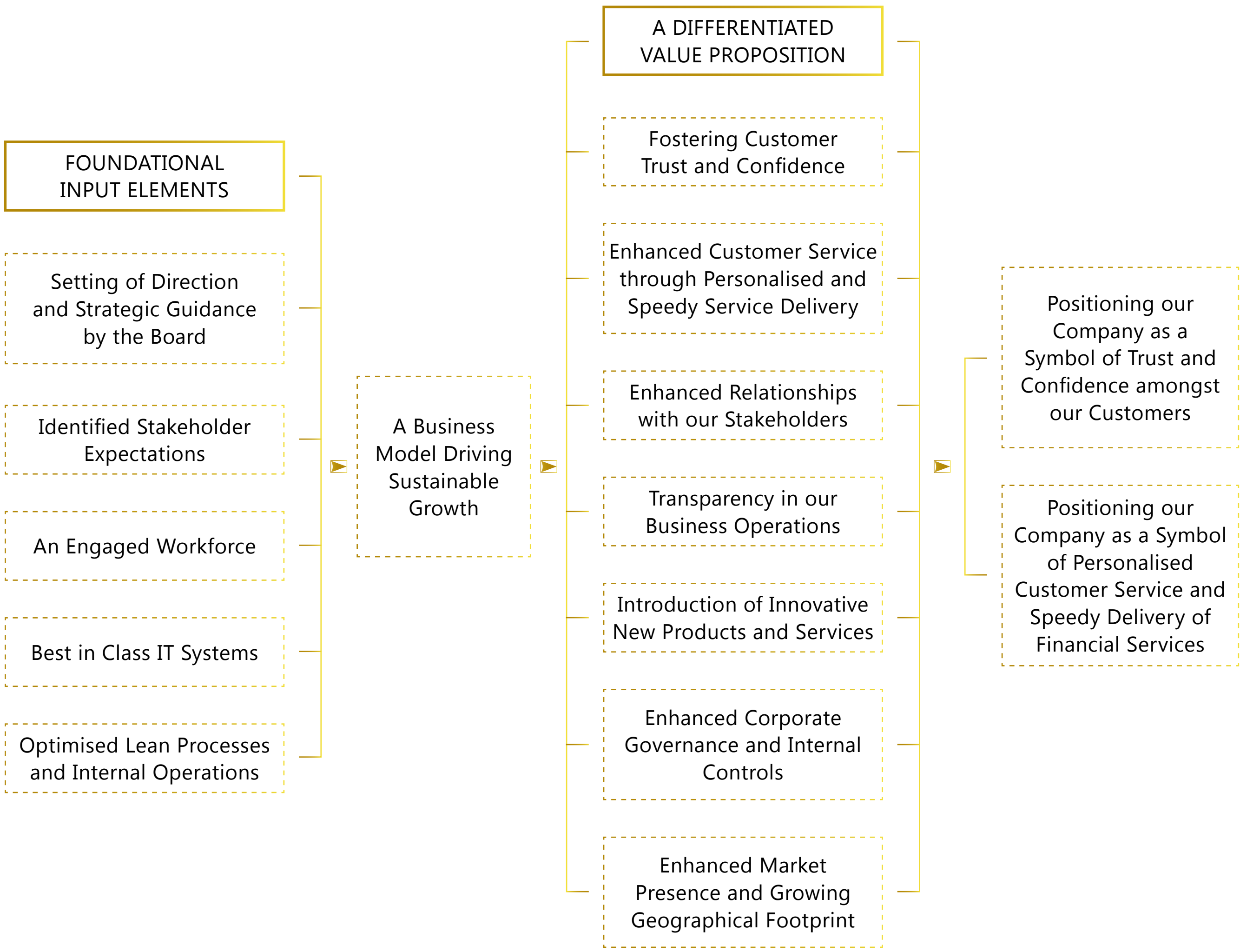
OUR BUSINESS MODEL AND CORPORATE STRATEGY EXECUTION

Our consistent and unwavering focus has always been on evolving from the traditional notion of a finance company and hence differentiating ourselves and setting ourselves apart from other financial service providers. We have set our sights not only on excelling in business lending but also in tailor-made leasing solutions to our retail and corporate customers. 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 indispensable 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
- Adopting best-in-class IT systems
- Partnering and maintaining relationships with strategic partners

The fluidity and adaptability of our business model has allowed us to seamlessly expand the scope of our value generation process to embrace and champion our strategic drives that are deployed from time to time to rally the growth of our product portfolios. Hence, under this business model, we have been able to successfully execute marketing plans to launch new products like our *"Atha Hitha"* Small Business Loans and grow our Leasing and Gold Loan portfolios through aggressive marketing efforts.



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 achieve our goal of creating value to all our stakeholders, we have carefully selected and engaged an identified set 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
- Customer Capital
- Business Partner Capital
- Human Capital
- Intellectual Capital
- 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 personalised customer relationship management, customer loyalty 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, whilst managing our deployed resources in the most effective manner.

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 organisational knowledge base, the best practices we have adopted and our continued commitment to process excellence, our intellectual capital brings in that intangible component that helps operationalise our other inputs.

INFRASTRUCTURE CAPITAL

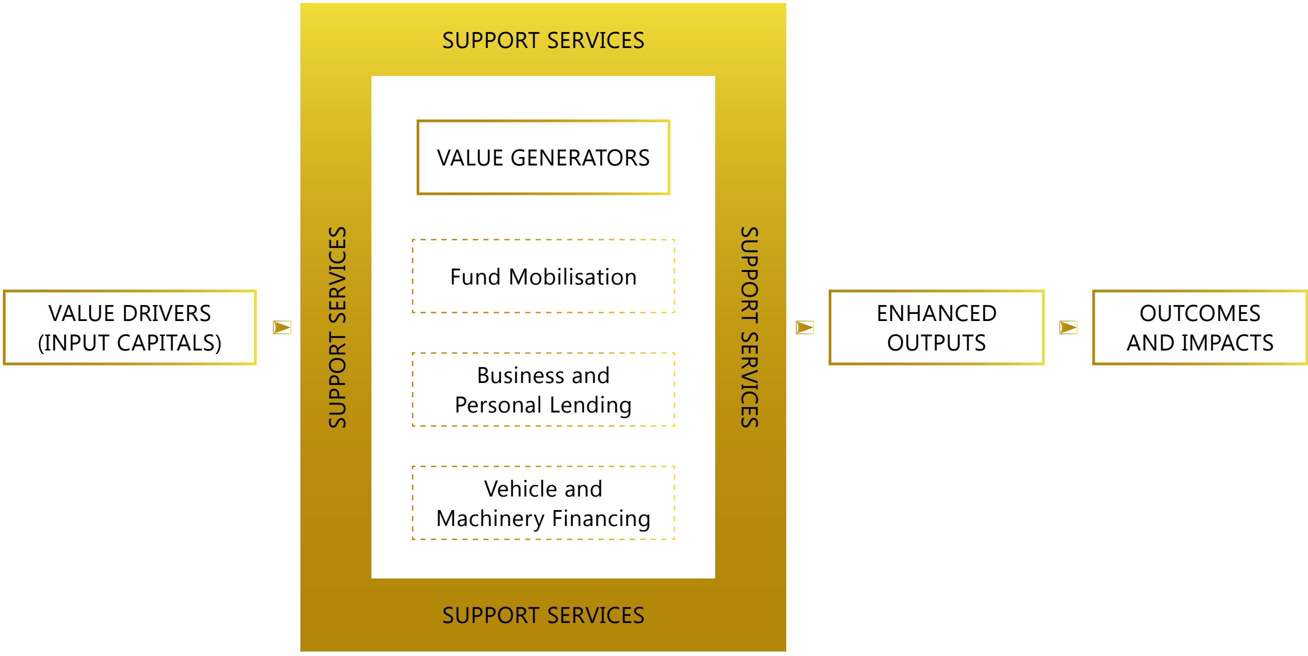
Infrastructure Capital that is brought into the process is the continuous expansion of our branch network, the substantial investments made in implementing best in class IT systems and the ATM partner network that is in the pipeline that would further enhance customer convenience.

CORPORATE STRATEGY ON VALUE CREATION

THE VALUE GENERATION PROCESS

The onus on our value generation process is to manage and effectively utilise 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 mobilisation, specialised business financing, regular business financing, vehicle and machinery financing and personal financing activities, our internal processes and support services have been strategically deployed and effectively geared to produce optimum returns to our value chain.

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 maximise 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 produces a number of immediate outputs that would be altered and enhanced through the value generators that we put our inputs through. Our immediate value-enhanced outputs have been categorised as:

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

THE OUTCOMES AND IMPACTS

Our value generation process has a significant and sustained impact on a host of stakeholders with differing and sometimes conflicting interests. Management of these impacts is paramount for our long term survival and is achieved through the setting and execution of an inclusive corporate strategy. These impacts are primarily of medium to long term in nature and influence the overall outlook that all stakeholders have of the Company. Further, these outcomes in turn serve as influencing factors, fashioning the Value Drivers (Inputs) in our value creation process in the future. For monitoring efficacy, we have identified these impacts broadly as follows:

- Economic Impacts
- Social Impacts
- Environmental Impacts

MANAGEMENT DISCUSSION AND ANALYSIS

Atha Hitha Small Business Loans

A guiding hand that helps you achieve your entrepreneurial goals, our trailblazing Atha Hitha Small Business Loan product offers you flexible and speedy financing solutions, backed by our superior customer service. This small business loan product was launched in order to foster rural economic development and increase access to formalised sources of finance.

KEY VALUE DRIVERS
FINANCIAL CAPITAL

IMPACTS ON PROFITABILITY

For the 2017/18 financial year, the Company posted a subdued Net Profit After Tax of Rs. 219 Mn, which represented a 10 percent decline from the previous year's Net Profit After Tax of Rs. 244 Mn. This contraction in financial performance was primarily due to the portfolio growth in our key business financing portfolio, which is the SME loan portfolio being significantly stifled as a result of the macroeconomic challenges created by the economic slowdown and the inclement weather conditions afflicting several parts of the country.

Particularly, these stagnant economic conditions and persistent weather catastrophes had a detrimental effect on the SME sector of the economy, which we primarily served. In effect, this meant that our SME loan disbursements fell far short from the levels that we had initially anticipated and the NPLs of this product also began to increase.

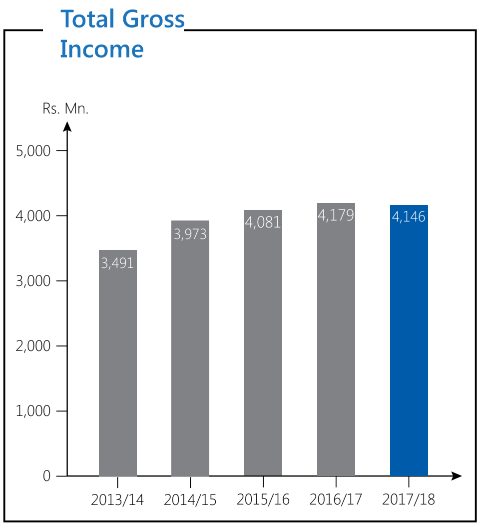
Further, the raising of policy interest rates by the Central Bank of Sri Lanka significantly affected our finance costs and curtailed credit growth. Effectively, as a result of the increase of policy rates during the year 2017, our interest costs increased by 12 percent year-on-year from Rs. 2.3 Bn in the 2016/17 FY to Rs. 2.6 Bn in the 2017/18 FY.

Even though these external factors of a subdued economy, inclement weather conditions and the rise of policy rates affected our financial performance during the year under review, with the reengineering of our business model and the repositioning of our value proposition offered to our customers in terms of lending and fund mobilisations, we are confident that we would be able to significantly turnaround our financial performance in the upcoming financial year.

INCOME ANALYSIS

During the year under review, in terms of Interest Income, we were able to post a modest year-on-year increase of 3 percent from Rs. 3.4 Bn to Rs. 3.5 Bn. However, in the context of Total Gross Income, which collectively contains Interest Income, Fee and Commission Income, Net Trading Income and Other Operating Income; we experienced a 1 percent drop from Rs. 4.2 Bn to Rs. 4.1 Bn. This stagnant topline performance was caused by substantial declines in our business financing portfolios, particularly in our SME loan portfolio as a result of a host of macroeconomic factors.

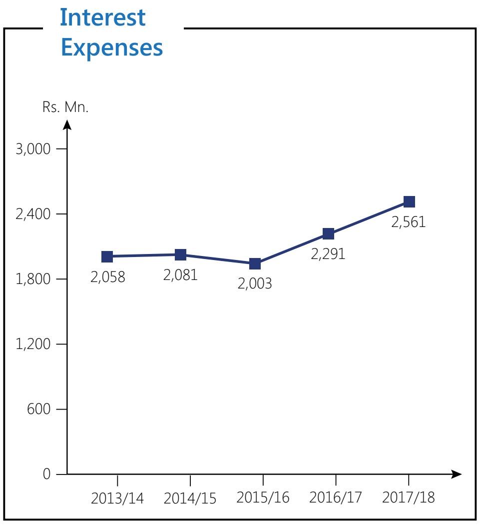
Further, with regard to Non-Interest Income also, we experienced a 17 percent drop primarily as a result of the year-on-year drop in Fee Income by 22 percent caused by contractions in SME loan disbursements.



When analysing the product-wise income contributions, in a year-on-year context, we experienced noteworthy interest income increases in our Gold Loan product and from our investment activities. With reference to our Gold Loan product, there was a year-on-year increase of 44 percent as a result of the island-wide marketing campaigns that we carried out to reposition this product in the market in light of the refined value proposition that we offer to our clientele. Further, the interest income yielded from our investment activities grew by 18 percent in a year-on-year context, as a result of the effective utilisation of any available excess cash and the increase in the market interest rates. Moreover, it is to be noted that the 28 percent year-on year drop in Interest Income from our Leasing product was moderated and managed at that level as a result of the aggressive drive in Leasing disbursements that we undertook during the second half of the 2017/18 financial year, spurred on by our reengineered business model. With the accelerated growth rate that our Leasing portfolio is experiencing, we are no doubt in a prime position to experience income growth from Leasing in the upcoming years.

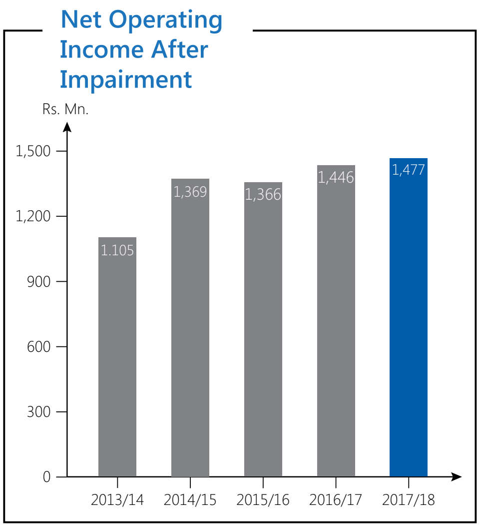
INTEREST COSTS ANALYSIS

During the year under review, the interest costs of the Company increased by 12 percent as a result of the high market interest rate environment that existed for the majority of this period. However, we were able to maintain our Interest Costs increase of 12% below the industry Interest Costs increase of 20% with our effective ALCO management. Further, in an effort to further manage the rising interest costs, we directed our focus towards the mobilisation of time deposits from individual retail investors for periods over 1 year and carrying maturity based payment methods. Moreover, the Company continued to negotiate with its banking partners to keep the finance costs of its funding lines at manageable levels.



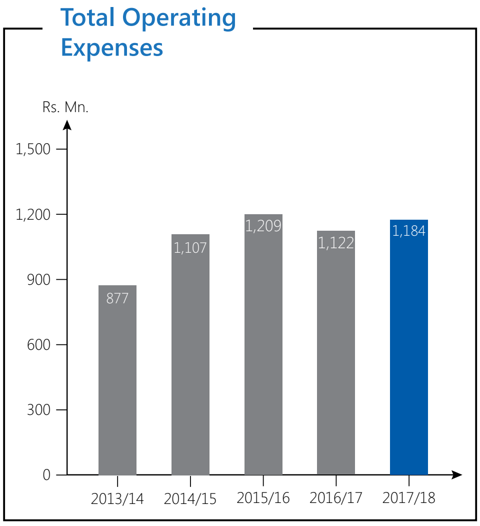
NET OPERATING INCOME AFTER IMPAIRMENT

During the period under review, in a year-on-year context, it is to be noted that our impairment charge decreased significantly by 75 percent. This 75% decrease was primarily as a result of correcting the LGD and PD ratios as evaluated by our external accounting consultants. The impairment model in use currently has been designed with key input from external professional advisors and we will continuously review this impairment model with advice from our external consultants, whilst paying close attention to and taking into consideration the country and economic situation. Hence as a result of this substantial impairment charge drop, our Net Operating Income increased marginally by 2 percent, in a year-on-year context.



COST MANAGEMENT

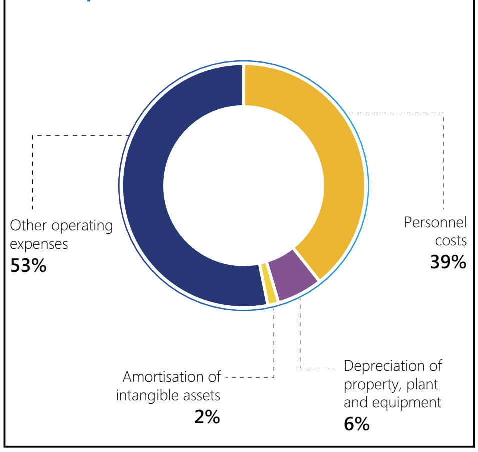
During the financial year under review, the Company was able to effectively manage its operational expenses through the numerous cost management initiatives it undertook. Thus when compared to the previous year, the Company's Operating Expenses grew only by a nominal 06 percent. This was as a result of an overarching and coordinated approach to cost management 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.



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 controlled, the management continuously takes action to re-engineer existing job roles, effect job redesign and also to 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.

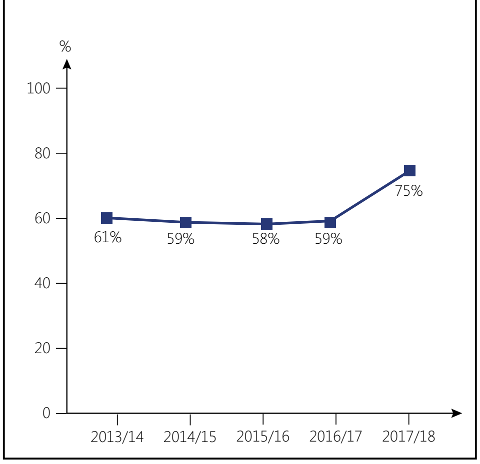
Further, Other Operating Expenses constitute 53 percent of total Operating Expenses and consist of administrative, marketing, maintenance and professional expenses, among others. Continuous action was taken to streamline and re-engineer internal processes, minimise wastage, renegotiate contractual terms with vendors and execute various cost saving initiatives in order to control these costs. The result being that the Company was able to increase its efficiencies and productivity, whilst managing its cost exposure.

Composition of Operating Expenses 2017/18



The company's Cost-to-Income Ratio for the year under review stood at 75 percent, primarily as a result of issues with the Company's topline performance. Essentially, the Company's Total Operating Income reduced significantly by 16 percent as a result of drops in Non-Interest Income, stagnation of Interest Income and increases in Interest Costs. Additionally, the marginal increase of 06 percent in Operating Expenses also nominally contributed to this Cost-to-Income Ratio increase.

Cost to Income Ratio

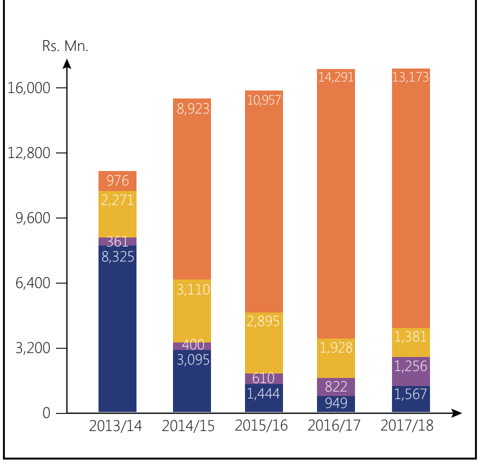


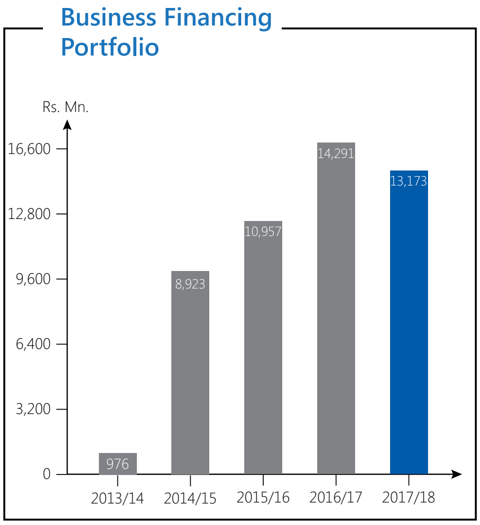
LENDING PORTFOLIO ANALYSIS

The total Net Lending Portfolio of the Company dropped by a marginal 3 percent from Rs. 18 Bn as at 31st March 2017 to Rs. 17.4 Bn as at 31st March 2018. This decline was primarily due to a substantial drop in the Company's SME loan portfolio as a result of the stagnant economic conditions and persistent inclement weather conditions that in turn had a depressing effect on the SME sector of the country. In effect, this SME loan portfolio drop materialised as a result of lower than expected SME loan disbursements throughout the 2017/18 financial year. Further, due to the volatile economic climate, the Company did not experience any significant growth in its secured term and mortgage loan portfolios. Moreover, as a result of the Company's decision to reduce its focus on Personal Financing, that portfolio also experienced a significant decline of 28 percent.

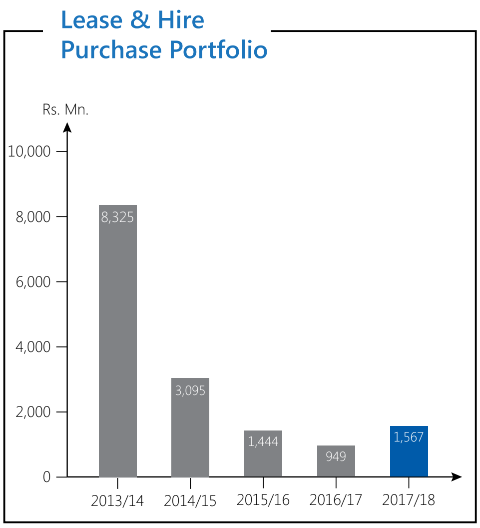
It is in this backdrop that the Company made the firm decision to reengineer its business model and focus more on collateralised lending in the context of leasing and gold loans and high margin non-asset backed lending in terms of its "Atha Hitha" small business loan product.

Net Lending Portfolio Growth

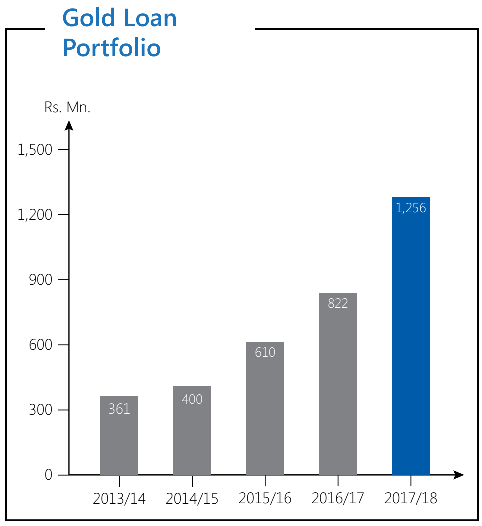




Driven by the Company's renewed strategic focus on collateralised lending as a result of the realigned business model, the Company aggressively pushed its entire newly re-launched leasing product range during the second half of the 2017/18 financial year. In effect, the Company experienced a resultant formidable year-on-year growth of 104 percent in its Net Leasing Portfolio from Rs. 0.7 Bn as at 31st March 2017 to Rs. 1.4 Bn as at 31st March 2018. Even when considering the Leasing and Hire Purchase portfolios conjunctively, the Company was able to record an impressive year-on-year growth of 65 percent. The company was able to achieve this feat as the Company's range of leasing solutions encompasses the entire spectrum of the leasing market space including motor cycles, three wheelers, commercial vehicles used in transportation and construction, machinery, personal vehicles and dual purpose vehicles.



The company's Gold Loan portfolio experienced a year-on-year growth of 52 percent during the 2017/18 financial year. This significant growth was achieved as a result of the island-wide marketing campaigns that we initiated along with the reengineered internal controls systems and process workflows that were introduced to optimise the customer experience without compromising on internal checks and balances.



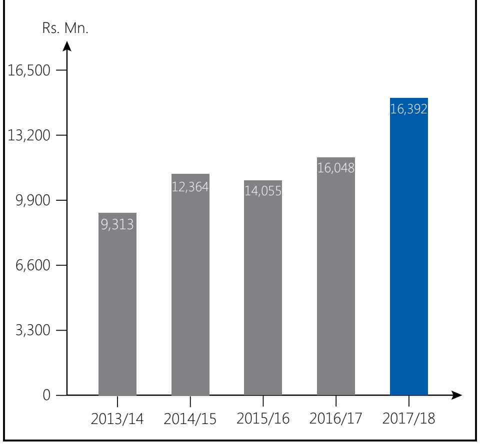
LIQUIDITY MANAGEMENT

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. At the end of the financial year, the Company's regulatory liquid asset levels were Rs. 789 million in excess of the minimum regulatory level. Further, the Company maintained unutilised credit lines right throughout the year and as at 31st March 2018, had access to Rs. 750 million in unutilised credit lines.

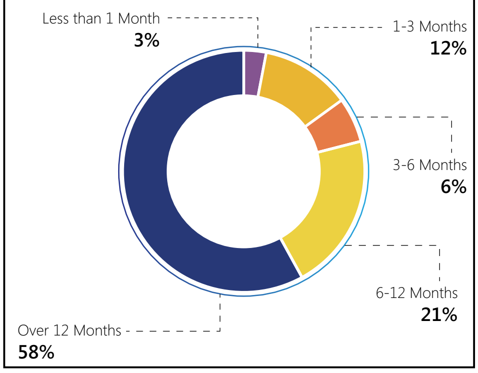
DEPOSIT PORTFOLIO ANALYSIS

In the backdrop of a high interest rate environment that prevailed for the greater part of the 2017/18 financial year, the Company was able to only record nominal growth of 2 percent in its public deposit portfolio from Rs. 16 Bn to Rs. 16.4 Bn. Even though this passage of time was not ideally conducive for the growth of our public deposit portfolio base, we set about crafting a stable deposit base for the future by adopting a two-pronged approach with regard to time deposit mobilisation. The strategy was to encourage the mobilisation of time deposits for periods of over 1 year and carrying maturity based payment methods. Further, we planned to operationalise this game plan by focusing on individual retail investments so as to continuously reduce our single client exposure and eliminate any dependence on corporate deposits.

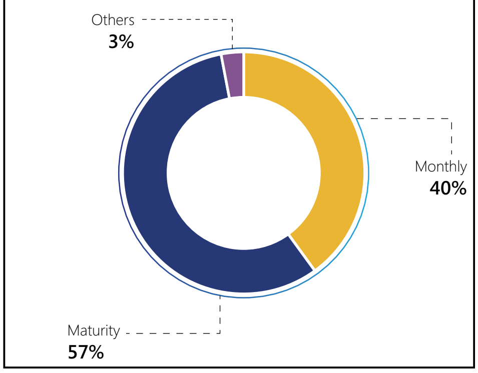
Customer Deposits Base



Period-wise Analysis of Our Fixed Deposit Portfolio as at 31st March 2018

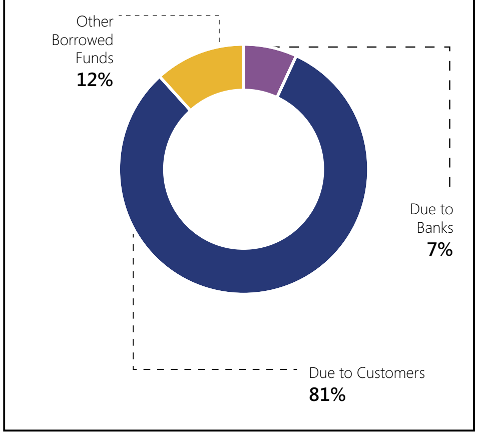


Payment Method Based Analysis of Our Fixed Deposit Portfolio as at 31st March 2018

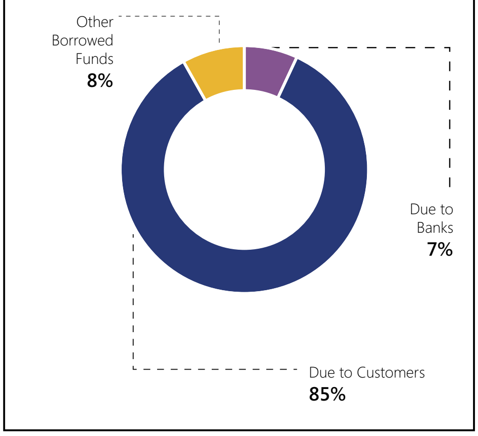


Overall, when looking at the Company's funding mix, it is seen that the Company's reliance on public deposits has comparatively increased slightly to 85 percent in 2017/18 from its position of 81 percent in 2016/17, signifying the Company's ability to draw in public funds even in the face of a high interest rate environment and increased competition from other financial institutions, based on the trust the customers have on the Company. Further, armed with its strategy of focusing on long term maturity based time deposits, the Company continued its focus on mobilising this comparatively cheaper funding line at the expense of issuing other financial debt instruments as seen in the year-on-year change in the funding mix.

Funding Mix 2016/17

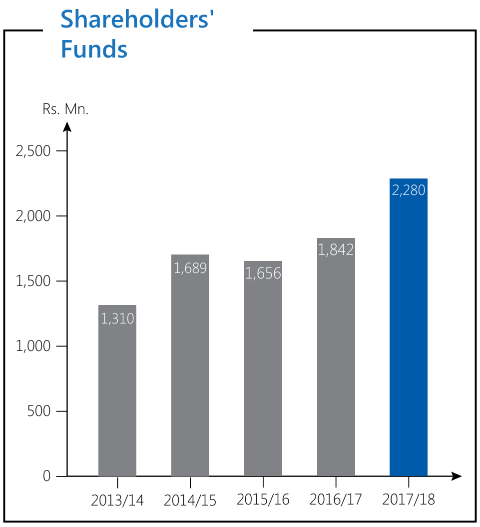


Funding Mix 2017/18



SHAREHOLDERS' FUNDS

Total shareholder funds increased by 24 percent to reach Rs. 2.3 billion by the end of the financial year. The primary contributory factor to this increase came from the conversion of the remaining USD 2 million tranche of the convertible loan obtained from FMO, to equity. This debt to equity conversion resulted in an increase in equity by Rs. 310 million and contributed to the improvement of the Company's total share capital to Rs. 2.3 Bn. As a result of this debt to equity conversion, our deposit mobilisation and lending capabilities have been reinforced and increased and there will no doubt, be a positive impact on our profitability with the reduction in interest costs. Further contributions to the increase in the total shareholder funds came from year-on-year increases in the Company's statutory reserve fund, retained earnings and the revaluation reserve.



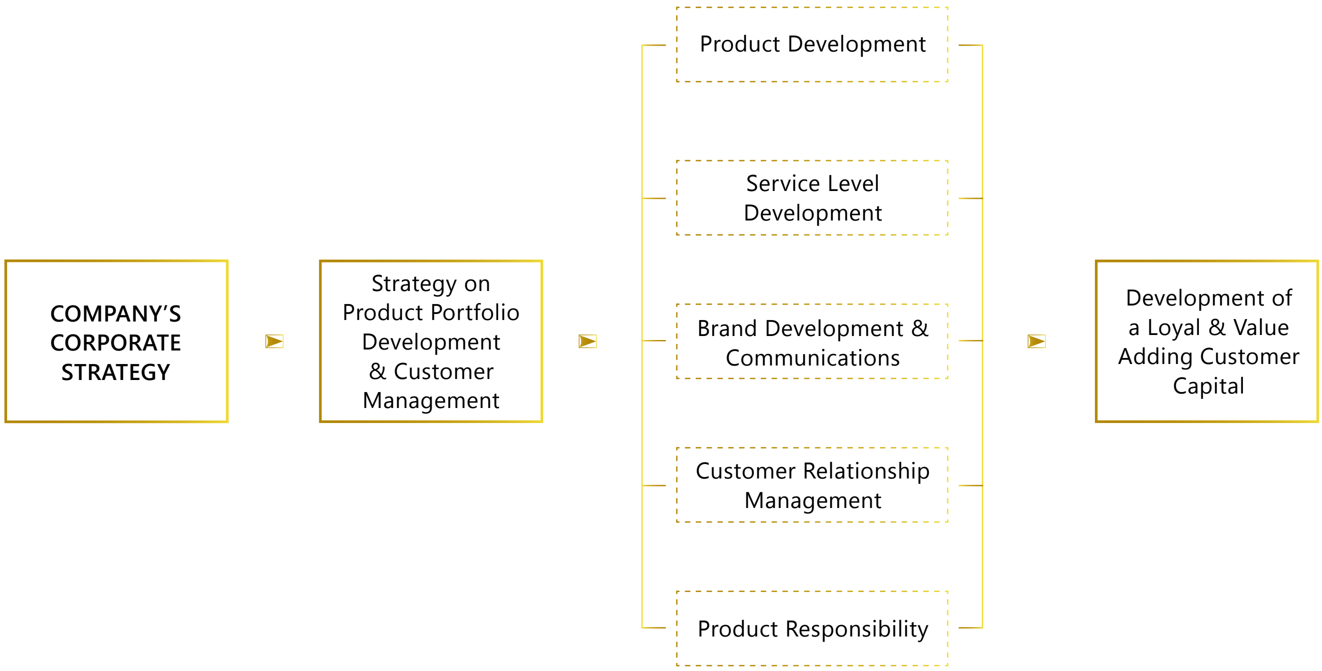
CUSTOMER CAPITAL

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 organisation 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.

CUSTOMER CAPITAL



OUR RANGE OF PRODUCT OFFERINGS

PRODUCT DIVERSITY

In line with the customer centric approach that we have embraced, as well as the data driven product management techniques that we have adopted, we have been able to design and structure our product portfolio so as to cater to diverse customer segments requiring access to financial services and at the same time, sustain and enhance product profitability. From increasing access to formalised sources of financing for the country's entrepreneurs and retail customers 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 mobilisation product portfolios include the following product categories that target identified market segments:

LENDING PRODUCTS

- Business Financing
- Atha Hitha Small Business Loans
- Leasing
- Personal Financing & Consumer Loans
- Education Loans
- Gold Loans

FUND MOBILISATION PRODUCTS

- Fixed Deposits
- Savings

BUSINESS FINANCING

Our Business Financing product offers our clientele with the flexibility, speed and personalised service support that they require to their 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 organisations.

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 personalised service that we deliver. The customer loyalty that we have fostered is directly linked to the speedy and personalised 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.

ATHA HITHA SMALL BUSINESS LOANS

Our "Atha Hitha" Small Business Financing product has been introduced as an avenue for formal financial access to local midsized and established entrepreneurs in the urban and rural economies.

This product has been positioned to provide short term and mid-term working capital solutions for established midsized businesses with immediate cash needs. We have designed this product with flexibility and personalisation in terms of payment structures and fast processing and minimal documentation with regard to loan disbursements.

LEASING

Our comprehensive leasing product range offers flexible and personalised leasing solutions to all identified market segments of the economy. Whether it is for the leasing of motorcycles, three-wheelers, dual purpose vehicles, personal vehicles, commercial vehicles, vehicles used for commercial transportation and logistics or machinery used for construction and other purposes, we are well positioned and adequately geared to provide comprehensive leasing solutions.

Backed by a well thought-out policy and reengineered processes, we provide industry leading fast processing times, minimal documentation and attractive rates, along with personalised service that eliminates any complexity and hassle.

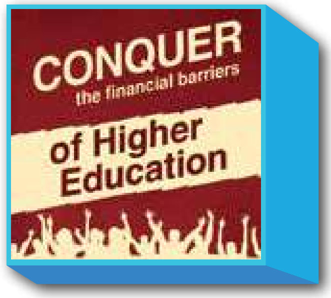
The personalised service that we offer is second to one. In addition to a doorstep service, our marketing officers are well geared to offer advice to our customers when it comes to structuring leases in terms of the customer's leasing requirements and payment capabilities.

PERSONAL FINANCING AND CONSUMER LOANS

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

With a strong foundation provided by our newly introduced product policies, streamlined loan processing and disbursement structures and our endearing personalised customer service, we have the capability of providing our clientele with quick financial solutions, with minimal security, at attractive industry leading rates.

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.

GOLD LOANS

Specifically structured and designed with the requirements of our targeted 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, with a rapidly growing portfolio.

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 personalised 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 a range of identified market segment specific savings products targeting children and females and also with an ATM facility along with the implementation of our integrated IT system.

KEY VALUE DRIVERS
CUSTOMER CAPITAL

ACHIEVING SERVICE EXCELLENCE

The service culture that we have embodied has ensured that the organisation 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

- Continuous training and evaluation 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 an integrated IT system that will enhance the customer relationship management processes, serve as a platform for the introduction of new products and provide us with a more efficient support service function

In order to drive the service culture within our organisation, we have set in motion a structured program of continuous customer excellence training and evaluation, 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 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.

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 organisation-wide integrated IT system specifically geared to support the financial services that we provide in order to introduce new financial products, 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.

Our commitment to our customers do not stop there, we have also 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 evaluated 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 routinely challenge 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 provides us with 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 organisation.

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 the medium term, our strategy is to utilise all our touch points to enhance visibility for the master brand. We continue to increase our brand penetration through the expansion of our branch network and we continue adopt new, alternate 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 organisation.
- Whether it is for motorcycle and three-wheeler leasing or for small business financing, 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 our identified business segments, whether in the context of lending or fund mobilisation, 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 absolute 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 products, our "Atha Hitha" Small Business Financing product, the newly re-launched entire Leasing range and our recently reengineered Gold Loan product.

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 personalised customer engagement process that we have adopted in dealing with our 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.

KEY VALUE DRIVERS
CUSTOMER CAPITAL

FAIRNESS AND TRANSPARENCY IN CUSTOMER INTERACTIONS

Throughout the personalised 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 organisation 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 materialise 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 responsible 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 and continuously assessed 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 product portfolio 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 integrated IT system will help us to continue the fostering of a service culture that ensures customer centricity and product innovation in all aspects of our business.

The development of this customer centric attitude across the organisation has been recognised by our management as the driving force behind future business expansion. With the planned expansion of our branch network and the implementation of our integrated IT system, we are positioning ourselves to achieve customer loyalty and sustainable business growth in the future, across all product lines.

BUSINESS PARTNER CAPITAL

MANAGEMENT APPROACH

The mutually beneficial relationships that we have developed with our Business Partners play a decisive role in shaping the overall quality of service delivery to our customers. Further, these 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 approach to Business Partner Capital Management is to foster partnerships that serve as 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.

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

In line with our procurement policy, there is constant monitoring and assessments of the procurement processes in place and the choice of business partners. The supplier monitoring and management activities in place are numerous but the overall focus is on supplier performance of contractual obligations, the value generated to our business and the cost advantages realised.

STRATEGIC INPUTS REQUIRED BY THE VALUE GENERATION PROCESS

↓

Identifying strategic inputs and value generating functions requiring Business Partners

↓

Internal Requirements, Internal Policies & Assessment Criteria → Business Partner Assessment ← Expectations of Business Partners

↓

Engagement with Identified Business Partners

↓

Monitoring, Management & Conflict Resolution of Business Partners

↓

LONG TERM MUTUAL VALUE CREATION

BUSINESS PARTNER ENGAGEMENT

The collaborative approach that we have adopted when engaging with our business partners serves as the basis on which we build win-win partnerships with them. These mutually beneficial partnerships, built on foundations of trust and understanding, help us avail ourselves of reliable and consistent services whilst offering a steady source of revenue to our suppliers. 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 personalised basis.

VALUE GENERATING PROCESSES INVOLVING BUSINESS PARTNER ENGAGEMENT

- Market Research
- Marketing Communications
- Financial Planning & Investment Advisory
- IT Services
- Insurance
- Training and Talent Development
- Recoveries
- Legal Advisory
- Outsourced Non-Core Operational Services
- Compliance Management

BUSINESS PARTNER EVALUATION AND ASSESSMENT

All major procurements are evaluated and managed centrally, as per our procurement policy. The respective departments and the relevant subject matter experts are charged with the setting up 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

BUSINESS PARTNER MONITORING AND MANAGEMENT

CLASSIFICATION OF BUSINESS PARTNERS

- Approved Vendors
- Valued Consultants
- Strategic Partners
- Regulatory Partners

APPROVED VENDORS

EXAMPLES OF APPROVED VENDORS

- Advertising & Creative Partners
- Corporate Communication Partners
- Infrastructure related Suppliers & Contractors
- Courier Services
- Outsourced Operational Service Providers

Our engagement approach to such suppliers is dictated by our procurement policies and supplier assessment policies. In order to achieve operational excellence, seamless service delivery and effective cost management, we undertake continuous negotiations with the chosen suppliers and look to streamline our processes to ensure that the optimum value is received at a competitive price. The focus is on controlling operational costs whilst obtaining the expected service level. Moreover, our attitude towards supplier engagement helps maintain good working relationships, in order to obtain acceptable prices and consistent services levels in the long term.

VALUED CONSULTANTS

EXAMPLES OF VALUED CONSULTANTS

- Investment Advisors
- IT Consultants
- 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 Vehicle Agents and Vehicle Dealerships
- 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
- Specialised Recovery Service Providers

With these strategic partners, the focus is on forming long-term strategic partnerships to facilitate the realisation of competitive advantages that set us apart from the rest of the industry. These engagements go beyond short term cost considerations and instead are 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 specialised services like IT infrastructure development. Moreover, other strategic partners assist in business development by acting as distribution-channel facilitating agents for our products such as Leasing, 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.

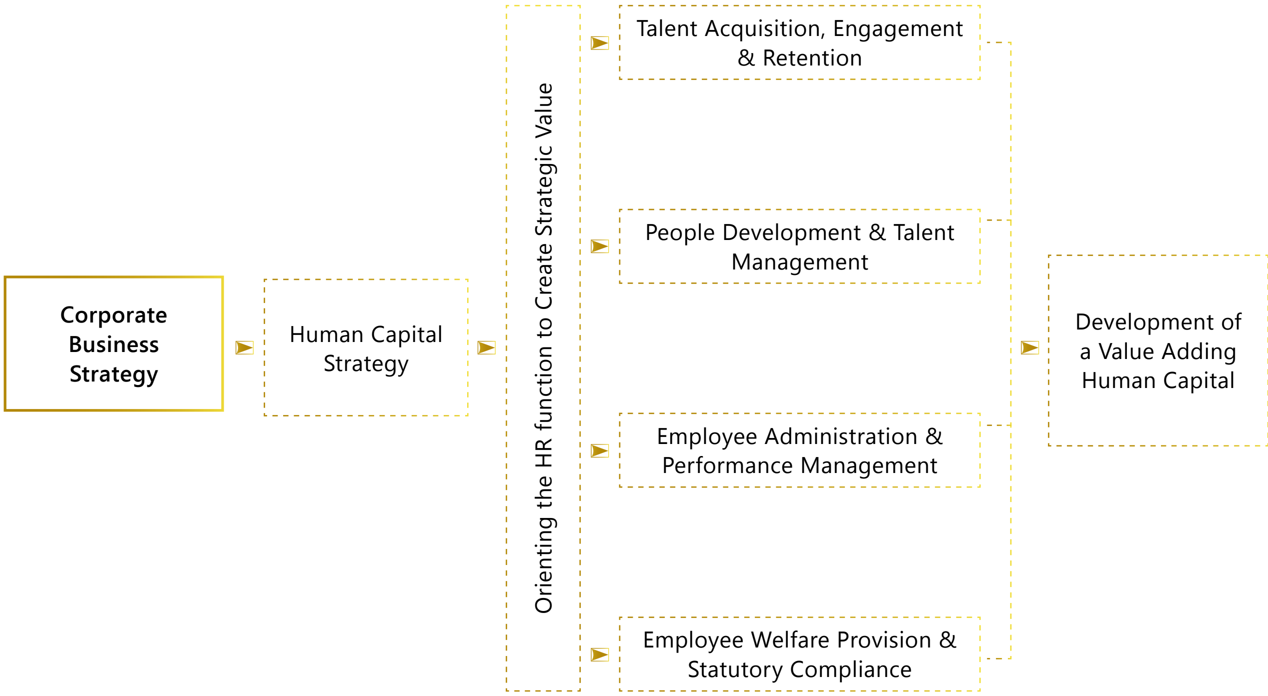
While both parties can mutually benefit from this partnership, from our end, we take the initiative to engage with our regulators and ensure that issues are resolved without delay so that our operations are never compromised. All regulatory reporting and disclosures are performed in the context of partnership building and not merely limited to regulatory compliance.

FUTURE OUTLOOK

Our business partners will continue to play a crucial role in achieving the service and process excellence that we continuously strive for. Whether it is with branch expansion, daily operations, service delivery or business channel development, our business partners provide an invaluable service that helps us sustain both our operational existence and future business growth.

Therefore, in light of the undoubtedly influential role that our business partners play in our value generation process, we will continue to pay special attention to maintain and foster the mutually beneficial relationships we have with them, whilst continuing to form new partnerships that would generate added value in the context of our business model.

HUMAN CAPITAL



MANAGEMENT APPROACH

Our human capital has always been recognised as our greatest asset and we have acknowledged the continuous 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 sustained 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, Engagement & Retention
- People Development & Talent Management
- Employee Administration & Performance Management
- Employee Welfare Provision & Statutory Compliance

The HR department represents a centralised focal point that drives and administers all talent acquisition and retention, people development, performance management and employee welfare management activities. 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 and encourage a conducive environment for product innovation, 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

With the intention of constantly engaging with our employees and consistently empowering them with the right tools to drive the Company's strategic objectives, we introduced a host of initiatives during the year:

- **Continuous Training & Development** – Conducting 122 training programs during the year, which was the highest number of training sessions in our company's history
- **Going live with our HRIS** – We successfully introduced our fully integrated HRIS with modules essential for employee administration, after having provided our staff with training on its utilisation and management.
- **Expansion of our E-Training Program** – Since its introduction in the previous financial year, we have expanded and enhanced our E-Training initiative to include more testing parameters, new testing techniques, additional test subjects and new subject material encompassing our new products. This quarterly program, which is linked to our performance appraisal system, is conducted in order to foster and examine the product and process knowledge, as well as the knowledge on statutory compliance requirements of our employees. The overarching objective is to encourage and create an environment to instil a learning culture in our organisation.
- **Special Half Day Leave on Birthdays** – In order to encourage a work-life balance amongst our employees, we introduced a special half-day leave initiative, which our employees can utilise on their birthday. This was introduced with the intention of allowing our employees to spend more time with their families and loved ones on their special day.
- **Introduction of a Comprehensive Network-Wide Fire Safety Mechanism** – We appointed and trained a Fire Warden and an Evacuation Officer from each branch and department and conducted a comprehensive Fire Drill and a special Fire Safety Training Program.

Key HR Indicators	2017/18	2016/17
Employee Head Count	551	490
New Recruitments	216	103
Internal Transfers	57	53
Promotions	28	34
No. of Training Programs	122	101
No. of Training Hours	9846	7963
Investment in Training	Rs. 5.0 Mn	Rs. 5.5 Mn
Total Income per Employee	Rs. 7.5 Mn	Rs. 8.5 Mn
NPAT per Employee	Rs. 0.4 Mn	Rs. 0.5 Mn
Staff Costs per Employee	Rs. 0.8 Mn	Rs. 0.9 Mn

EMPLOYEE COMPOSITION ANALYSIS

MANAGEMENT APPROACH

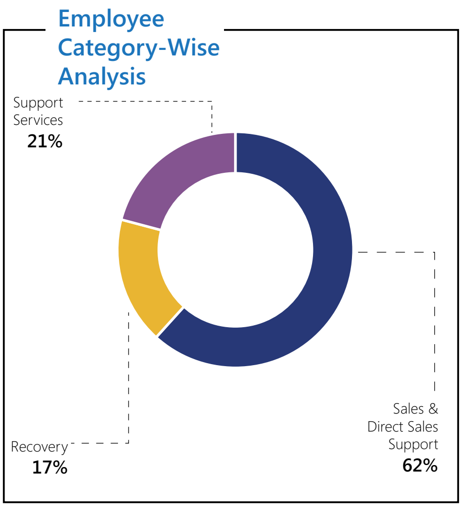
Right throughout our existence, we have experienced the strategic importance of creating a diverse workforce for the sustainability of our business. To this end, we are committed to creating and maintaining an inclusive work environment where all employees are treated with equality, equity, respect and 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 whatsoever. 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 and encouraged 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.

KEY VALUE DRIVERS
HUMAN CAPITAL

EMPLOYEE CATEGORY-WISE ANALYSIS

Employee Category	2017/18		2016/17		2015/16	
	Number	Percentage	Number	Percentage	Number	Percentage
Sales & Direct Sales Support	340	62%	282	58%	276	56%
Recovery	96	17%	94	19%	89	18%
Support Services	115	21%	114	23%	126	26%
Total	551	100%	490	100%	491	100%

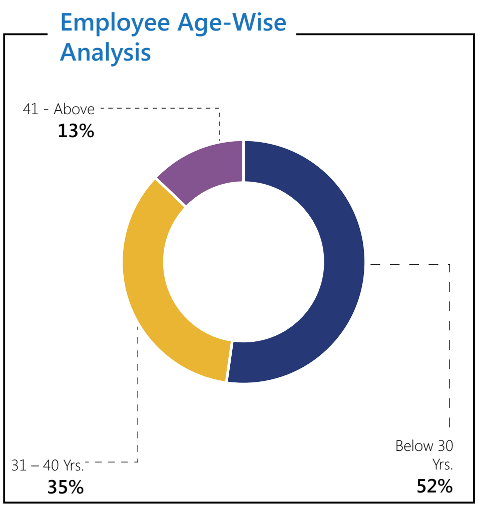


Our goal is to evolve into a lean company with an efficient and productive support services cadre that will complement and add value to our sales team. When considering the staff composition across the three broad activity segments of our business, we continue to put heavy emphasis on our Sales staff as they are directly responsible for the implementation of our corporate strategy and more specifically product penetration.

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 our integrated IT system that is 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.

EMPLOYEE AGE-WISE ANALYSIS

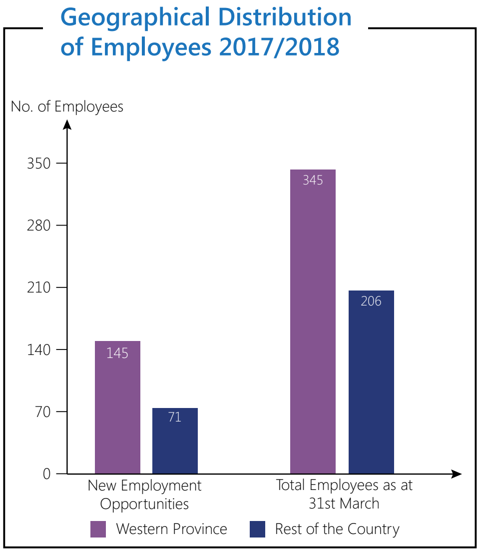
Age Category	2017/18		2016/17		2015/16	
	Number	Percentage	Number	Percentage	Number	Percentage
Below 30 Yrs.	288	52%	218	44%	213	43%
31-40 Yrs.	192	35%	191	39%	188	38%
41-Above	71	13%	81	17%	90	18%
Total	551	100%	490	100%	491	100%



We have consistently invested in 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. Experienced industry professionals are also constantly brought into the mix to enrich our talent pool with industry knowledge and strategic proficiency.

GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES

Description	Western Province		Rest of the Country		Total	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
New Employment Opportunities	60	145	43	71	103	216
Total Employees as at 31st March	288	345	202	206	490	551



With the intention of fostering rural employment opportunities and ensuring that our regional customers are served by employees with localised 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	2017/18	2016/17
No. of External Recruitments	216	103
No. of Internal Recruitments (Transfers)	57	53
No. of Promotions	28	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 RECRUITMENTS BY EMPLOYEE CATEGORY

Employee Category	2017/18	2016/17
Sales & Direct Sales Support	34	33
Recovery	11	11
Support Services	12	9
Total	57	53

EXTERNAL RECRUITMENTS BY EMPLOYEE CATEGORY

Employee Category	2017/18	2016/17
Sales & Direct Sales Support	160	39
Recovery	18	20
Support Services	38	44
Total	216	103

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 our 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 and business development by 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 recognised 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.

SERVICE PERIOD ANALYSIS AS AT 31ST MARCH 2018

	No. of Staff in each Category		
No. of Years	**Senior Management**	**Manager/ Executive Level**	**Others**
15 & Above	2	16	0
10-15	4	5	0
5-10	10	89	11
1-5	17	167	58
Below 1 year	7	96	69
Total	40	373	138

TALENT RETENTION INITIATIVES UNDERTAKEN

We regularly 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 platform
- Development of career development plans for our people
- Transparent performance appraisal & management process

PERFORMANCE MANAGEMENT

MANAGEMENT APPROACH

In order to ensure the sustainable growth of our organisation, 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 organisation. Further, our performance management system that is in place is structured in such a way that the organisational 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 organisational 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 customised to suit each job role to ensure fairness in appraisal.

Keeping in line with the performance based rewards culture in place at our organisation, 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.

PROMOTIONS BY EMPLOYEE CATEGORY

Employee Category	2017/18	2016/17
Sales & Direct Sales Support	17	26
Recovery	4	2
Support Services	7	6
Total	28	34

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 organisation 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 recognised appropriately for their contributions to organisational performance, they are rewarded with salary increments, bonuses, promotions and overseas training opportunities.

PEOPLE DEVELOPMENT

Key Indicators

Indicator	2017/18	2016/17
No. of Training Programs	122	101
No. of Training Hours	9846	7363
Investments in Training	Rs. 5.0 Mn	Rs. 5.3 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 organisation. 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 organisational needs. Our training and development plans are formulated based on a multitude of factors. Broadly, we take into account the following factors:

- Strategic organisational 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 (existing and new) 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

	No. of Programs	
Type of Training Program	2017/18	2016/17
External	50	46
Internal	60	42
Internal (With External Trainers)	12	13
Total	122	101

Gross No. of Employees Trained by Employee Category

Employee Category	2017/18	2016/17
Sales & Direct Sales Support	357	279
Recovery	78	77
Support Services	128	117
Total	563	473

During this financial year, we conducted the highest ever number of training programs in our company's history, amounting to 122 training programs. This represented a significant growth from the previous year's record of 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 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
- Trainings on Product Knowledge, Associated Processes and Product Policies
- Support Services Operations
- Business English
- Recovery Process Management
- Head Office and Branch Operations Management
- Client Servicing and Customer Service Excellence
- Fire Safety Training
- IT Systems Training
- Compliance Training
- HRIS Training

External Training

We consistently schedule external training programs with best-in-class external resource personnel and recognised institutes. Such external training programs are regularly 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 organised 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.

EXTERNAL TRAINING PROGRAMS

- Technical training on CBSL regulatory requirements conducted by the CBSL
- 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
- Continuous customer service excellence training for our support services, recovery, client servicing and sales staff.
- Strategic management development
- Labour regulations and industrial affairs
- Leadership development and motivation
- Financial reporting
- Financial budgeting and forecasting
- Internal Auditing and Risk Management
- ICT management
- Business English and Business Writing
- Recoveries Management
- Customer Complaint Management
- Product related training

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 organisational 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 organisational 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 always 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 this 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.

EMPLOYEE WELFARE

We consider the consistent and standardised 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, subsidised 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 organisational 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 minimise 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 and evacuation officers.

SPORTS & WELFARE ACTIVITIES

With the financial and operational support of the Company, the Company's Recreation Club takes the initiative in regularly organising 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 organised a number of sports activities, religious activities, New Year celebrations, staff parties and the annual dinner dance. Further, just as in previous years, the Company's men's cricket team represented the Company at the Mercantile Cricket Association Division D Cricket Tournament. Additionally, our employees regularly participate in sports events organised by our ultimate parent, Softlogic Holdings PLC and industry bodies like the Finance Houses Association, in addition to sporting events like the Mercantile Swimming Championship.

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 enable a standardised 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 Committee (EC) meetings.	Grievance Redressal Procedure & Discussions of key issues at the Executive Committee (EC) meetings.	Open door policy at all levels of management and the provision of formalised procedures to ensure grievance redressal.	As and when required
Operational issues, business performance issues, internal procedures related issues.	Discussion, delegation & progress tracking at EC 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 EC meetings and other meetings held.	EC meetings are usually held once a week. 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.

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.
- 05 key managerial personnel would be nominated to attend a workshop on "Empowered Leadership" in Thailand in August 2017.

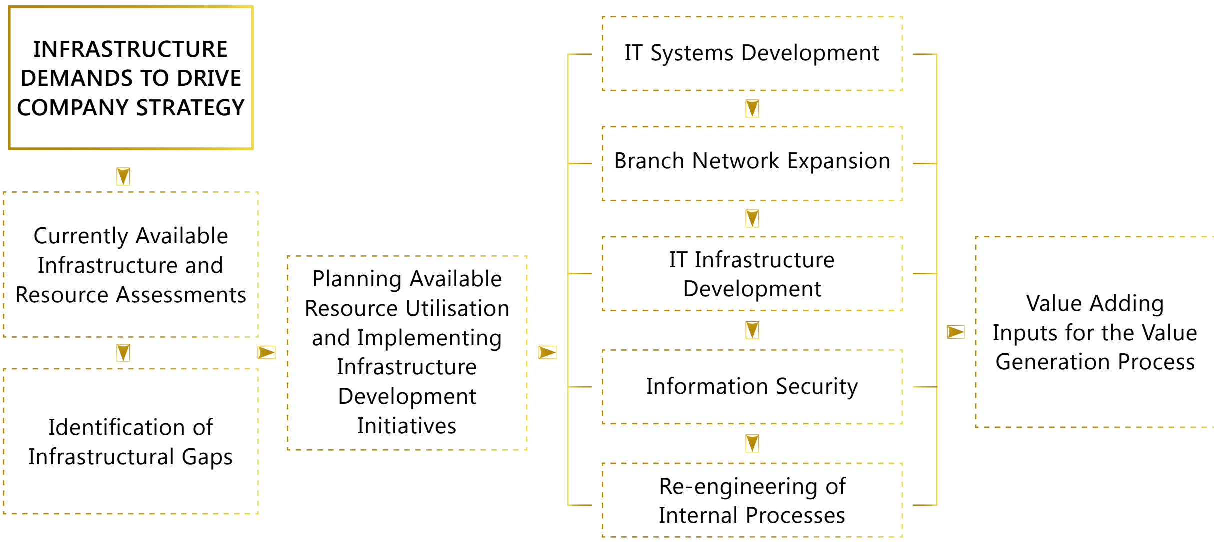
PERFORMANCE MANAGEMENT

- Through the performance oriented culture that we have developed, 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.
- Implementation of a host of opportunities for our employees to network with each other and build team spirit and a collaborative work culture.

RECRUITMENT & RETENTION

- Extension of our Internship Program – In line with the purpose of bringing in new and young talent into the organisation, we will be further developing this program to attract diverse and high calibre talent to fuel the future growth of our organisation.
- 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.
- Implementation of Employee Retention Strategies – We are planning to implement a structured initiative to retain value adding employees in our fold. This initiative is based on our "Education-Experience-Exposure" doctrine where we take great pains to develop the skill levels of employees through real world learning experiences, help them become multi-skilled through job enrichment platforms by moving them across job roles and departments and giving them opportunities to interact and get mentored and trained by our Senior and Corporate Management.
- 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



OUR STRATEGIC INTENT AND INFRASTRUCTURE CAPITAL

Infrastructure capital has long served as one of the foundational inputs to the operationalisation of our business model and has proven itself to be instrumental to the sustainability and growth of our business performance. As we aggressively drive business growth in our chosen operating spaces, 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. It is in this context that 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 undoubtedly play a vital role in business performance growth and delivering an enhanced customer experience.

IT SYSTEMS AND IT INFRASTRUCTURE DEVELOPMENT

Our IT Systems and IT Infrastructure, which form the backbone of our operational strength, play a key role in driving our business strategy and ensuring long term sustainable value addition to our stakeholders. These IT systems in place help us to optimise the personalised customer experience that we deliver, further develop the quality of the support services in place for the management and the frontend staff and introduce new products.

It is in this context that we continue to invest in developing our IT systems and expand our IT infrastructure so that we are well positioned to proactively face industry developments, market movements and evolving customer preferences with ease.

IT SECURITY MANAGEMENT

As a responsible financial institution committed to upholding stakeholder interests, we are responsible for ensuring that we have systems and controls in place to avoid, combat and manage IT security threats. This is because 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 Executive 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 and anticipated IT security threats without any significant impact to routine operations.

In order to routinely review and manage the IT security controls in place, the following actions are undertaken:

- Implementing regular and comprehensive System and 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 minimise system frauds.
- Reviewing 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 is updated and operational.

CUSTOMER SERVICE ENHANCEMENT

Internal Process Re-engineering

Training and Development of Staff

Physical Enhancement of Customer Conveniences

CUSTOMER SERVICE ENHANCEMENT

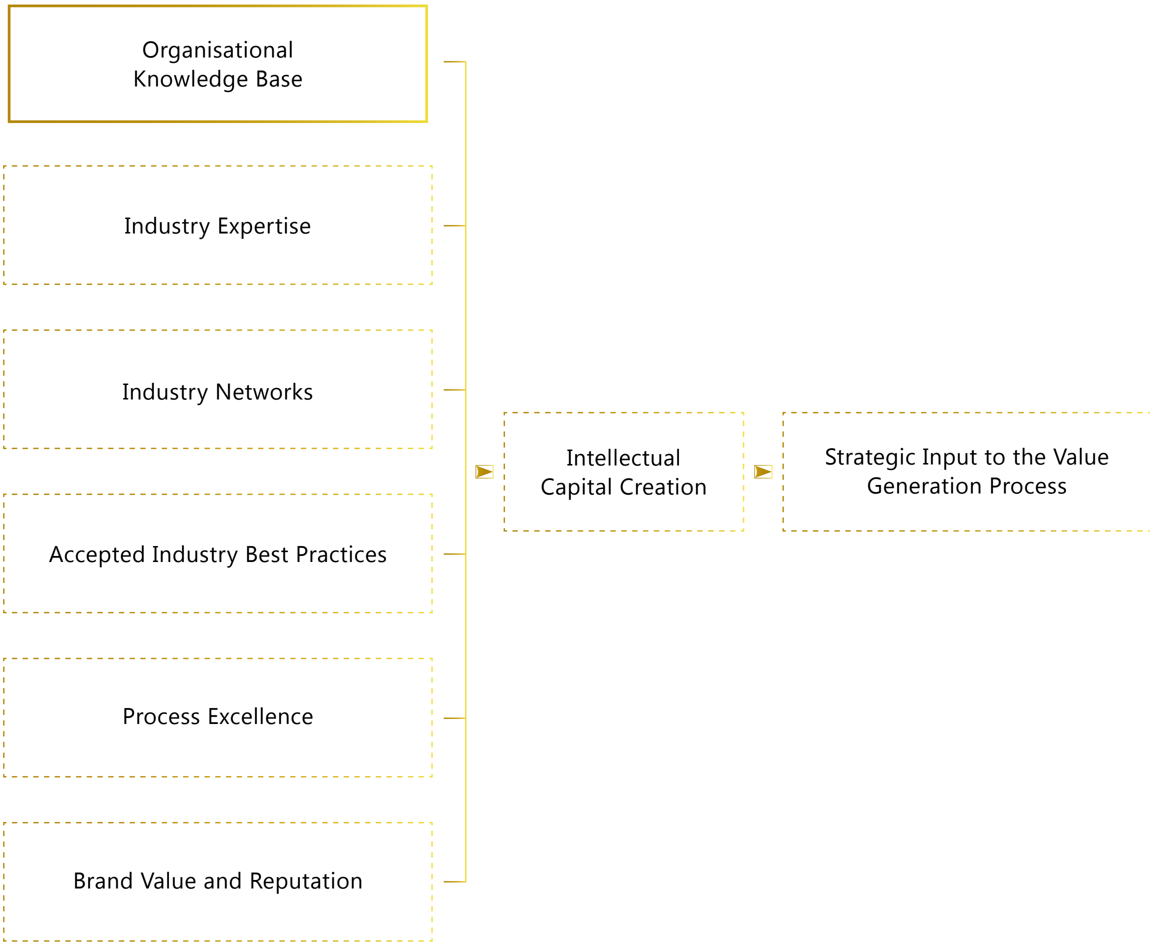
Our strategic intent has always been to provide our esteemed clientele with a memorable and personalised service that would guarantee us their status as returning customers. In this context, we approach customer service enhancement in a two pronged manner. One would be the constant review and re-engineering 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 materialise in a professionally conducive atmosphere.

In line with our commitment to customer service excellence and the continuous improvement of customer conveniences, we continuously review and re-engineer our internal processes in tandem with the IT system developments that we undertake.

We have embarked on this concurrent development of both the IT systems and the internal processes in order to ensure that our support services run efficiently and effectively 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 promote personalised and relaxed customer engagement, whilst providing facilities for customers to confidently discuss their financial needs in a confidential manner.

INTELLECTUAL CAPITAL



ENHANCEMENT OF THE ORGANISATIONAL KNOWLEDGE BASE

We operate in a very competitive environment, rife with industry challenges. As a service sector organisation and a pioneering financial services provider in the NBFI sector, our long term operational sustainability very much hinges on the development and the effective utilisation of our organisational knowledge base.

In this context, we are armed with a team of industry experts in our senior and corporate management and they bring with them, a wealth of industry expertise and their respective industry networks into the fray. With their extensive industry exposure and expertise, this team of industry experts plays a significant role in fostering our internal knowledge and helps in providing our team with strategic guidance to face industry challenges. Further, these efforts are undertaken as the continuous updating of internal knowledge and effective sharing of it with our team are critical to the maintenance of the competitive advantages that we have gained across our product lines.

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.

ADOPTION OF ACCEPTED INDUSTRY PRACTICES AND ACHIEVEMENT OF PROCESS EXCELLENCE

Owing to the adoption of a service culture across our organisation, we have recognised the operationalisation 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 industry 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.

Even though we use accepted industry practices as the basis for our internal operations, time and again, we have demonstrated our commitment to going above and beyond industry standards and pushing for the achievement of process excellence across our operations.

ENHANCEMENT OF OUR BRAND VALUE AND REPUTATION

As a key player in the NBFI sector, our aim is to move away from the perception of a traditional finance company and position our brand as a total financial solutions provider. Personalised 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 personalised 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.

53RD ANNUAL REPORT AWARDS – COMPLIANCE AWARD

For the sixth consecutive year, we received an award for compliance in financial reporting at the 53rd 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 2018 – 77TH PLACE

In the 2018 ranking of the most valuable brands in Sri Lanka carried out by Brand Finance and published by LMD, we were placed at the 77th position in the Top 100 ranking.

CREATING SUSTAINABLE VALUE
OUR SUSTAINABILITY PHILOSOPHY

As a responsible corporate citizen, we have taken cognisance of and are actively engaged in addressing the needs of all our stakeholders and not simply the pecuniary needs of our shareholders, as we are acutely aware that we cannot exist and operate in isolation from society. It is in this context that we have recognised that it is imperative that we manage the impacts that we make on the society and the environment also.

Hence, the Company's approach to 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.

Thus, this emphasis on sustainable and balanced growth has ensured that we have shifted from purely focusing on short term profitability, to focusing on effectively addressing and satisfying the interests of all identified stakeholders.

OUR MANAGEMENT APPROACH

As a result of the consistent implementation and management of our business model, we have been able to adopt a holistic and all-encompassing approach to the management of the impacts of our business. Hence, as outcomes of our value creation process, we have identified three key domains that need to be managed by us for the medium and long term sustainability of our business. These have been categorised as the Economic, Social and Environmental impacts of our business. In effect, all sustainability initiatives undertaken by the Company are carried out and managed under these Economic, Social and Environmental pillars.

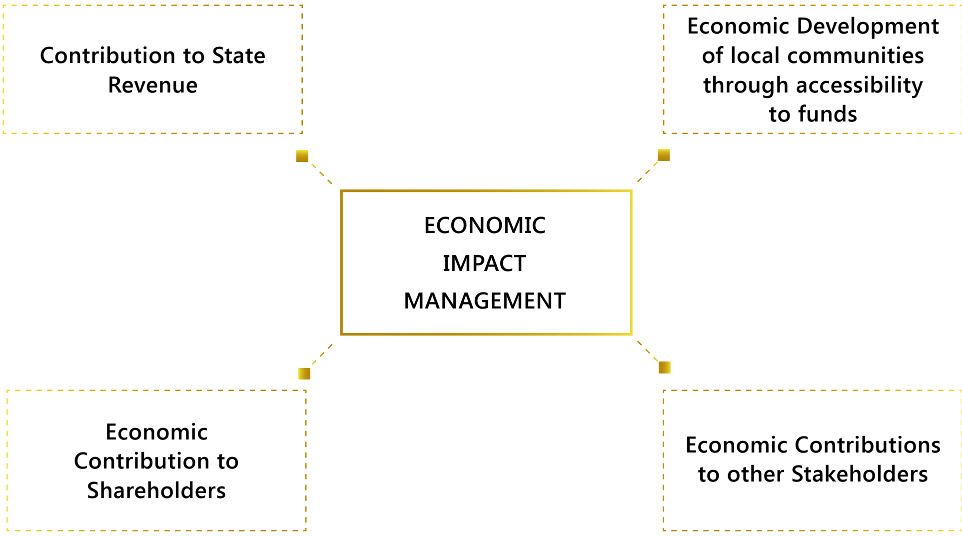
Our sustainability philosophy takes flight and is set in motion in a systematic manner where the process commences with the identification of our stakeholders and identifying their needs. Next we assess the materiality of these stakeholder needs and their impacts on our business model. Based on this thorough assessment, we formulate calculated mechanisms to satisfy such stakeholder needs.

THE SUSTAINABILITY FRAMEWORK

With respect to importance of the management of the various impacts that our business has on our operating environment, we have adopted a formalised framework to sustainable value creation. This framework ensures that our sustainability strategy generates Economic, Social and Environmental value. The conceptualisation, execution and monitoring of all value creation activities related to our sustainability strategy are carried out through our Executive Committee.

Our commitment to the sustainable development of our business is evidenced by the adoption of such a formalised high level approach in identifying, assessing and formulating responses to our sustainability impacts. In essence, the execution of this process, which is very much part of our business model, ensures that we identify and serve the interests of our diverse set of stakeholders.

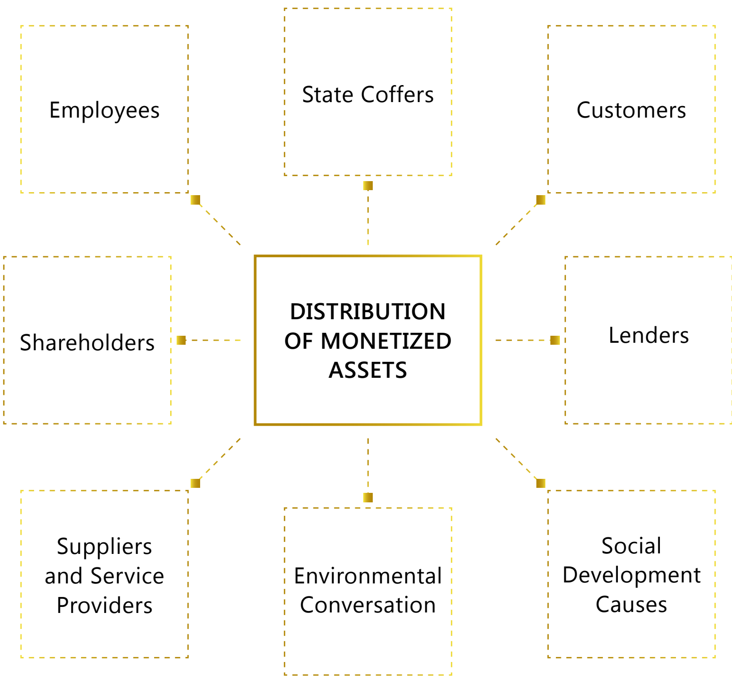
ECONOMIC CONTRIBUTION



The monetised value we generate through our business model represents the foundation for our survival and in fact serves as the economic enabler that helps us to consistently and actively engage with our stakeholders. Further, our business model is designed in such a way that it enables us to share the economic value that we generate, amongst a host 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.

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

Further, it is pertinent to note that our products also play a major role in the economic contribution that we make. In line with the national objective to continuously foster the growth of SMEs, our specialised SME working capital product and our "Atha Hitha" Small Business Loan product continue to make inroads and play a significant role in the development of SMEs, through the provision of easy access to funds.



SOCIAL CONTRIBUTION

Intrinsically intertwined in our corporate ethos is our commitment to serving the communities that we engage with and taking active, consistent steps in uplifting their livelihoods and economic conditions. Thus, as we continue to consolidate our market presence through our ever-expanding network touch points, we are simultaneously positioning ourselves to better assist the local communities and help them become economically self-sufficient.

IMPROVING ACCESS TO FINANCE

Our business model has been designed to consistently create sustainable value to all our stakeholders and not just our shareholders. Thus, the concept of improving accessibility to formalised sources of finance to small businesses and regional entrepreneurs has been well embedded in our business model. To bring this concept into fruition, we took steps to introduce our "Atha Hitha" small business loan product that is targeted at fast growing small businesses and at regional entrepreneurs with promising business potential. By engaging with a segment of society which was not previously catered to by our offerings, we have made significant strides in improving accessibility to finance in this growing segment that is showing tremendous economic potential.

Further, through the host of flexible leasing and vehicle loan options that we recently re-launched, we have been able to offer attractive and customisable financing options for a wide range of motor vehicles to drive the economic potential of rural entrepreneurs and encourage rural development.

CONTRIBUTING TO THE LOCAL ECONOMY

As we continue to expand our operational outreach, we make it a point to engage directly with the local community in all our business and operational activities. 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 commitment to sustained community engagement has always extended well beyond the daily financial transactions that we have with our clientele. Every year, all our branches actively 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

The continuous expansion of our operational scope and market coverage means that we continue to create employment opportunities to the youth and pay special attention to the provision of employment to those from rural areas of the country. Especially when hiring personnel for our branch network, we prioritise the recruitment of talent from the respective regions in order to foster localised employment creation and encourage participation in the economic development of their respective communities. 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 is not simply limited to employment provision. 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 2017-18 financial year, thereby besting the training milestone that we set the year before. 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 accomplished professionals.

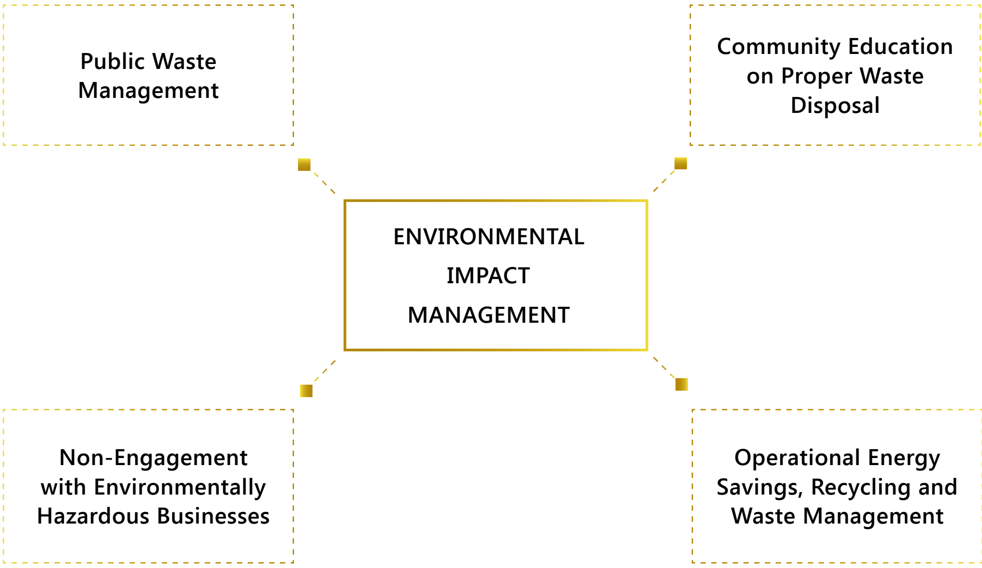
ETHICAL BUSINESS PRACTICES

We are unconditionally accountable to all our stakeholders, especially to our customers and shareholders, to maintain unquestionable standards of financial and operational integrity and unblemished business ethics in the execution of our business activities. Thus, it is in their interest that we have stringent processes in place to maintain flawless business ethics and operational 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

As a significant player in the NBFI industry, we have an innate 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 formalised finance, help formulate industry best practices and come up with solutions for industry challenges. Overall, our aim is to elevate public confidence in the NBFI industry so that they may transact with us without hesitation.

ENVIRONMENTAL CONTRIBUTION



Our Business Model has been appropriately geared to take into consideration the environmental impacts of our business and how best to proactively respond to such impacts in a manner that is sustainable in the long term. To this end, we have refined our internal policies and practices in order to inculcate sustainable practices and habits amongst our staff and the communities that we engage with. In this context, we pay particular attention to waste management, recycling and energy and resource conservation.

THE "CLEAN ZONE" INITIATIVE

Public wasted disposal and management through appropriate and environmentally-friendly means 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 resulted in acute 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 mobilise 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 that we open will be accompanied by the necessary "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 neighbourhoods.

COMMUNITY EDUCATION ON WASTE MANAGEMENT

The primary focus of this initiative 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. In order to drive this project, informative leaflets and stickers were used to encourage and certify the residents as members of our "Clean Zone" program in the communities that we were focusing on. To inculcate the habit of garbage segregation, separate bins are placed in front of the branch or at designated public places to dispose plastic, glass and non-recyclable waste. Our primary role in this context is in establishing an efficient system for collecting waste responsibly in a timely manner and with the support of the municipality; the waste is collected, 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, railways, bus stations and hospitals, in addition to the vicinity of our branch locations.

Hence, in addition to the demarcated areas covered by our 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
Kotte Raja Maha Viharaya	Kotte

INTEGRATED RISK MANAGEMENT

INTEGRATED RISK MANAGEMENT FRAMEWORK

The success and stability of a company remains in its ability to manage risk effectively in a way that would maximise the value created for all stakeholders. The Integrated Risk Management (IRM) Framework at Softlogic Finance PLC is a surveillance system in place to ensure that sustainable value is created for stakeholders in a responsible manner through effectively monitoring, managing and controlling risks with regard to all operational aspects at all times.

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.

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

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.
Second Line	The Centralised 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 is exposed to.
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.

Key Responsibilities

First Line of Defense

Operational Departments

- Self-assessment, reporting of risks and effectiveness of control.
- 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 and coordinating with Department Heads and the Risk Management Unit.

Second Line of Defense

Risk Management Division

- 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.
- 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 based on Internal Compliance, Regulatory Compliance, and Anti-Money Laundering measures.

Third Line of Defense

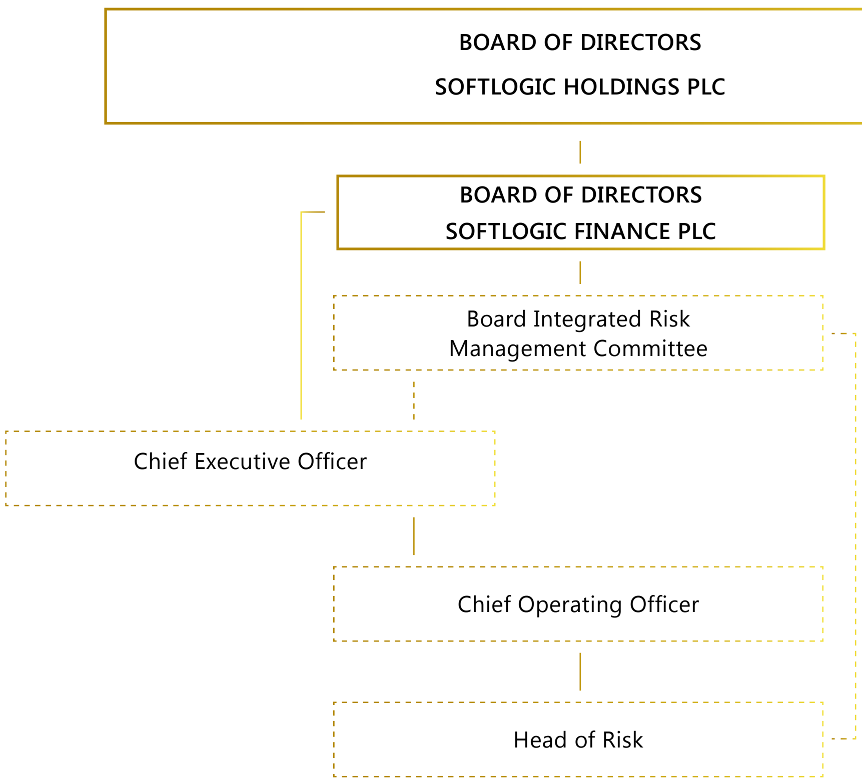
Internal Audit

- Review the effectiveness of risk management practices and the internal control framework.
- Confirm the level of compliance.
- Recommend improvements and enforce corrective action where necessary.

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.

FUNCTIONAL STRUCTURE OF THE RISK MANAGEMENT FRAMEWORK



RISK MANAGEMENT PROCESS

Risk management is an integral 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 and a Risk Management Policy is in place, which outlines the Integrated Risk Management framework that is to be applied at Softlogic Finance PLC. The Risk management process is aligned with the Company's culture, processes, structure and strategy.

RISK ASSESSMENT

An independent credit risk review is carried out by the Head of Risk in order to conduct independent Credit Risk assessments for facilities over Rs. 10.0 Million. Further, facilities over Rs. 20.0 Million are referred to the Executive Credit Committee through the Risk Management division to ensure proper pre-disbursement analysis to minimise Credit Risk. A standardised Risk evaluation section has been amalgamated to 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 APPETITE FRAMEWORK

We believe that, a process with prudent and conservative risk appetite is the mainstay of our Risk Management framework. Our Risk Appetite process is defined in a manner that recognises, assesses, escalates and addresses the emerging risk and risk taking activities in the Company's risk profile. In order to ensure that a comprehensive framework in place, the Board annually reviews the risk factors affecting the Company, with consideration to Group strategy and stake holder requirements. The Board is also responsible for setting the Risk Appetite Framework for the business where the implementation is in the hands of the Senior Management.

The main aim of setting a Risk Appetite is to ensure that risks are proactively managed as per the Board approved tolerance limits under each respective risk category. Maximum tolerance limits are set annually and reviewed monthly to capture any deviations.

RISK APPETITE CRITERIA

Risk Tolerance Limits		
Credit Quality and Concentration		
Risk Category	**Risk Indicator**	**Tolerance Limit**
Credit Risk	Single Borrower Exposure (Individual)	15% of the Capital funds
	Single Borrower Exposure (Group)	20% of the Capital funds
	Non-Performing Ratio	Below 7%
Credit Concentration Risk	Sector concentration Ratio	Below 40%
	Lending to Agriculture sector	10% – 12%
Liquidity & Market Risk	Liquid Assets Requirement	Above 110%
	Net Interest Margin	Above 5%
	Interest Rate Sensitivity	Below 10%
	Long Term funding concentration	Above 35%
	Total Deposits to Other Borrowings	80% : 20%
	Bulk Deposits to Total Deposits	Below 20%
Operational Risk	Staff Turnover	Below 12%
	Unsatisfactory Audits [as a percentage of Total Audit reviews]	Below 10%
	Cost to Income Ratio	Below 50%
Regulatory Risk	Core capital (Tier I) requirement	Above 5%
	Total risk weighted capital (Tier II) requirement	Above 10%

RISK ASSESSMENT MAP

In addition to the risk appetite criteria in place, the Company also utilises 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 categorises them as "High Risk", "Medium Risk" and "Low Risk" depending on the status of the indicator and its assessed impact on the business.

Stated below is the Risk Assessment Matrix used:

Risk Assessment Map
Credit Risk
Portfolio Growth
NPL Ratio Position
Provisioning GAP – SLAS vs IFRS
Market Risk
Liquidity
Top 20 Largest Fixed Deposits Concentration
Interest Rate
Gold Price
Exchange Rate
Net Interest Margin
Regulatory Risk
Compliance
Statutory Payments
Renewal of Licences
Central Bank Audits
Statutory Reporting
External Audit

Risk Assessment Map Cont.
Reputational Risk
Financial
External Rating
Service Standards
Operational Risk
People – Staff Turnover
Vulnerability of Key Performance Indicators
Internal Process – Complexity/Level of Integration
External – Health & Safety
IT Risk
Systems (Hardware)
Backup Processes
Backend System
Frontend System
Cyber Security Measures
IT Project
Systemic Risk – Macro Environment
Economic and Industry Indicators
Country's Security Situation
Law and Order

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

Assessment Indicators		
High Risk	Medium Risk	Low Risk

KEY IDENTIFIED TYPES OF RISKS

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.

New strategies and business opportunities are discussed and vetted by the relevant Business Heads, Chief Operating Officer, Chief Executive Officer and the 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.

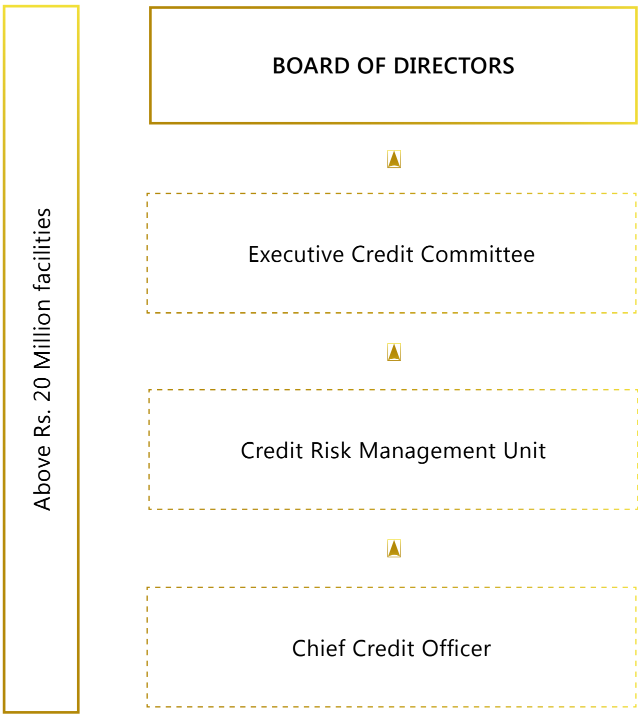
CREDIT RISK

This involves the potential financial loss that may result in the event of a customer or a counterparty failing to meet the payment obligations to the Company in accordance with the agreed terms.

We at Softlogic Finance PLC have exercised following proactive measures to manage the Credit Risk.

- Credit Risk Management functions have been formulated in line with the CBSL guidelines and the Integrated Risk Management framework which is approved by the Board of Directors.
- Standardised evaluation methods are practiced in the Credit Approval process.
- Proper Delegation of Authority
- Risk based pricing mechanism
- Post sanction review & monitoring

Our Credit Risk Governance Model:



Credit Concentration Risk

The credit concentration risk arises due to high exposures to specific sectors/clients. In order to control/mitigate the associated risk, ongoing periodic reviews are in place in a number of areas, such as; Top 20 exposures as a percentage of the total portfolio, product-wise, sector-wise, collateral-wise etc.

Sector concentration is analysed through tolerance levels set by the Board in line with the CBSL guidelines. Individual and group exposure limits are in place to measure and monitor the credit concentrations in the lending portfolio.

Stress testing/Sensitivity analysis reporting are also employed as a monitoring tool to identify and report the principal risk factors affecting the portfolios to the BIRMC.

MARKET RISK

This involves the likelihood of potential loss in earnings that could be caused from the possible fall in value of Investments or Trading portfolios due to movements in foreign exchange rates, interest rates and equity & commodity prices.

Market Risk activities of the Company are governed by the Board approved ALCO Policy, Investment policy and Treasury policy. A Board approved Limit monitoring mechanism is also in place to monitor the Market Risk.

Interest Rate Risk

This concerns the potential risk arising as a result of adverse movements in market rates which affect different re-pricing characteristics of company assets and liabilities.

In order to mitigate the impacts of Interest rate risk, more consideration is given to the maintenance of an optimum interest spread at all times. Close monitoring and supervision is given for macroeconomics trends to understand the market behavior for firm ALCO decisions.

Monitoring and assessment is exercised through the ALCO and the BIRMC held monthly and quarterly respectively.

Equity Risk

Equity Risk arises due to the impact to the value of the Company's Equity Portfolio due to adverse movements in stock market prices against the corresponding equity index. Currently, the Company is not very exposed to this since we did not hold a large active equity trading portfolio during the year.

Commodity Risk

Commodity risk arises due to the unpredictability of commodity exposures in the Company. The Gold Loan product category comprises of only less than 5% when compared to the total portfolio. Therefore, the impact from this area is within the controllable level.

LIQUIDITY RISK

Potential risk arising due to the inability to meet obligations in a timely manner as and when they become due, mainly on account of mismatches between the maturities of the Company's Assets and Liabilities.

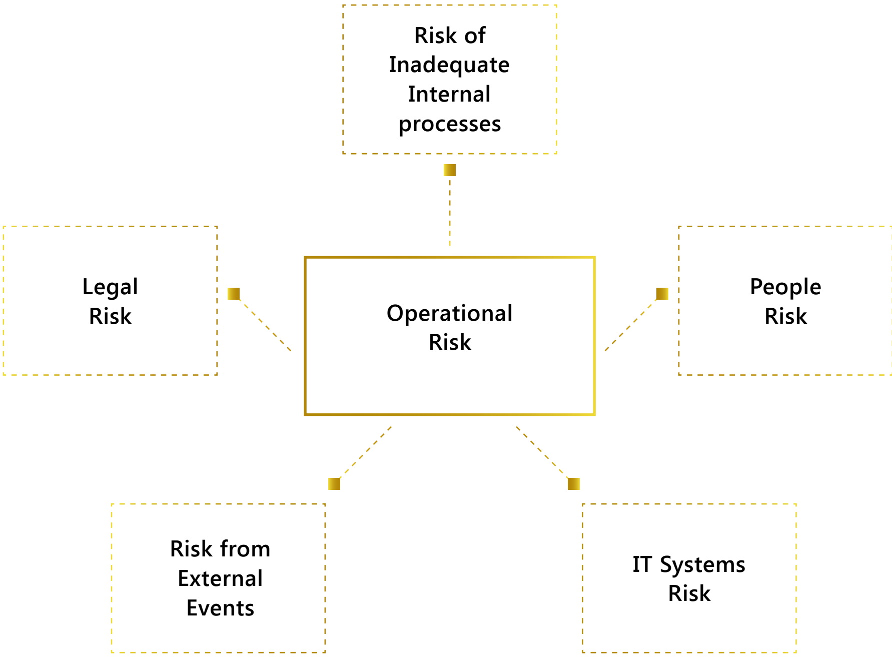
The company maintains well-defined and tested liquidity management policies & procedures to maintain sufficient liquidity at all times to meet financial obligations. We monitor and review the Liquid Asset Ratio, Liquidity Gap Analysis and CAR, Medium Term Funding (MTF) and the Net Advances to Total Assets Ratio to ensure & maintain healthy a liquidity position in the Company operations.

The responsibility for Liquidity Risk Management rests with the ALCO where the Treasury handles the implementation & necessary changes of policy measures in our company.

INTEGRATED RISK MANAGEMENT

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 the business effectively, the following measures have been put in place:

- A strong Operational Risk Management Policy is in place, which has been developed in line with the CBSL Directions, Industry Best Practices, BASEL Framework guidelines and other applicable regulations.
- Efficient tools are in place to manage Operational Risk in business units in accordance with internal control requirements.
- Risk and Control Self Assessments provided by the respective business units help inculcate an operational risk culture within the network.
- Adequacy and effectiveness of Operational Risk Policies are regularly assessed at the Executive Risk Management Committee & BIRMC meetings.
- Risk reviews on new products/outsourced service providers are done through the Executive Product Development Committee to prevent any future recurrence.
- Material losses are regularly analysed and necessary actions taken to improve systems and controls to prevent future damages.
- Robust Business Continuity Planning policy (BCP).

Reputational Risk

- Reputational risk arises due to an event or incident that could adversely impact the corporate image. It can also be identified as 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 and through a well-defined customer complaint handling process and a whistleblowing process. Also, an updated code of conduct and ethics is in place and a strong corporate governance culture is promoted.

IT Security/ Cyber Risk

- The risk of financial losses arises due to the disruption or damages to routine operational functions and also to the reputation of the Company as a result of the failure of information technology systems.
- Our company has identified the importance of this area and deployed such technical controls such as Anti-malware solutions, Network separations, vulnerability remediation and system updates to name a few, to mitigate the risk involved. Close relationships are maintained (as a member) with service providers such as TechCERT & FinCERT to ensure IT/Cyber security whilst strengthening server configuration and patch updates by monitoring regular assessments.

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, codes of conduct and standards of best/ good practice.
- 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.

STRESS TESTING

Stress Testing is used as an assessment tool to determine the Company's potential vulnerability to adverse macroeconomic conditions that could have unfavorable effects directly on the Assets & Liability portfolios and define mitigating actions prior to the crystallisation of such adverse events. It also tests the Company's ability to withstand such changes whilst influencing the necessary changes in the risk profile of the Company.

Stress Testing is conducted on all major risks in Credit, Liquidity, Operational and Market risks and duly reported to the Board/ IRMC on a quarterly basis. The results of the testing are used to calibrate the thresholds and establish the boundaries of the Company's Risk Appetite.

Major Risk Area/Category	Possible Event	Stressed Scenarios/ Impact to Portfolios
Default Risk	Default of large amounts	Low
Liquidity Risk	Pre-mature withdrawals of large deposits (Top 20 deposits)	
Operational Risk	Increase in Operational Losses	Medium
Concentration Risk	Exceeding of respective sector exposures and single/group borrower limits	
Collateral Value Risk	Fall in Forced sale value (FSV) of mortgage securities	High
Interest Rate Risk	Interest rate shocks on assets	

RISK REGISTER

To assess Operational Risks, the Risk Register is used and this derives a prioritised 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 analysed to achieve optimal decision making.

RISK SCORING MATRIX

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

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

The Key Risk Indicators are scored/rated against the severity and the probability of that risk using a Risk Scoring Matrix as given above. The impact is assessed under financial, reputational and operational risk and the escalation of risk is rated under 4 categories, namely, 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 PROFILE AND MITIGATION STRATEGIES

Risk Factor	Impact	Risk Assessment/Management	Risk Mitigating Factors	Risk Rating
Credit Risk				
Default Risk	High	1. Key committees in action: the Board, Credit Committee.	1. Board approved credit policies	Medium
		2. Credit Risk Management Unit.	2. Delegated Authority levels (DA's)	
		3. Credit Risk evaluation through specialised staff.	3. Annual reviews of credit policies and DA's.	
		4. Post credit evaluation mechanism.	4. Independent Credit Risk evaluation	
			5. Structured and standardised approval process.	
			6. Risk based pricing.	
Concentration Risk				
Exposures being concentrated on specified sectors against the total portfolio.	High	1. Top 20 exposures will be checked with their respective single & group limits	1. Sector exposures reviewed annually as per Board approved guidelines.	Medium
		2. Sector percentages verified with the total portfolio to assess the sector wise exposures	2. Compliance with Central Bank guidelines on sector lending.	
		3. Identify the high exposure sectors to put up limitations.	3. Monitoring NPLs of each sector against each portfolio.	

Risk Factor	Impact	Risk Assessment/Management	Risk Mitigating Factors	Risk Rating
Market Risk				
Liquidity Risk	High	1. Regular monitoring of the Top 20 largest deposits. (Deposit concentration)	1. Status reporting to ALCO on a regular basis for decision making.	Medium
		2. Maintain healthy margins against the Top 20 deposit total against Total Deposits.	2. Decisions are made on a monthly basis to facilitate the business requirements and make investment/policy decisions.	
		3. Analysing key ratios to ensure the maintenance of proper levels.		
		4. Managing a healthy balance/mix in funding sources.		
		5. Maintain adequate unutilised funding lines to meet urgent cash outflow requirements if any.		
Interest Rate Risk	Medium	1. Monitoring movements in indices i.e. AWPLR, SLIBOR, Government Securities Rates and competitor rates.	1. Monitoring and analysis of Interest Rate related risks at ALCO and IRMC.	Medium
		2. Assess the potential contribution towards interest rate risk.	2. Stress testing & scenario analysis of identified areas/products.	
		3. Board approved policies / limits for assets & liabilities especially in pricing.	3. Close monitoring of macroeconomic trends in order to understand the market behavior.	
Foreign Exchange Risk	Low	1. Assessment of foreign exchange rate risk as per Treasury limits and Board approved policies/ guidelines	1. Regular monitoring through Board approved frameworks as per CBSL requirements.	Low
			2. Regular stress testing for key variables.	
Equity Risk	Medium	1. Review of Equity portfolio.	1. Regular monitoring of the macro environment in connection with the movements in stock market prices.	Low
		2. Identify the adverse movements in equity investments.	2. Decisions made upon the ROE	
		3. Assessments through the Board and the ALCO		

INTEGRATED RISK MANAGEMENT

Risk Factor	Impact	Risk Assessment/Management	Risk Mitigating Factors	Risk Rating
Operational Risk				
People Risk Lack of appropriate human resources, inappropriate human activities, failure to manage talent sustainably	High	1. Using proper manpower planning.	1. Strong and continuous staff development programs in place. (E.g. E-Learning, on the job training)	Medium
		2. Regular reviews and assessments of performance on an annual basis.	2. Comprehensive customer orientation programs aimed at marketing staff.	
		3. Recognise and reward talents/ skills.	3. Recruitments/replacements done through proper screening and scanning.	
		4. Practicing a proper performance management system.	4. Review of HR policies and procedures.	
			5. Transparency in evaluations.	
			6. Well established succession planning.	
IT/Cyber Risk	High	1. Performing frequent System and IT Audits.	1. External professional consultations for better improvements in systems.	Medium
		2. Plan IT/Technological enhancements during annual planning.	2. Proper controls in place to minimise system frauds.	
		3. Empowering an IT Steering Committee.	3. New IT policies based upon ISO standards.	
			4. Continuous and regular system updates to safeguard the same from external vulnerabilities.	
			5. Proper back up system/BCP in place to successfully deal with any contingencies.	
			6. Anti-malware solutions and multi-layer fire walls.	
			7. Close relationship/membership with TechCERT & FinCERT	

Risk Factor	Impact	Risk Assessment/Management	Risk Mitigating Factors	Risk Rating
Legal Risk	High	1. Identify the unenforceable contracts due to inadequate legal documentation of securities, penalties and fines.	1. Implementation of Board approved Legal Risk Management policy.	Low
		2. Effectiveness and adequacy of controls monitored through the Legal Department.	2. Assign experienced lawyers with the capability of handling legal issues.	
		3. Special consultations through external advisers.	3. Proper policies and procedures in place to assess the legal impacts.	
			4. Correct procedures applied to protect intellectual properties.	
Reputational Risk				
Negative publicity and impacts to the Corporate Brand and failure to manage public relations.	High	1. Proper mechanism to handle customer complaints.	1. Customer grievance handling procedure in place.	Low
		2. System to identify the early warning signals/indicators.	2. Updated clear code of conduct and ethics in place.	
			3. Promoting a strong corporate governance.	
			4. Effective and efficient communication amongst stakeholders.	

FUTURE PLANS FOR THE RISK MANAGEMENT FRAMEWORK

Our robust Risk Management practices have progressed encouragingly with the maintenance of a high level of standards and will continue to be strengthened and enhanced towards the achievement of company goals in the years ahead. Key initiatives will be focused on 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, to name a few.
To further improve the Internal Risk Monitoring mechanism	▪ Executive Risk Management Committee (ERMC) to be appointed. ▪ Regular meetings (monthly) to review/discuss the overall risk aspects of the Company. ▪ Maintain a risk assessment report (Risk Register) for follow up actions for discussed findings.
To measure and quantify risk/s for better decision making	▪ Use standard Risk models such as Gini-coefficient, Lorenz curve, to name a few, for better quantification.
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 Internal Risk Rating system.
Further strengthening of POST-APPROVAL credit process	▪ Setting up region/cluster-wise loan review teams to monitor the post-approval process.
Further strengthening of Disaster Recovery capabilities	▪ BCP testing with more integrated functions in place. ▪ Better equipped DR site setup will be in place.
Implement/establish a strong cyber security culture	▪ With the view of combating cyber security threats, new plans are underway to improve and introduce a new cyber security risk management policy. ▪ Strong controls to be added/included in the IT related policies and procedures with regard to the Company activities. ▪ Strengthen the awareness culture and ability to proactively manage threats.
To ensure that IT system operations are in line with the set procedures and controls.	A new experienced IT systems auditor to be recruited to the team.

ACCOUNTABILITY AND TRANSPARENCY

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 personalised customer service, we are well geared to become your investment partner of choice and help your money work for you.

CORPORATE GOVERNANCE PHILOSOPHY

GOVERNANCE FRAMEWORK

The creation of sustainable organisational value has been recognised as our primary, overarching objective. In this context, we are of the firm view that accountability, transparency and ethical, socially conscious corporate conduct serve as the catalysts for the fostering of such organisational value. The corporate governance framework that is in place serves as the cornerstone 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.

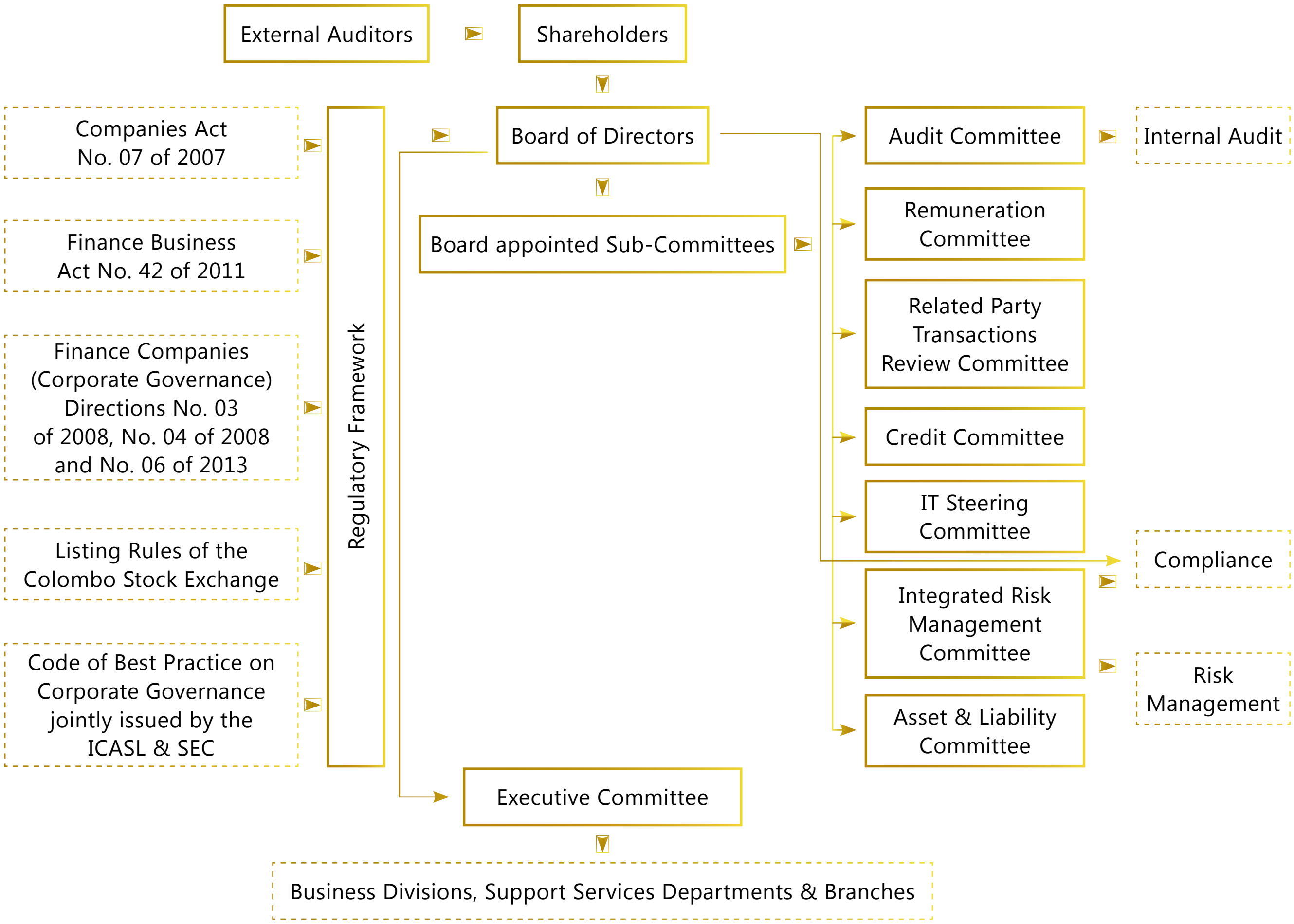
GOVERNANCE PHILOSOPHY & BEST PRACTICES

The Board sets the tone and tenor in the enforcement of governance and the setting of the Company's strategic direction. More specifically, it is responsible for ensuring that the Company operates within the applicable regulatory framework and that it is provided with the requisite strategic direction 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.

CORPORATE GOVERNANCE FRAMEWORK



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 137 and the statement of Directors' responsibilities is given in page 143.

The table at the end of this section in page 107 provides the attendance details of each director at Board meetings.

INTERNAL AUDIT FUNCTION

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

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

COMPLIANCE MANAGEMENT

The compliance management function of the Company plays an integral role in the internal control mechanisms in place. Broadly, this function is responsible for 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.

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) (retired w.e.f. 28th January 2018)	Executive Director	9
Mr. N H G Wijekoon (CEO)	Executive Director	13
Mr. T M I Ahamed (resigned w.e.f. 31st July 2017)	Non-Executive Director	4
Mr. A Russell-Davison (appointed w.e.f. 27th June 2017)	Non-Executive Director	9
Mr. C J E Corea	Independent Non-Executive Director	12
Mr. D T C Soza	Independent Non-Executive Director	12
Mr. H K M Perera (resigned w.e.f. 20th October 2017)	Non-Executive Director	5
Mr. H K Kaimal (appointed w.e.f. 1st August 2017)	Non-Executive Director	9

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 144
168 (1)(b)	Signed Financial Statements of the Company for the accounting period completed	Page 153 to 210
168 (1)(c)	Auditor's report on the Financial Statements of the Company	Page 150
168 (1)(d)	Applicable accounting policies and any changes therein made during the accounting period	Page 157 to 170
168 (1)(e)	Particulars of entries in the interests register made during the accounting period	Page 145
168 (1)(f)	Remuneration and other benefits of directors during the accounting period	Page 205
168 (1)(g)	Total amount of donations made by the Company during the accounting period	Page 146
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 144 to 145
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 145
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 145
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 148

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 pages 144 to 145
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 144
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 213
7.6 (iv)	The Public Holding percentage	Compliant	This is stated in the Investor Information section in page 212
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 145
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Compliant	This is stated in the Integrated Risk Management section from page 92 to 104 and in the Integrated Risk Management Committee Report in page 142

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 72 to 81. 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 20.4 in page 184
7.6 (ix)	Number of shares representing the Entity's stated capital	Compliant	This is stated in Note 27 in page 190
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 212
7.6 (xi)	Ratios and market price information on:	Compliant	This is stated in the Investor Relations section in page 214
	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 214
	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 215
	Any changes to the credit rating	Compliant	Not applicable
7.6 (xii)	Significant changes in the Entity's fixed assets and the market value of land, if the value differs substantially from the book value	Compliant	This is stated in Note 20 in page 183
7.6 (xiii)	Details of funds raised by the entity either through a public issue, Rights Issue or a private placement during the year	Compliant	This is stated in Note 27 in page 190
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 110 to 111
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	During the year under review, the Company had no transactions that qualified for this disclosure

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 four 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 two 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 144 of this report
7.10.3 (b)	In the event a director does not qualify as 'independent' against any of the criteria set out below but if the board, taking account all the circumstances, is of the opinion that the director is nevertheless 'independent', the board shall specify the criteria not met and the basis for its determination in the Annual Report	Not Applicable	No such determination was required to be made by the board as the Independent Directors of the Company met the specified criteria
7.10.3 (c)	The board shall publish in its annual report a brief resume of each director on its board which includes information on the nature of his/her expertise in relevant functional areas	Compliant	Please refer the profiles of the Board of Directors laid out in pages 24 to 25
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	During the period under review, two new Directors were appointed to the Board.
7.10.5	A listed company shall have a Remuneration Committee	Compliant	The composition of this committee is stated in page 139 of this report

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
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 139 of this report
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 139 of this report
	(ii) A statement of remuneration policy	Compliant	Please refer the Remuneration Committee Report in page 139 of this report
	(iii) Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer page 205 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 138 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 recognised 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 in page 138 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 in page 138 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 in page 138 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 in page 138 in this report

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

Paragraph Reference	Guiding Principle	Status and 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 its 3 year comprehensive strategic plan, incorporating strategic objectives, corporate values and measurable goals.
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. As part of its continuous improvement process, the Company is working on introducing 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 that risks in credit, operational, market, strategic & other areas are monitored, managed and reported to the Board. As part of the Board's activities, it routinely discusses new strategies to suit changing market conditions, the risks entailed in such strategies and ways and means to mitigate such risks. Moving forward, the Company plans to work on establishing a formalised process in this regard for Board members to 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, shareholders & 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. The Board routinely looks into the reliability and accuracy of all Non-financial information which are used by the Board and its sub-committees. In order to improve existing Board procedures, updated processes will be brought into effect. The Board regularly reviews the adequacy and integrity of the MIS of the Company.

Paragraph Reference	Guiding Principle	Status and Details of Compliance
2 (1)(f)	Identifying & designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (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 in line with the CBSL Direction.
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. Currently, the Board is aware of and well versed with its areas of authority and key responsibilities. In order to further improve the activities of the Board, the Company will use the powers and duties stated in the Articles and define the Board's areas of authority and key responsibilities. Whilst expanding the scope used to define the existing KMPs, the Company will get the new job descriptions of new KMPs also approved by the Board.
2 (1)(h)	Ensuring that there is appropriate oversight of the affairs of the Company by key management personnel, that is consistent with the Company's policy.	Affairs of the Company are reviewed by the Board on a monthly basis. Company affairs & operations are also reviewed by the executive committee of the Company normally once a week.
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 will improve its existing procedures in this regard to streamline the collection of self-evaluations of the Directors and submit a summary of these self-evaluations to the Board for review.
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, under Board supervision.
2 (1)(k)	Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Executive committee meetings are held once a week 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.

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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.
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 established and delegated responsibilities & functions to the CEO and the Chairman, who are separate persons in line with the applicable directions and these will be submitted to the Board and to the CBSL for their approval.
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 and the Board has been apprised of such matters reserved to it in order to ensure that the direction and control of the Company is firmly under its authority. In order to streamline and further improve the exercise of power by the Board, attention will be given to introducing a schedule containing these matters specifically reserved to the Board.
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 Department 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.

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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. In order to improve existing processes and practices, any exceptional and non-routines matters approved through circular resolutions will be submitted subsequently to the Board for discussion.
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 formalised procedure to enable all Directors to include matters and proposals in the agenda.
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 2017/18 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 formalised 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 formalised 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.

CORPORATE GOVERNANCE DISCLOSURES

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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 8 Directors as at 27th June 2017. By 31st July 2017, the Board composition reduced to 7 members and again rose to 8 by 1st August 2017. Thereafter, the number reduced to 7 members by 20th October 2017. The number further reduced to 6 members by 28th January 2018. As at 31st March 2018, the Board comprised of 6 Directors. At no given time, did the number of Directors on the Board fall below 5 or go above the ceiling of 13.
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 2017/18.
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 Number of Directors. The criteria for assessing the independency of a Non-Executive Director.	As at 31st March 2018, the Board comprised of two Independent Non-Executive Directors. 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.
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 Number 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.

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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 formalised 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, there was one Director appointed to fill a casual vacancy. Further another Director was appointed to the Board on 20th April 2018. Both will be subjected to election by the shareholders at the upcoming annual general meeting.
4 (11)	Resignations/removals of directors & reasons thereto, to be announced to shareholders and notification given to the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank.	There were two resignations during the year under review and a retirement in line with the CBSL age-related guidelines. Formal notices of these were given to the Colombo Stock Exchange and to the CBSL.
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 the age of 70. Hence this requirement has been 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.
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 robust, the Company will evaluate the existing approach and make the necessary changes through the introduction of a more effective process in this regard.

CORPORATE GOVERNANCE DISCLOSURES

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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 and 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.
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.

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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: (i) Appointment of the external auditor. (ii) Implementation of CBSL guidelines issued to auditors. (iii) Application of relevant accounting standards. (iv) Service period, audit fee and 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 formalised 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 formalise 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.
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.

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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: (i) Review the adequacy of the scope, functions & resources of the internal audit department. (ii) Review the internal audit programme & results of the internal audit process. (iii) Review any appraisal or assessment of the performance of the head & senior staff members of the internal audit department. (iv) Recommend any appointment or termination of the head, senior staff members & outsourced service providers to the internal audit function. (v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit dept. including the chief internal auditor & any outsourced service providers. (vi) Ensure that the internal audit function is independent of the activities it audits.	(i) The scope, 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 Head of Internal Audit joined the Company in October 2017 and was not eligible for the annual PMS done in March 2018. The Board Audit Committee will review the appraisal or assessment of the performance of the head & senior staff members of the internal audit department going forward. (iv) The Committee has recommended the appointments of senior staff members for the internal audit function during the year. (v) The Head of Internal Audit resigned during the year under review and a new Head was appointed. (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 only once without the presence of any Executive Director.

Paragraph Reference	Guiding Principle	Status and 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 9 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 whistle blowing procedure. 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 is in the process of finalising it.
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.	As at 31st March 2018, the committee comprised of 2 Non-Executive Directors, 1 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. The committee also ensures that appropriate measures have been taken to mitigate any risks that have been 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 will assess the effectiveness of all management level committees such as Asset and Liability Committee and Credit Committee against their current Terms of Reference.

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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 adequate corrective 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.
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 organisation 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. Going forward, the Risk Committee will submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or 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 no related party benefits from favourable 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 formalised 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 formalised 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.

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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 favourable 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 favourable treatment" than that accorded to others carrying on the same business with the Company, a formalised and documented process is to be introduced, addressing these factors.
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 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.

Paragraph Reference	Guiding Principle	Status and Details of Compliance
10 (2)(f)	Total net accommodation outstanding in respect of each category of related parties & the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	As per Note No. 36 in the Notes to the Financial Statements in the Annual Report, a loan has been granted to a related party, Suzuki Motors Limited and the loan outstanding amount as at 31st March 2018 stands at Rs. 3,286,435. In effect, this translates to 0.15% of the Company's capital funds.
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 corporate governance report set out in the Annual Report contains details of compliance with applicable laws, regulations, the code of best practices on corporate governance issued by the ICASL & SEC & internal controls.
10 (2)(i)	A statement of the regulatory & supervisory concerns on lapses in the Company's risk management, or non-compliance with the Finance Business Act & rules & directions that have been directed by the Monetary Board to be disclosed to the public.	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 Factual Findings Report of the External Auditors.

Level of compliance with the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants 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.
	Appointing the chair and the senior independent director if relevant	In line with the applicable CBSL directions, the Company has appointed the Chairman and also a senior independent director.
	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 executive committee profiles are provided in pages 28 to 29.

Ref No.	Guiding Principle	Degree of Compliance
	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.
	Approving budgets and major capital expenditure	As part of its 3 year planning cycle, the Company prepares its budgets, inclusive of budgets related to capital expenditure and forwards them duly for Board approval.
	Determining the matters expressly reserved to the Board and those delegated to the management including limits of authority and financial delegation.	Matters expressly reserved to the Board has been stated in the Company's Articles of Association and the Board has set and approved the relevant matters to be delegated to the internal management, inclusive of limits of authority and financial delegation.
	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 and activities and consider the need for adopting "integrated reporting".	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 86 to 91 discusses this in detail. Further the Company has adopted the "integrated reporting" methodology in its reporting.
	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 150 subscribes to this fact.
	Establishing a process of monitoring and evaluation of progress on strategy implementation, budgets, plans and related risks	The company has established an extensive process of monitoring and evaluating the progress on strategy implementation, budgets, plan and related risks and the Board is apprised of this at every Board meeting.
	Ensuring that a process is established for corporate reporting on annual and quarterly basis or more regularly as relevant to the Company.	The company has a well-established process with appropriate checks and balances for its corporate reporting on an annual and quarterly basis.
	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.

CORPORATE GOVERNANCE DISCLOSURES

Ref No.	Guiding Principle	Degree of Compliance
A.1.3	The Board collectively and Directors individually must act in accordance with the applicable laws & a procedure agreed by the Board of Directors should be in place, to obtain independent professional advice, at the Company's expense.	The Board has collectively and individually acted in accordance with all applicable laws and regulations and a procedure exists for the Directors to obtain independent advice.
A.1.4	All Directors should have access to the advice and services of the Company Secretary. Any question of the removal of the Company Secretary should be a matter for the Board as a whole.	All Directors have direct access to the Company Secretary and both the appointment and removal of the Company Secretary is decided by the Board.
A.1.5	All Directors should bring independent judgement to bear on issues of strategy, performance, resources & standards of business conduct.	All Directors bring forth independent judgement when assessing matters before it and always act in the best interest of the Company.
A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company, to ensure that the duties and responsibilities owed to the Company are satisfactorily discharged.	All Directors, whether Executive or Non-Executive dedicate adequate time and effort to ensure that their obligations pertaining to the functioning of the Company are satisfactorily executed. The company ensures that the Directors receive the Board papers well in advance for effective review.
A.1.7	One third of directors can call for a resolution to be presented to the Board where they feel it is in the best interests of the Company to do so.	The directors have always been able to present their independent judgement and act in the best interests of the Company.
A.1.8	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 2 very experienced bankers on the Board.

Ref No.	Guiding Principle	Degree of Compliance
A.5	Board Balance: The Board is to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-making.	
A.5.1	The Board should include Non-Executive Directors of sufficient calibre and number for their views to carry significant weight in the Board's decisions. The Board should include at least three 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. Out of the six directors in the Board as at 31st March 2018, five were Non-Executive Directors.
A.5.2	Where the constitution of the Board of Directors includes only three Non-Executive Directors, all three such Non-Executive Directors should be 'independent'. In all other instances three or two third of Non-Executive Directors appointed to the Board of Directors whichever is higher should be 'independent'.	The Board contains five Non-Executive Directors. Out of these five, two of them are Independent Non-Executive Directors.
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 144 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.

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 days before the meeting.
A.7	**Appointments to the Board: There should be a formal and transparent procedure for the appointment of new Directors to the Board.**	
A.7.1	A Nomination Committee should be established to make recommendations to the Board on all new Board appointments.	Even though the Company does not have a separate Nomination Committee, the Nomination Committee of its holding company makes adequate recommendations when necessary, with regard to Board appointments.
A.7.2	The Nomination Committee 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.8.3	Resignation – In the event of a resignation of a director prior to the completion of his appointed term, the director should provide a written communication to the board of his reasons for resignation.	If and when such a resignation arises, the relevant director takes steps to adequately apprise the board with the relevant information as to his resignation.
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 have a process to review the participation, contribution and engagement of each director at the time of re-election.	The Board has appropriate processes in place to appraise the participation, contribution and engagement of directors.
A.9.4	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.

Ref No.	Guiding Principle	Degree of Compliance
A.10	**Disclosure of Information in respect of Directors: Shareholders should be kept advised of relevant details in respect of Directors.**	
A.10.1	Details with regard to each Director to be disclosed in the Annual Report.	The Directors' profiles are stated in pages 24 to 25.
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 non-financial 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 139 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. Further, the Chairman is an Independent Non-Executive Director.
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year.	The members of the Remuneration Committee and its Chairman are listed in page 139 of the Annual Report.
B.1.4	The Board as a whole, should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association.	The Board decides upon the remuneration of the Non-Executive Directors and the Non-Executive Directors do not play a part in the determination of their own remuneration. This process is conducted as per the Articles of Association of the Company.
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors and have access to professional advice	As per the terms of reference of the Remuneration Committee, it has access to professional advice and is free to consult the Chairman and/or CEO as it feels fit.

Ref No.	Guiding Principle	Degree of Compliance
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	Executive directors' remuneration should be designed to promote the long-term success of the Company.	This has been taken into account when designing the remuneration of the Executive Directors.
B.2.3	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.2.4	The Remuneration Committee should be sensitive to remuneration & employment conditions elsewhere in the Company or group of which it is a part, especially when determining annual salary increases.	The Remuneration Committee takes into consideration the remuneration levels elsewhere in the Group when determining remuneration levels and increments.
B.2.5	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company.	The performance related elements of remuneration have been designed in a way that individual performance and increases in company performance are positively linked.
B.2.6	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.2.7	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.2.8	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.2.9	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.2.10	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 139. The remuneration policy has been set out in page 139. The aggregate remuneration has been set out in page 205

Ref No.	Guiding Principle	Degree of Compliance
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 arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	The notice of the AGM and the Annual Report are dispatched to shareholders in compliance with the applicable regulations.
C.1.2	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 Company should ensure that all valid proxy appointments received for general meetings are properly recorded and counted.	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.1.4	The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration, Nomination and Related Party Transactions Review Committees and the Senior Independent Director 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.1.5	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.

Ref No.	Guiding Principle	Degree of Compliance
C.3	**Major & material transactions: Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the Company's net assets base.**	
C.3.1	Directors' responsibility to disclose the details of major & material transactions to shareholders for their approval, prior to entering into them.	There were no major or material transactions during the year that required shareholder approval, as prescribed by this Code.
C.3.2	Public listed companies should in addition comply with the disclosure requirements and shareholder approval by special resolution as required by the rules and regulation of the Securities Exchange Commission and by the Colombo Stock Exchange.	The company has complied with all such disclosure requirements.
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 should present an annual report including Financial Statements that is true and fair, balanced and understandable and prepared in accordance with the relevant laws and regulations and any deviation being clearly explained.	The annual report presented by the Board contains Financial Statements that are true and fair, balanced and understandable and prepared in accordance with the relevant laws and regulations and any deviation have been clearly explained.
D.1.2	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.1.3	The Board should, before it approves the Company's Financial Statements for a financial period, obtain from its Chief Executive Officer and Chief Financial Officer a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the Financial Statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the system of risk management and internal control was operating effectively.	The Board has made the necessary consultations with the Chief Executive Officer and Chief Financial Officer with regard to the fact that the financial records of the entity have been properly maintained and that the Financial Statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the system of risk management and internal control was operating effectively.
D.1.4	The Directors' Report, which forms part of the Annual Report, should contain declarations by the Directors on the areas covered by the code.	Refer page 144 to 148 For the Annual Report of the Board of Directors and page 137 for the Directors' Statement on Internal Controls.
D.1.5	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 144 to 148. The statement issued by the Auditors is in page 150. The Statement of Directors Responsibilities is in page 143. The Statement on Internal Controls is in page 137.
D.1.6	Annual Report should contain a Management Discussion & Analysis.	The Management Discussion & Analysis is from page 56 to 104.
D.1.7	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.1.8	The Board should adequately and accurately disclose the related party transactions in its Annual Report.	The related party transactions are reported in page 206 to 207.

Ref No.	Guiding Principle	Degree of Compliance
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 138 and the Integrated Risk Management Committee report in page 142.
D.2.2	The directors should confirm in the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe those risks and explain how they are being managed or mitigated.	Refer the Annual Report of the Board of Directors from page 144 to 148. The Statement of Directors Responsibilities is in page 143. The Statement on Internal Controls is in page 137.
D.2.3	The company should have an Internal Audit function	The company has a separate Internal Audit department that reports directly to the Audit Committee.
D.2.4	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.2.5	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 146 and the Statement of Internal Control in page 137.
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 board should establish an audit committee exclusively of Non-Executive Directors with a minimum of three Non-Executive Directors of whom at least two should be independent. If there are more Non-Executive Directors, the majority should be independent. The Committee should be chaired by an independent Non-Executive Director. The board should satisfy itself that at least one member of the audit committee has recent and relevant experience in financial reporting and control.	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 Audit Committee should have a written Terms of Reference, dealing clearly with its authority and duties. 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, amongst other matters.	These duties to here are encapsulated in the written terms of reference of the Audit Committee.
D.3.3	A separate section of the Annual Report should describe the work of the committee in discharging its responsibilities.	Refer the Audit Committee report in page 138.

CORPORATE GOVERNANCE DISCLOSURES

Ref No.	Guiding Principle	Degree of Compliance
D.4	**Related Party Transactions Review Committee: The Board should establish a procedure to ensure that the Company does not engage in transactions with "related parties" in a manner that would grant such parties "more favourable treatment" than that accorded to third parties in the normal course of business.**	
D.4.1	A related party and related party transactions will be as defined in LKAS 24.	The company has adopted these definitions as per LKAS 24 with regard to related parties and related party transactions.
D.4.2	The Board should establish a Related Party Transactions (RPT) Review Committee consisting exclusively of Non-Executive Directors with a minimum of three Non- Executive Directors of whom the majority should be independent. Executive Directors may attend by invitation. The Chairman should be an Independent Non-Executive Director appointed by the Board.	The company's Related Party Transactions (RPT) Review Committee consists of two Independent Non-Executive Directors and an Executive Director. The Chairman of the committee is an Independent Non-Executive Director.
D.4.3	RPT Review Committee should have written terms of reference dealing clearly with its authority and duties which should be approved by the Board of Directors.	The RPT Committee has a written terms of reference dealing clearly with its authority and duties and the Company is planning to update it with the approval of the Board.
D.5	**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.5.1	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.5.2	The Company should have a process in place to ensure that material and price sensitive information is promptly identified and reported in accordance with the relevant regulations.	The company ensures that material and price sensitive information is promptly identified and reported in accordance with the relevant regulations.
D.5.3	The Company should establish a policy, process for monitoring, and disclosure of shares purchased by any director, Key Management Personnel or any other employee involved in financial reporting.	The company ensures that it monitors and discloses as per any applicable statute or regulation, any purchase of shares by any Director or any Key Management Personnel.
D.5.4	The Chairman must affirm in the Company's Annual Report that a code of conduct and ethics has been introduced companywide and the procedure for disseminating, monitoring and compliance with that code. He must also disclose that he is not aware of any violation of any of the provisions of the Code of Business Conduct & Ethics.	Refer the Annual Report of the Board of Directors from page 144 to 148.
D.6	**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.6.1	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.

Ref No.	Guiding Principle	Degree of Compliance
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.
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. INTERNET OF THINGS AND CYBER SECURITY		
G.1	The Board should have a process to identify how in the organisation's business model that IT devices within and outside the organisation can connect to the organisation's network to send and receive information and the consequent cyber security risks that may affect the business.	Based on the business requirements of the Company and the scope of application and extent of usage of its IT resources, the Company will look into introducing an appropriate policy.
G.2	The Board should appoint a Chief Information Security Officer (CISO) with sufficient expertise, authority and budgetary allocation to introduce and implement a cyber-security risk management policy which should be approved by the Board.	The company's current Head of IT oversees and handles the management of cyber-security risk. Based on the business requirements of the Company and the scope of application and extent of usage of its IT resources, the Company will look into introducing an appropriate policy.
G.3	The Board should allocate regular and adequate time on the board meeting agenda for discussions about cyber risk management.	Based on the cyber security risk management related requirements of the Company's operations, the Board will allocate appropriate time for such discussions.
G.4	The Board should ensure the effectiveness of the cyber security risk management through independent periodic review and assurance.	As per the business requirements of the Company & the scope of application of its IT resources, the Board will consider the usage of independent periodic reviews & assurance with regard to its cyber security risk management.
G.5	The Board should disclose in the Annual Report, the process to identify and manage cyber security risks.	Refer the Risk Management Section in page 92 to 104.

Ref No.	Guiding Principle	Degree of Compliance
H. ENVIRONMENT, SOCIETY AND GOVERNANCE (ESG)		
H.1	**ESG Reporting:- The Company's annual report should contain sufficient information to enable investors and other stakeholders to assess how ESG risks and opportunities are recognised, managed, measured and reported.**	
H.1.1	Company should provide information in relation to relevance of environmental, social and governance factors to their business models and strategy, how ESG issues may affect their business and how risks and opportunities pertaining to ESG are recognised, managed, measured and reported.	In the "Our Approach to Value Creation", "Management Discussion & Analysis" and "Accountability & Transparency" sections in its annual report, the referred material is adequately covered.
H.1.2. Environmental Factors		
H.1.2.1	Environmental governance of an organisation should adopt an integrated approach that takes into consideration the direct and indirect economic, social, health and environmental implications of their decisions and activities.	Refer the Environmental Contribution section from page 90 to 91.
H.1.3. Social Factors		
H.1.3.1	Social governance of an organisation should include its relationship with the community, customers, employees, suppliers, outsourced providers and any other party that can influence or be influenced by the organisation's business model.	Refer the Social Contribution section from page 88 to 89.
H.1.4. Governance		
H.1.4.1	Companies should establish a governance structure to support its ability to create value and manage risks in the short, medium and long term, recognising managing and reporting on all pertinent aspects of ESG.	Refer the Corporate Governance Philosophy section from page 106 to 107.
H.1.5. Board's Role on ESG Factors		
H.1.5.1	ESG reporting is a Board's responsibility and it is designed to add value by providing a credible account of the Company's economic, social and environmental impact.	The Board has taken appropriate cognisance of these requirements and the relevant reporting has been made in the "Our Approach to Value Creation", "Management Discussion & Analysis" and "Accountability & Transparency" sections in the Annual Report.

DIRECTORS' STATEMENT ON INTERNAL CONTROLS

RESPONSIBILITY

According to the Section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 as amended by the Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013, the Board of Directors present this statement on Internal Control over financial reporting.

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

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and sub committees appointed by the Board.

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

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

SUMMARY OF THE PROCESS ADOPTED IN REVIEWING THE DESIGN AND OPERATING EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM

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

- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of Company's daily operations and that the Company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Unit of the Company checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on branches and other centres, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the internal audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Company review internal control issues identified by the Internal Audit Unit, regulatory authorities and management, and 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 138.
- 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.
- The processes and procedures adopted by the Company are being further strengthened based on feedback received from External Auditors, Internal Audit Department, Regulators and the Board Audit Committee. The Company will continue to further develop the processes such as Financial Statement closure process including disclosures with regard to financial risk management, related party identification and disclosure, impairment assessment process, management information system and the overall IT control environment including controls over changes and access to systems and data.
- Since the adoption of Sri Lanka Accounting Standards comprising SLFRSs and LKASs, continuous monitoring is in progress and steps are being taken for improvements where required.

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 2018

REPORT OF THE AUDIT COMMITTEE

COMPOSITION

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

Mr. C J E Corea	– Independent Non-Executive Director (Chairman)
Mr. D T C Soza	– Independent Non-Executive Director
Mr. A Russell-Davison	– Non-Executive Non-Independent Director (Appointed on 27th June 2017 and vacated his committee membership w.e.f. 20th April 2018 on his appointment as the Executive Deputy Chairman)

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 oversee:

- Preparation, presentation and adequacy of disclosures in the Financial Statements, in accordance with the Sri Lanka Accounting Standards.
- Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.
- Processes to ensure that the Company's internal controls and risk management procedures are adequate to meet the requirements of the Sri Lanka Accounting Standards 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 uses the Audit Committee Charter as a guide in taking appropriate measures in order 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 the 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 nine times during the year 2017/18. 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	9/9
Mr. D T C Soza	Independent Non-Executive Director	9/9
Mr. A Russell-Davison	Non-Independent Non-Executive Director	4/7

On the invitation of the Committee, the Chief Executive Officer, the Chief Financial Officer, the Chief Internal Auditor, other officers and the 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 2018

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 2018

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 Sub 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 (Resigned w.e.f. 31st July 2017)	Non-Executive Director	Member
Mr. D T C Soza	Independent Non-Executive Director	Member

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

TERMS OF REFERENCE

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

The Terms of Reference of this Committee are as follows:

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

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

POLICIES AND PROCEDURES

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

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

RELATED PARTY TRANSACTIONS DURING THE 2017/18 FINANCIAL YEAR

During the year under review, there were no recurrent or non-recurrent related party transactions that surpassed the thresholds specified in Section 09 of the Listing Rules. With regard to the other related party transactions entered into by the Company during the year, they are disclosed under Note 36 in the Notes to the Financial Statements section.

DECLARATION

The Annual Report of the Board of Directors on the Affairs of the Company contains a declaration by the Board of Directors that no related party transactions falling within the scope of the Listing Rules 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 2018

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 the management to confirm it is consistent with the Company strategy 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 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 the 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 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 controlling significant financial risks.

The members of the committee as at 31st March 2018 were:

Mr. D T C Soza	– Independent Non-Executive Director (Chairman)
Mr. N H G Wijekoon	– Executive Director/CEO
Mr. A Russell-Davison	– Non-Executive Director
Mr. H K M Perera	– Non-Executive Director (Resigned w.e.f. 20th October 2017)
Mr. T M I Ahamed	– Non-Executive Director (Resigned w.e.f. 31st July 2017)
Mr. K Wijesekara	– Head of Risk

(Sgd.)
Mr. D T C Soza
Chairman
Board Integrated Risk Management Committee
29th June 2018

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 150 to 152.

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 the Financial Statements set out in pages 153 to 210 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 that 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 the 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.

The Board of Directors also confirms that as required by Section 29 of the Finance Business Act No. 42 of 2011, the Financial Statements have been transmitted to the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka within 03 months from the closure of the financial year and the audited statement of income, audited statement of financial position, together with the report of the auditor, have also been published in all three languages within 03 months from the closure of the financial year.

For and on behalf of the Board of
Softlogic Finance PLC

(Sgd.)
Softlogic Corporate Services (Pvt) Ltd.
Secretaries
29th June 2018
Colombo

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board of Directors of Softlogic Finance PLC have the pleasure in presenting to the members their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2018.

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 facilities, group personal loans, personal loans, business loans, small business loans, SME loans, gold loans, mortgage loans, other credit facilities, vehicle hiring, acceptance of deposits and the operation of savings accounts.

A review of the business of the Company and its performance during the year with comments on the financial results, future strategies and prospects are contained in the Chairman's Message on pages 14 to 16.

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 153 to 210.

SUMMARISED FINANCIAL RESULTS

	2017/18	2016/17
	Rs. '000	Rs. '000 Restated
Total operating income	1,585,264	1,887,299
Profit before income tax	193,079	283,603
Income tax expense	25,686	(39,268)
Net profit for the year	218,766	244,335

AUDITORS' REPORT

The Report of the Auditors on the Financial Statements of the Company is given on page 150 to 152.

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 157 to 170. Figures pertaining to the previous periods have been re-stated where necessary to conform to the presentation for the year under review.

DIRECTORATE

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on pages 24 to 25.

EXECUTIVE DIRECTORS

Mr. G L H Premaratne – Deputy Chairman
(ceased to be a director w.e.f. 28th January 2018)
Mr. N H G Wijekoon – Director/CEO

NON-EXECUTIVE DIRECTORS

Mr. A K Pathirage – Chairman
Mr. A Russell-Davison – Director
Mr. C J E Corea – Director*/**
Mr. D T C Soza – Director*
Mr. T M I Ahamed – Director (resigned w.e.f. 31st July 2017)
Mr. H K M Perera – Director (resigned w.e.f. 20th October 2017)
Mr. H K Kaimal – Director (appointed w.e.f. 1st August 2017)

Mr. W N R Bastian was appointed as an Independent Non-Executive Director w.e.f. 20th April 2018.

The approval has been granted by the Central Bank of Sri Lanka for the aforesaid appointments in terms of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The designation of Mr. A Russell-Davison was changed to an Executive Director and the Deputy Chairman of the Company w.e.f. 20th April 2018 as per the approval granted by the Central Bank of Sri Lanka under the Finance Companies (Structural Changes) Direction No. 01 of 2013.

** 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. 03 of 2008.*

In terms of Articles 91 and 92 of the Articles of Association of the Company, Mr. A K Pathirage retires by rotation and being eligible, offers himself for re-election.

In terms of Article 97 of the Articles of Association of the Company, Messrs. H K Kaimal and W N R Bastian retire 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 Interest Register in due compliance with the applicable rules and regulations of the relevant Regulatory Authorities.

DIRECTORS' SHAREHOLDING

The relevant interests of Directors in the shares of the Company as at 31st March 2018 and 31st March 2017 are as follows:

Name of Director	Shareholding as at 31.03.2018	Shareholding as at 31.03.2017
Mr. A K Pathirage	228,000	228,000
Mr. N H G Wijekoon	13,118	13,118
Mr. C J E Corea	Nil	Nil
Mr. D T C Soza	Nil	Nil
Mr. A Russell-Davison	Nil	Nil
Mr. H K Kaimal	Nil	Nil

Messrs A K Pathirage and A Russell-Davison are Directors of Softlogic Capital PLC, which held 40,509,081 shares (59.63%) in Softlogic Finance PLC as at 31st March 2018. Messrs. A K Pathirage, A Russell-Davison and H K Kaimal are also Directors of Softlogic Holdings PLC which held 779,969 shares (1.15%) in Softlogic Finance PLC as at 31st March 2018.

REMUNERATION OF DIRECTORS

The Directors' remuneration is disclosed under transactions with key managerial personnel in Note 36.1 to the Financial Statements on page 205.

RELATED PARTY TRANSACTIONS WITH THE COMPANY

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

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

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. 3,567,760/- is payable by the Company to the Auditors for the year under review as audit fees.

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

STATED CAPITAL

The Stated Capital of the Company as at 31st March 2018 was Rs. 2,002,269,999.12 represented by 67,928,384 ordinary shares. The stated capital of the Company was increased from Rs. 1,692,615,435.12 representing 59,070,988 ordinary shares to Rs. 2,002,269,999.12 representing 67,928,384 during the year under review with the conclusion of the issue of 8,857,396 shares to Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) by way of a private placement.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

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 212 to 215 under the Investor Information section.

RESERVES

The movements of reserves during the year are given under the Statement of Changes in Equity on page 155.

PROPERTY, PLANT & EQUIPMENT

The details and movements of Property, Plant and Equipment owned by the Company are given in Note 20 to the Financial Statements on pages 183 to 184.

LAND HOLDINGS

The Company owns freehold land worth Rs. 193,000,000/-.

INVESTMENTS

Details of quoted and unquoted investments made by the Company as at 31st March 2018 are given in Note 14 to the Financial Statements in page 176.

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 138.

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 92 to 104 sets out the processes currently practiced by the Company to identify and manage the risks.

CONTINGENT LIABILITIES

Except as disclosed in Note 33 to the Financial Statements on page 204, 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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

EVENTS OCCURRING AFTER THE REPORTING PERIOD

8,857,396 shares issued to Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) by way of a private placement on 29th March 2018 were listed on the Colombo Stock Exchange on 9th April 2018.

In addition to the above, 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 2017 issued by the Institute of Chartered Accountants 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 confirm 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 108 to 136.

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

CREDIT COMMITTEE

Mr. A Russell-Davison	– Director/Deputy Chairman (Chairman)
Mr. N H G Wijekoon	– Director/CEO
Mr. W N R Bastian	– Independent Non-Executive Director (Appointed w.e.f 20th April 2018)

INTEGRATED RISK MANAGEMENT COMMITTEE

Mr. D T C Soza	– Independent Non-Executive Director (Chairman)
Mr. N H G Wijekoon	– Director/CEO
Mr. W N R Bastian	– Independent Non-Executive Director (Appointed w.e.f 20th April 2018)
Mr. K Wijesekara	– Head of Risk

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
Mr. H K Kaimal	– Non-Executive Director
Mr. Channa De Silva	– Chief Manager – IT

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

RELATED PARTY TRANSACTION REVIEW COMMITTEE

Mr. C J E Corea	– Independent Non-Executive Director (Chairman)
Mr. N H G Wijekoon	– Director/CEO
Mr. D T C Soza	– Independent Non-Executive Director

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 21st September 2018 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 221 of the Annual Report.

ACKNOWLEDGEMENT OF THE CONTENTS 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.

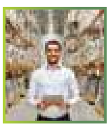
Signed for and on behalf of the Board of Directors by,

(Sgd.)
A K Pathirage
Chairman

(Sgd.)
N H G Wijekoon
Director/CEO

(Sgd.)
Softlogic Corporate Services (Pvt) Ltd.
Secretaries
29th June 2018
Colombo

FINANCIAL STATEMENTS



Business Financing

Our extensive array of short-term and long-term business financing products provides you with a range of flexible financing options to suit your individual business needs. Backed by our proven personalized customer service and fast processing times, we are ideally positioned to serve your business financing requirements, whether it is for working capital management or for investment related activities like business expansion.

INDEPENDENT AUDITORS' REPORT

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

Tel : +94 11 2463500
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eysl@lk.ey.com
ey.com

SPF/WDPL/MFI

TO THE SHAREHOLDERS OF SOFTLOGIC FINANCE PLC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Softlogic Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Key Audit Matter	How our audit addressed the key audit matter
Impairment of Leases, HP, Loans and Receivables As at 31 March 2018, Leases and HP, and Loans and receivables (net of impairment) amounted to Rs. 1,566,537 (Rs.'000) and Rs. 15,811,256 (Rs.'000) respectively. These collectively contributed 80% to the Company's total assets. The allowance for impairment (both individual and collective) of these financial assets is estimated by management. The estimation involves a complex calculation. Assumptions used by management in this calculation are inherently judgmental. Note 3.1.4 to the Financial Statements more fully describes the assumptions to which this estimate is most sensitive. We considered the estimation of allowance for impairment as a Key Audit Matter due to sensitivity of reported results (on financial performance) to this allowance and the inherent uncertainty involved in its estimation.	To assess the reasonableness of the allowance for impairment, we performed the following key procedures, among others: ▪ We understood the process over estimation of the allowance for impairment including those over identifying occurrence of loss events, following which we decided to use a fully substantive approach rather than relying on controls within the process; ▪ In addition to the above, focused procedures were performed as follows: **Individual allowance for impairment:** Obtained a list of leases and loans subject to individual impairment, and checked a sample for management's identification of customers for whom an impairment event has occurred. For such customers, we test – checked the appropriateness of management's calculation over the estimation of recoverable amount and timing of such amounts. **Collective allowance for impairment:** For loss rates used by management, we assessed the appropriateness of the loss emergence period and the observation period including consistency with historical loss experience. We test – checked a sample of the underlying calculations and data used in such calculations ▪ We assessed the adequacy of the related financial statement disclosures as set out in note(s) 8, 16.2, 16.3, 16.4, 17.2, 17.3, 17.4 and 17.5
IT System and Controls The Company is heavily reliant upon automated controls and IT dependent manual controls. The IT platform is key to its revenue generation and is also relied upon for many aspects of the financial reporting process.	▪ As part of the audit, we review the supporting IT General Controls that provide assurance over the continued integrity of these controls for the full financial reporting. ▪ We identified recurring control matters, particularly in relation to the management of IT privileged access to IT systems, among other factors and therefore have relied on additional substantive procedures. ▪ Where controls continued to be ineffective for the full financial period, and these control matters affected applications and supporting IT systems within the scope of the audit, we performed additional substantive audit procedures. ▪ On the basis of our additional audit testing, we were able to place reliance on the data and reports from in-scope applications.

Other information included in the Company's 2018 Annual Report

Other information consists of the information included in the Company's 2018 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2199.

Ernst & Young

29 June 2018
Colombo

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31st March 2018

	Notes	2018 Rs.	2017 Rs. Restated
Income		4,146,393,416	4,178,707,626
Interest income	3	3,523,555,934	3,431,751,573
Interest expenses	4	(2,561,129,565)	(2,291,408,431)
Net interest income		962,426,369	1,140,343,141
Fee and commission income	5	470,335,493	602,309,706
Net trading income	6	4,791,000	16,128,488
Other operating income	7	147,710,989	128,517,859
Total operating income		1,585,263,851	1,887,299,195
Impairment (charge)/reversal for loans and other losses	8	(108,425,149)	(440,821,511)
Net operating income		1,476,838,702	1,446,477,684
Operating expenses	9		
Personnel costs	9.1	(465,770,401)	(441,067,262)
Depreciation of property, plant and equipment	20.1	(71,778,785)	(68,792,809)
Amortisation of intangible assets	19	(17,021,264)	(10,272,052)
Other operating expenses	9.2	(629,859,863)	(602,009,112)
Operating profit before value added tax on financial services		292,408,389	324,336,450
VAT & NBT on financial services		(99,329,008)	(40,733,745)
Profit before income tax		193,079,381	283,602,705
Income tax expense	10	25,686,284	(39,268,188)
Profit for the year		218,765,665	244,334,517
Other comprehensive income/(expenses)			
Other comprehensive income to be reclassified to profit or loss			
Gain/(Loss) arising on remeasuring available for sale financial investments	28	(1,042,072)	4,338,889
Gain on available for sale investment transferred to profit or loss		-	(15,115,988)
Other comprehensive income not to be reclassified to profit or loss			
Gain/(Loss) arising on revaluation of land and building	28	51,613,544	30,000,000
Deferred tax on capital gain arising on revaluation of land	28	(36,629,270)	-
Actuarial gain/(loss) on post employment benefit obligations net of tax	25	(5,987,459)	(4,026,339)
Other comprehensive income for the year, net of tax		7,954,743	15,196,561
Total comprehensive income/(expenses) for the year		226,720,408	259,531,079
Basic earnings per share	11	3.70	4.14
Dividend per share		1.65	1.25

The accounting policies and notes as set out in pages 157 to 210 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31st March 2018	Notes	2018 Rs.	2017 Rs. Restated	2016 Rs. Restated
ASSETS				
Cash and cash equivalents	13	945,103,676	754,813,493	509,280,659
Financial investments – Available for sale	14	268,148,316	184,193,580	179,848,200
Financial Investments – Loans and Receivables	15	1,842,595,168	1,777,822,416	1,985,949,858
Lease and hire purchase receivables	16	1,566,536,595	949,316,675	1,444,230,593
Loans and receivables	17	15,811,256,334	17,040,492,602	14,462,117,970
Other non-financial assets	18	488,861,448	404,152,758	855,649,620
Income tax receivable		157,009,146	126,306,840	-
Deferred tax asset		96,961	-	94,523,209
Intangible assets	19	78,044,789	95,066,053	37,431,036
Property, plant and equipment	20	522,564,162	373,817,941	373,351,729
Total assets		21,680,216,595	21,705,982,359	19,942,382,874
LIABILITIES				
Due to banks	21	1,342,694,516	1,362,994,681	888,402,016
Due to customers	22	16,391,947,289	16,048,473,927	14,055,203,485
Other borrowed funds	23	1,574,210,717	2,308,397,150	3,188,118,082
Other non financial liabilities	24	62,080,903	96,902,951	83,792,108
Income tax payable		-	-	56,162,160
Retirement benefit obligations	25	28,833,306	16,938,596	14,855,344
Deferred tax liabilities	26	-	30,733,031	-
		19,399,766,731	19,864,440,337	18,286,533,196
SHARE HOLDERS' FUNDS				
Stated capital	27	2,002,269,999	1,692,615,435	1,692,615,435
Statutory reserve fund	28	219,654,894	175,901,761	127,034,858
Retained earnings		17,751,860	(53,806,083)	(171,408,622)
Revaluation reserve	28	103,249,682	88,265,408	58,265,408
Available for sale reserve	28	(62,476,571)	(61,434,499)	(50,657,400)
Shareholders' funds		2,280,449,864	1,841,542,022	1,655,849,678
Total liabilities and share holders' funds		21,680,216,595	21,705,982,359	19,942,382,874
Net assets value per share		33.57	31.18	28.03

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

(Sgd.)
V.S. Premawardana
Chief Financial Officer

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board by;

(Sgd.)
A.K. Pathirage
Chairman

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

The accounting policies and notes as set out in pages 157 to 210 form an integral part of these financial statements.

29th June 2018
Colombo

STATEMENT OF CHANGES IN EQUITY

	Stated Capital	Retained Earnings	Available for Sale Reserve	Revaluation Reserve	Statutory Reserve Fund	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st April 2015	1,692,615,435	92,692,442	(50,657,400)	58,265,408	193,060,124	1,985,976,009
Adjustment on correction of error (Note 29)	-	(330,126,330)	-	-	-	(330,126,330)
Transferred to/(from) during the year	-	66,025,266	-	-	(66,025,266)	-
Balance as at 1st April 2016 – restated	1,692,615,435	(171,408,622)	(50,657,400)	58,265,408	127,034,858	1,655,849,679
Profit for the year as reported in the 2016 financial statements	Nil	364,799,887	Nil	Nil	Nil	364,799,887
Adjustment on correction of error (Note 29)	Nil	(120,465,371)	Nil	Nil	Nil	(120,465,371)
Restated profit for the year	Nil	244,334,516	Nil	Nil	Nil	244,334,516
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	240,308,177	(61,434,499)	88,265,408	Nil	267,139,086
Dividends paid	Nil	(73,838,735)	Nil	Nil	Nil	(73,838,735)
Transferred to/(from) during the year	Nil	(48,866,903)	Nil	Nil	48,866,903	Nil
Balance as at 31st March 2017	1,692,615,435	(53,806,083)	(61,434,499	88,265,408	175,901,761	1,841,542,022
Balance as at 1st April 2017	1,692,615,435	(53,806,083)	(61,434,499)	88,265,408	175,901,761	1,841,542,022
Profit for the year	Nil	218,765,665	Nil	Nil	Nil	218,765,665
Other comprehensive income for the year	Nil	(5,987,459)	(1,042,072)	14,984,274	Nil	7,954,743
Total comprehensive income for the year	Nil	212,778,206	(1,042,072)	14,984,274	Nil	226,720,408
Dividends paid	Nil	(97,467,130)	Nil	Nil	Nil	(97,467,130)
Issue of shares for convertible debts	309,654,564	Nil	Nil	Nil	Nil	309,654,564
Transferred to/(from) during the year	Nil	(43,753,133)	Nil	Nil	43,753,133	Nil
Balance as at 31st March 2018	2,002,269,999	17,751,860	(62,476,571	103,249,682	219,654,894	2,280,449,864

The accounting policies and notes as set out in pages 157 to 210 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31st March 2018	Notes	2018 Rs.	2017 Rs. Restated
Cash flows from operating activities			
Net profit before taxation		193,079,381	283,602,705
Adjustments for			
Depreciation	20.1	71,778,785	68,792,809
Amortisation of intangible assets	19	17,021,264	10,272,052
Profit on disposal of property, plant and equipment and real estate		(5,460,830)	-
(Profit)/loss from sale of vehicles & real estate	7	(3,040,564)	(52,914,133)
(Gain)/loss from disposal of available for sale investments	6	-	(15,115,988)
Impairment charge bad and doubtful debts		108,425,149	440,821,510
Provision for defined benefit plans		6,962,283	5,323,680
Interest expenses		2,561,129,565	2,291,408,431
Exchange loss on FMO loan		24,819,309	15,670,800
Operating profit before working capital changes		2,974,714,342	3,047,861,866
(Increase)/Decrease in lease and hire purchase receivables		(755,457,367)	486,538,999
(Increase)/Decrease in loans & receivables		1,137,498,564	(2,915,943,433)
(Increase)/Decrease in financial investments – Loans and Receivables		(64,772,752)	208,127,442
(Increase)/Decrease in financial investments – Available for sale		(84,996,809)	(6,491)
(Increase)/Decrease in other non financial assets		(113,021,820)	(72,065,208)
(Decrease)/Increase in amounts due to customers		343,473,362	1,993,270,442
(Decrease)/Increase in other non financial liabilities		(32,022,255)	13,110,843
Cash generated from operations		3,405,415,264	2,760,894,460
Interest paid		(2,561,129,565)	(2,291,408,431)
Taxes paid		(70,793,129)	(96,480,948)
Defined benefit plan costs paid		(3,383,488)	(7,266,767)
Proceeds from sale of vehicles & real estate		32,000,000	481,598,410
Net cash generated from operating activities		802,109,082	847,336,724
Cash flows from investing activities			
Purchase of property, plant and equipment		(47,696,621)	(34,595,287)
Purchase of intangible assets		-	(72,570,801)
Proceeds from disposal of property, plant and equipment		5,795,990	-
Net cash used in investing activities		(41,900,631)	(107,166,088)
Cash flows from financing activities			
Dividends paid		(97,467,130)	(73,838,735)
Proceeds from bank loans		1,150,000,000	1,300,000,000
Repayment of bank loans		(1,250,061,670)	(974,200,140)
Repayment of debenture		(127,059,832)	-
Proceeds from securitization loan			500,000,000
Repayment of other borrowed funds		(325,091,141)	(1,395,391,732)
Net cash (used in)/generated from financing activities		(649,679,774)	(643,430,607)
Net Increase/(decrease) in cash and cash equivalents		110,528,678	96,740,029
Cash and cash equivalents at the beginning of the year		391,965,199	295,225,170
Cash and cash equivalents at the end of the year		502,493,877	391,965,199
Reconciliation of cash and cash equivalents			
Cash, bank balance and short term investments		945,103,676	754,813,493
Bank overdrafts		(442,609,799)	(362,848,294)
		502,493,877	391,965,199

The accounting policies and notes as set out in pages 157 to 210 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 04. 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 31st March 2018 was authorised for issue in accordance with a resolution of the Board of Directors dated 29 June 2018.

1.5 RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and presentation of these Financial Statements of the Company as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards comprising LKASs and SLFRSs (hereafter "SLFRS").

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 31st March 2018 and for the year then ended, have been prepared and presented in accordance with Sri Lanka Accounting Standards comprising of LKAS and SLFRS (hereafter referred as SLFRSs), 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.

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 1st April 2016 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 38 (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 Statement 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 realise 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.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the Management to make 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.

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 25)

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 33)

3.1 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.

3.1.1 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.

3.1.2 Taxation

3.1.2.1 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.

3.1.2.2 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.

3.1.2.3 VAT on Financial Services

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

3.1.3 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.

3.1.3.1 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.

3.1.3.2 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 amortised cost using the EIR, less allowance for impairment. Amortised 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 amortisation 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.

3.1.3.3 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 amortised cost

The subsequent measurement of financial liabilities depends on their classification.

Financial Liabilities at Amortised 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 Company 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 amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of profit or loss. Gains and losses are recognised in the Statement of profit or loss when the liabilities are derecognised.

3.1.3.4 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.

3.1.3.5 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.

3.1.4 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 realisations, 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 realisation and management judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical data.

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

b. Write Off of Loans and Receivables

The Company writes off 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.

3.1.5 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.

3.1.6 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.

3.1.7 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.

3.1.8 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.

3.1.9 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 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 and 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 and 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 and development. Cost of computer software acquisition and development are capitalised and amortised using the straight line method over the useful life of five and ten years at the rate of 20% and 10% respectively.

3.1.10 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.

3.1.11 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.

3.1.12 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.

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

3.1.14 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 31st March 2018.

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.

3.1.15 Defined Contribution Plans – Employees' Provident Fund and 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.

3.1.16 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 recognised 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.

3.1.17 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.

3.1.18 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.

3.1.19 Statutory Reserve Fund

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

3.2 SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31ST MARCH 2018

Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments"

Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments" will replace Sri Lanka Accounting Standard – LKAS 39 "Financial Instruments – Recognition and Measurement" for annual periods beginning on or after 1st January 2018 with early adoption permitted. In 2017 the Company set up a multidisciplinary implementation team ("the Team") with members from its Risk, Finance and Operations teams to prepare to for SLFRS 9 implementation (" the Project"). The project is sponsored by the Chief Risk and Financial Officers.

Company performed the preliminary impact assessment exercise on SLFRS 9 financial instruments. The Company has undertaken a significant analysis of how SLFRS 9 should be implemented and taken tentative accounting policy decisions.

Classification and Measurement

From a classification and measurement perspective, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Company's business model for managing the assets and the instruments' contractual cash flow characteristics.

(a) Business Model Assessment

Company determines it's business model at the level that best reflects how it manages the financial assets to achieve it's objectives. The Company's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flow collected)
- The expected frequency, value and timing of sales

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress Case" scenarios in to account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectation, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

(b) Contractual Cash Flow Characteristic Test

As the second test of the classification process the Company assesses the contractual terms of the financial asset to identify whether those meet "Solely the Payment of Principle and Interest" (SPPI) criteria.

Principle for the purpose of this test is defined as the fair value of the financial asset at initial recognition which may change over the life of the financial asset (for example, if there are repayments of principle or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Company applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than deminimis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely the payment of principle and interest on the amount outstanding. In such cases the financial asset is required to be measured at "Fair Value through Profit or Loss".

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)
SLFRS 9 principally changes the Company's loan loss provision method by replacing the incurred loss approach as per LKAS 39 with a forward looking ECL Approach.

ECL allowance is based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12 month expected credit loss (12mECL).

12 months ECL is the portion of LTECL that represents the ECL which results from default events of a financial instrument which may arise within 12 months after the reporting date

The Company has established a policy to perform an assessment, at the end of each reporting period to identify whether a financial instrument's credit risk has increased significantly since initial recognition. Based on such process Company groups loans in to stage 1, stage 2, stage 3 as described below:

- Stage 1: When loans are first recognised, the Company recognises an allowance based on 12 months ECL. Stage 1 loans also include the facilities which are reclassified from Stage 2 since the credit risk has improved. Assessment of Stage 1 is performed collectively.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, which are reclassified from stage 2 since the credit risk has improved. Assessment of stage 2 is performed collectively
- Stage 3: When a loan is considered to be credit impaired/ contain objective evidences of incurred loss, the Company records an allowance for the LTECL. Stage 3 assessment will be performed either individually or collectively.

Significant Increase in Credit Risk

The Company continuously monitors all assets subject to ECL, in order to determine whether there has been a significant increase in credit risk since initial recognition and whether the instrument or a portfolio of instruments is subject to 12mECL or LTECL. The Company considers an exposure to have a significant increase in credit risk when either the facility exceeds 30 days past due or at the point of reschedulement.

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 3. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 1 or Stage 2, based on the above specified criteria to identify whether there have been a significant credit deterioration since origination.

While establishing significant credit deterioration, Company will consider the following criteria:

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet it's obligation
- An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

As explained above, Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to stage 3. All assets which belong to stage 1 and 2 will be assessed collectively for Impairment.

Company groups smaller homogeneous exposures based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the Effective Interest Rate (EIR).

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

- Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.
- Loss Given Default (LGD): LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

When estimating ECL, Company considers 3 scenarios (base case, best case and worst case). Each of these scenarios are associated with different loss rates. For all products, Company considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

Company relies on broad range of qualitative/quantitative forward looking information as economic inputs such as the following:

Quantitative Inputs	Qualitative Inputs
■ GDP growth	■ Government policies
■ Inflation	■ Status of the industry business
■ Unemployment	■ Regulatory impact
■ Interest rates	
■ Exchange rates	

SLFRS 15 Sri Lanka Accounting Standard – "Revenue from Contracts with Customers"

SLFRS 15 is effective for periods beginning on or after 1st January 2018 with early adoption permitted. SLFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of SLFRS 15 and will be regulated by the other applicable standards (e.g., SLFRS 9 and SLFRS 16).

Revenue under SLFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing, as well as any uncertainty of revenue and corresponding cash flows with customers. The Company does not anticipate early adoption of SLFRS 15.

SLFRS 15 will become effective on 1 January 2018. The impact on the implementation of the above Standard has not been quantified yet.

SLFRS 16 Sri Lanka Accounting Standard – "Leases"

SLFRS 16 provides a single lessee accounting model, requiring lessees 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's accounting remains similar to current practice. 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 SLFRS 15 "Revenue from Contracts with Customers".

SLFRS 15 will become effective on 1st January 2019. The impact on the implementation of the above Standard has not been quantified yet.

IFRIC Interpretation 23: Uncertainty Over Income Tax Treatment

This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of Sri Lanka Accounting Standard – LKAS 12 "Income tax" and does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances an entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, the Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

NOTES TO THE FINANCIAL STATEMENTS

3. INTEREST INCOME

Year ended 31st March 2018	2018	2017
	Rs.	Rs.
		Restated
Interest income from lease and hire purchase		
Finance leasing	117,758,265	163,038,054
Hire purchases	51,162,980	252,038,615
Interest income from loans and advances		
Personal loans	303,272,829	551,867,141
Gold loans	239,388,641	165,937,905
Revolving loans	218,111,987	170,290,325
SME loans	2,272,446,366	1,856,340,156
Consumer loans	15,121,050	14,666,305
Educational Loan	2,434,382	732,573
Other lending and investments	303,859,434	256,840,497
	3,523,555,934	3,431,751,573

4. INTEREST EXPENSES

Year ended 31st March 2018	2018	2017
	Rs.	Rs.
Due to customers		
Interest on time deposits	2,169,951,431	1,849,032,372
Interest on savings deposits	3,380,675	3,950,665
Due to banks		
Interest on bank borrowings	141,654,178	122,298,895
Interest on finance lease	483,969	626,018
Other borrowed funds		
Interest on securitisation	45,625,290	54,672,379
Interest on commercial papers	-	26,559,832
Interest on debentures	200,034,022	234,268,270
	2,561,129,565	2,291,408,431

5. FEE AND COMMISSION INCOME

Year ended 31st March 2018	2018	2017
	Rs.	Rs.
Documentation and processing fees	94,636,431	105,825,341
Upfront fee on SME Loans	373,411,140	485,080,019
Sundry income	2,287,922	11,404,346
	470,335,493	602,309,706

6. TRADING INCOME

Year ended 31st March 2018	2018	2017
	Rs.	Rs.
Dividend income	4,791,000	1,012,500
Gain on disposal of investment in unit trust	-	15,115,988
	4,791,000	16,128,488

7. OTHER OPERATING INCOME

Year ended 31st March 2018	2018	2017
	Rs.	Rs.
Profit on disposal of property, plant and equipment	5,460,830	-
Profit/(Loss) from sale of real estates	3,040,564	53,753,789
Profit/(Loss) from sale of vehicles	-	(839,656)
Income on hire	36,876,343	3,536,698
Write off recoveries	102,333,252	72,067,028
	147,710,989	128,517,859

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

Year ended 31st March 2018	2018	2017
	Rs.	Rs.
		Restated
Collective impairment		
Lease	(42,810,055)	9,404,286
Hire purchase	20,954,647	9,941,727
SME and Other loans	208,510,744	85,885,003
Personal Loans	(90,512,549)	105,972,551
	96,142,786	211,203,568
Specific impairment		
Lease	3,407,255	-
Hire purchase	357,735	-
SME and Other loans	16,551,569	-
Personal loans, revolving loans and consumer loans	4,150,222	(16,883,989)
Share loans	(14,925,704)	3,132,342
Gold loans	357,230	667,451
Other charges receivables	2,384,055	3,635,010
	12,282,362	(9,449,186)
Bad debt written offs		
Unrecovered balances of repossessed vehicles	-	61,095,932
Sundry debtors	-	81,859,993
SME and other loans	-	76,448,209
Other charges receivables	-	8,715,339
Personal loans, revolving loans and consumer loans	-	10,947,656
	-	239,067,129
	108,425,149	440,821,511

9. OPERATING EXPENSES

Operating expenses include the following:

Year ended 31st March 2018	2018 Rs.	2017 Rs.
9.1 PERSONNEL COSTS		
Defined contribution plan costs – EPF and ETF	46,644,837	42,076,048
Defined benefit plan costs	6,962,283	5,323,680
Directors' remuneration	41,703,208	37,591,900
Other staff related expenses	370,460,073	356,075,634
	465,770,401	441,067,262
9.2 OTHER OPERATING EXPENSES		
Auditors' remuneration	3,567,760	1,508,970
Secretarial fees	1,430,691	1,858,798
Exchange loss on FMO loan	-	15,670,800
Other overhead expenses	624,861,412	582,970,544
	629,859,863	602,009,112

10. INCOME TAX EXPENSE

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

Year ended 31st March 2018	2018 Rs.	2017 Rs. Restated
Current income tax		
Current income tax charge	39,444,521	97,883,667
Under Provision of prior year	-	(183,871,719)
Deferred income tax		
Deferred taxation charge/(reversal)	(65,130,805)	125,256,240
Income tax expense reported in the statement of comprehensive income	(25,686,284)	39,268,188

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

Year ended 31st March 2018	2018 Rs.	2017 Rs. Restated
Accounting profit before income tax	193,079,381	283,602,705
At the statutory income tax rate of 28%	54,062,227	79,408,757
Tax effect of Deductible expenses and allowable credits	(63,682,705)	(108,565,166)
Tax effect of Non deductible expenses	75,168,688	110,551,363
Tax effect of Lease Capital generation	(26,103,688)	16,488,713
Adjustment of taxes in respect of prior years	-	(183,871,719)
Deferred tax charge/(reversal)	(65,130,805)	125,256,240
	(25,686,283)	39,268,188
Effective tax rate (%)	-13.30%	13.85%
Effective tax rate (excluding deferred tax) (%)	20.43%	34.51%
Accounting profit before tax on financial services	292,408,389	324,336,450
Effective tax rate (%)	-8.78%	12.11%

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.

Year ended 31st March 2018	2018 Rs.	2017 Rs. Restated
Net profit for the year	218,765,665	244,334,517
Number of ordinary shares used as the denominator		
Weighted average number of ordinary shares	59,143,789	59,070,988
Basic earnings per share	3.70	4.14

12. DIVIDENDS PAID

Year ended 31st March 2018	2018	2017
	Rs.	Rs.
Paid during the year	97,467,130	73,838,735
Dividends on ordinary shares:	97,467,130	73,838,735
Dividend per share	1.65	1.25

13. CASH AND CASH EQUIVALENTS

Year ended 31st March 2018	2018	2017
	Rs.	Rs.
Cash at bank and in hand	643,032,443	427,658,645
Other deposits and investments – Original maturity less than 3 months	302,071,233	327,154,849
	945,103,676	754,813,493

14. FINANCIAL INVESTMENTS – AVAILABLE FOR SALE

Year ended 31st March 2018		2018	2017
	Notes	Rs.	Rs.
Equity securities at fair value – Quoted	14.1	168,817,716	84,862,980
Equity securities at fair value – Unquoted	14.2	99,330,600	99,330,600
		268,148,316	184,193,580

14.1 EQUITY SECURITIES – QUOTED

	No. of Shares	Cost of Investment	Market Value	No. of Shares	Cost of Investment	Market Value
	31.03.2018	31.03.2018	31.03.2018	31.03.2017	31.03.2017	31.03.2017
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
National Development Bank	965,081	191,275,997	128,452,281	607,901	69,023,479	84,862,980
Asiri Hospitals PLC	1,467,834	40,018,290	40,365,435	-	-	-
	2,432,915	231,294,287	168,817,716	607,901	69,023,479	84,862,980

14.2 EQUITY SECURITIES – UNQUOTED

	No. of Shares	Cost of Investment	Market Value	No. of Shares	Cost of Investment	Market Value
	31.03.2018	31.03.2018	31.03.2018	31.03.2017	31.03.2017	31.03.2017
	Rs.	Rs.	Rs.	Rs.	Rs.	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

15. FINANCIAL INVESTMENTS – LOANS AND RECEIVABLES

Year ended 31st March 2018	2018 Rs.	2017 Rs.
Fixed Deposits (original maturity greater than 3 months)	235,195,816	139,001,016
Repo Investments	1,607,399,352	1,638,821,400
	1,842,595,168	1,777,822,416

16. LEASE AND HIRE PURCHASE RECEIVABLES

Year ended 31st March 2018	2018 Rs.	2017 Rs. Restated
Gross investment in leases & hire purchases	2,150,591,985	1,372,285,252
(-) Rentals received in advance	(1,822,567)	(326,046)
(-) Unearned income	(454,834,035)	(210,815,006)
Total gross investment in lease & hire purchases	1,693,935,382	1,161,144,200
(-) Allowance for specific impairment	(5,517,231)	(41,709,437)
(-) Allowance for collective impairment	(121,881,556)	(170,118,088)
Net lease and hire purchases	1,566,536,595	949,316,675
Lease and hire purchase rentals receivable within one year		
Lease and hire purchase rentals receivable within one year	1,167,895,709	1,013,517,354
(-) Unearned income	(31,045,422)	(131,311,909)
Total rentals receivable within one year	1,136,850,287	882,205,445
Lease and hire purchase rentals receivable within one to five years		
Lease and hire purchase rentals receivable within 1-5 years	980,873,709	358,441,852
(-) Unearned income	(423,788,613)	(79,503,097)
Gross rentals receivable within one to five years	557,085,096	278,938,755

16.1 NET LEASE, HIRE PURCHASE AND LOANS RECEIVABLES

Year ended 31st March 2018	2018 Rs.	2017 Rs. Restated
Gross investment in leases and hire purchases		
– Leases	1,945,167,944	963,828,176
– Hire purchase contracts	205,424,041	408,457,076
(-) Unearned income		
– Leases	(443,491,681)	(179,805,766)
– Hire purchase contracts	(11,342,355)	(31,009,240)
(-) Rentals received in advance		
– Leases	(1,822,567)	(326,046)
Leases net before impairment allowance	1,499,853,696	783,696,364
Hire Purchase net before impairment allowance	194,081,686	377,447,836
	1,693,935,382	1,161,144,200
(-) Allowance for impairment		
(-) Allowance for specific impairment		
– Leases	3,581,564	27,823,766
– Hire purchase contracts	1,935,667	13,885,670
(-) Allowance for collective impairment		
– Leases	55,905,930	50,165,412
– Hire purchase contracts	65,975,625	119,952,676
Net investment in leases and hire purchases		
– Leases	1,440,366,202	705,707,185
– Hire purchase contracts	126,170,394	243,609,490
	1,566,536,595	949,316,675

16.2 MOVEMENT IN IMPAIRMENT ALLOWANCE FOR LEASES AND HIRE PURCHASES

Year ended 31st March 2018	2018 Rs.	2017 Rs. Restated
Balance as at the beginning of the year	211,827,499	102,629,978
Net impairment charge for the year	(18,090,418)	119,817,723
Recoveries during the year	(31,150,408)	-
Write offs during the year	(35,187,886)	(91,970,164)
Balance as at end of the year	127,398,787	**211,827,499**

16.3 MOVEMENT IN SPECIFIC IMPAIRMENT ALLOWANCE FOR LEASES AND HIRE PURCHASES

Balance as at the beginning of the year	41,709,411	40,677,623
Net impairment charge for the year	30,146,114	93,001,952
Transfer during the year	(31,150,408)	-
Write offs during the year	(35,187,886)	(91,970,164)
Balance as at end of the year	5,517,231	**41,709,411**

16.4 MOVEMENT IN COLLECTIVE IMPAIRMENT ALLOWANCE FOR LEASES AND HIRE PURCHASES

Balance as at the beginning of the year	170,118,088	143,302,316
Net impairment charge for the year	(48,236,532)	26,815,772
Write offs during the year	-	-
Balance as at end of the year	121,881,556	**170,118,088**

17. LOANS AND RECEIVABLE

Year ended 31st March 2018	2018 Rs.	2017 Rs. Restated
Loans and receivable	18,310,646,427	19,518,224,066
(-) Unearned income	(1,747,759,908)	(1,831,992,612)
Gross loans and receivables	16,562,886,519	17,686,231,454
(-) Allowance for specific impairment	(190,052,269)	(212,550,619)
(-) Allowance for collective impairment	(561,577,916)	(433,188,233)
Net loans and receivable	15,811,256,334	17,040,492,602

17.1 PRODUCT WISE ANALYSIS OF LOANS AND RECEIVABLES

Year ended 31st March 2018

	Notes		2018 Rs.	2017 Rs. Restated
Revolving loans receivable			1,053,913,463	1,054,812,746
Consumer loans receivable		80,663,378		
(-) Unearned income		(7,013,554)	73,649,824	97,759,448
Personal loans receivable		1,611,274,167		
(-) Unearned income		(145,824,214)	1,465,449,954	2,138,823,910
Gold loans receivable			1,257,550,819	822,790,857
SME & mortgage loans receivable		14,307,244,600		
(-) Unearned income		(1,544,412,140)	12,712,322,460	13,572,044,492
Allowance for impairment	17.2		(751,630,185)	(645,738,852)
			15,811,256,334	17,040,492,602

17.2 PRODUCT WISE ANALYSIS – ALLOWANCE FOR IMPAIRMENT FOR OTHER LOANS AND RECEIVABLES

Year ended 31st March 2018

	2018 Rs.	2017 Rs. Restated
Revolving loans receivable	13,696,764	13,577,173
Consumer loans receivable	6,809,050	2,456,002
Personal loans receivable	150,850,012	306,233,554
Gold loan receivable	1,084,040	726,810
SME & mortgage loans receivable	579,190,319	322,745,312
	751,630,185	645,738,852

17.3 MOVEMENT IN IMPAIRMENT ALLOWANCE FOR OTHER LOANS AND RECEIVABLES

Year ended 31st March 2018

	2018 Rs.	2017 Rs. Restated
Balance as at the beginning of the year	645,375,525	600,834,953
Net impairment charge for the year	132,829,191	265,501,772
Write offs during the year	(57,724,939)	(133,565,335)
Set off during the year	-	(87,395,865)
Transfer during the year	31,150,408	-
Balance as at end of the year	751,630,185	645,738,852

17.4 MOVEMENT IN SPECIFIC IMPAIRMENT ALLOWANCE FOR OTHER LOANS AND RECEIVABLES

Year ended 31st March 2018	2018 Rs.	2017 Rs. Restated
Balance as at the beginning of the year	212,187,292	263,671,097
Net impairment charge for the year	(1,202,179)	(2,803,991)
Write offs during the year	(52,083,252)	(10,947,656)
Set offs during the year	-	(37,732,158)
Transfer during the year	31,150,408	-
Balance as at end of the year	190,052,269	212,550,615

17.5 MOVEMENT IN COLLECTIVE IMPAIRMENT ALLOWANCE FOR OTHER LOANS AND RECEIVABLES

Year ended 31st March 2018	2018 Rs.	2017 Rs. Restated
Balance as at the beginning of the year	433,188,233	337,163,856
Net impairment charge for the year	134,031,370	268,305,763
Write offs during the year	(5,641,687)	(95,833,177)
Set offs during the year	-	(76,448,209)
Balance as at end of the year	561,577,916	433,188,233

18. OTHER NON FINANCIAL ASSETS

Year ended 31st March 2018	Notes	2018 Rs.	2017 Rs. Restated
Prepayments and other receivable	18.1	364,735,814	295,710,465
Vehicle stock	18.2	18,984,232	25,643,568
Real estate stock		105,141,402	82,798,724
		488,861,448	404,152,758

18.1 PREPAYMENTS AND OTHER RECEIVABLE

Year ended 31st March 2018

	Notes	2018 Rs.	2017 Rs. Restated
Advance, deposits and prepayments		132,395,773	104,849,857
Withholding tax receivable		77,550,341	51,037,451
Value Added Tax (VAT)		93,639,667	102,734,771
Nation Building Tax (NBT)		7,257,922	14,231,182
Other receivable	18.1.1	136,764,828	101,632,957
Impairment for other receivable		(82,872,716)	(78,775,752)
		364,735,814	295,710,465

18.1.1 Other Receivable

Year ended 31st March 2018

	2018 Rs.	2017 Rs. Restated
Insurance paid on behalf of customers	20,239,525	30,015,586
Other charges receivables	48,143,487	45,154,015
Other receivables	68,381,816	26,463,356
	136,764,828	101,632,957

18.2 VEHICLE STOCK

Year ended 31st March 2018

	2018 Rs.	2017 Rs. Restated
Trading vehicle stock	3,700,000	7,400,000
Repossessed vehicle stock	37,230,652	46,618,234
Impairment allowance on vehicle stock	(21,946,420)	(28,374,665)
	18,984,232	25,643,568

19. INTANGIBLE ASSETS

	Balance as at 01.04.2017 Rs.	Additions 01.04.2017 to 31.03.2018 Rs.	Disposals 01.04.2017 to 31.03.2018 Rs.	Reclassifications 01.04.2017 to 31.03.2018 Rs.	Balance as at 31.03.2018 Rs.
Computer software					
Gross carrying amount	135,800,700	-	-	-	135,800,700
Accumulated depreciation	(40,737,647)	(17,021,264)	-	-	(57,755,911)
Net book values	95,063,053	(17,021,264)	-	-	78,044,789

20. PROPERTY, PLANT AND EQUIPMENT

20.1 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								
Balance as at 1st April 2016	120,000,000	82,750,000	203,730,143	78,064,177	19,203,920	105,747,749	15,796,569	625,292,558
Additions	-	2,063,406	8,993,222	2,447,339	-	16,934,327	4,156,993	34,595,287
Reclassifications	-	-	5,024,535	-	-	-	-	5,024,535
Revaluations	30,000,000	-	-	-	-	-	-	30,000,000
Disposals	-	-	-	-	(709,428)	-	-	(709,428)
Balance as at 31st 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
Additions	-	-	30,048,697	3,706,329	-	13,941,595	-	47,696,621
Reclassifications	-	-	-	-	-	-	121,550,000	121,550,000
Revaluations	43,000,000	186,594	-	-	-	-	-	43,186,594
Disposals	-	-	-	-	(9,605,704)	(120,000)	-	(9,725,704)
Balance as at 31st March 2018	193,000,000	85,000,000	247,796,597	84,217,845	8,888,788	136,503,671	141,503,562	896,910,463
Accumulated depreciation								
Balance as at 1st April 2016	-	-	136,230,880	48,969,479	8,964,134	45,104,184	12,672,152	251,940,829
Charge for the year	-	4,186,280	30,782,209	10,683,329	2,897,988	17,021,861	3,221,141	68,792,809
Reclassifications	-	-	360,802	-	-	-	-	360,802
Disposals	-	-	-	-	(709,428)	-	-	(709,428)
Balance as at 31st March 2017	Nil	4,186,280	167,373,891	59,652,808	11,152,694	62,126,045	15,893,293	320,385,011
Charge for the year	-	4,240,670	22,337,952	9,933,887	3,138,908	18,930,926	13,196,421	71,778,785
Revaluations	-	(8,426,950)	-	-	-	-	-	(8,426,950)
Disposals	-	-	-	-	(9,390,524)	-	-	(9,390,524)
Balance as at 31st March 2018	Nil	Nil	189,711,843	69,586,695	4,901,078	81,056,971	29,089,714	374,346,301
Net book value								
Balance as at 31st March 2017	150,000,000	80,627,126	50,374,009	20,858,708	7,341,798	60,556,031	4,060,269	373,817,941
Balance as at 31st March 2018	193,000,000	85,000,000	58,084,754	14,631,150	3,987,710	55,446,700	112,413,848	522,564,162

20.2 THE COMPANY FIXED ASSETS CONSISTS OF BELLOW LEASED ASSETS

	Balance as at 01.04.2017 Rs.	Additions 01.04.2017 to 31.03.2018 Rs.	Disposals 01.04.2017 to 31.03.2018 Rs.	Reclassifications 01.04.2017 to 31.03.2018 Rs.	Balance as at 31.03.2018 Rs.
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	2,173	Nil	Nil	3,631,213
Motor vehicles	2,777,791	2,222,205	Nil	Nil	4,999,996
Office equipment	707,000	Nil	Nil	Nil	707,000
Total depreciation	10,704,317	2,224,378	Nil	Nil	12,928,695
Total carrying amount of leased assets	6,113,203	(2,224,378)	Nil	Nil	3,888,825

20.3 During the financial year, the Company acquired property, plant & equipment to the aggregate of Rs. 47,696,621/- (2017 – Rs. 34,595,287/-). Cash payment amounting to Rs. 47,696,621/- (2017 – Rs. 34,595,287/-) was paid during the year for purchases of Property, Plant & Equipment.

20.4 The details of freehold land and buildings which are stated at valuation are as follows:

Location	Land Extend	Method of Valuation	Date of the Valuation	Valuer	Significant Unobservable Inputs	Revalued Amount (Rs.)
Freehold land						
No. 13, De Fonseka Place, Colombo 04.	0A-0R-12.6P	Direct Capital Comparison method	31st March 2018	Mr. G.W.G. Abeygunawardene (Chartered Valuation Surveyor)	Rs. 12,500,000/- per perch	193,000,000
Freehold Building						
No. 13, De Fonseka Place, Colombo 04.	16,850	Direct Capital Comparison method	31st March 2018	Mr. G.W.G. Abeygunawardene (Chartered Valuation Surveyor)	Rs. 6,500 – 8,250 per square feet	85,000,000

20.5 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 2017 Rs.
Land	62,181,178	-	62,181,178	62,181,178
Building	92,480,006	17,507,343	74,972,663	79,596,663

21. DUE TO BANKS

Year ended 31st March 2018

	Notes	2018 Rs.	2017 Rs.
Bank overdrafts		442,609,799	362,848,294
Bank loans	21.3	895,487,500	993,847,786
Finance lease creditors	21.2	4,597,217	6,298,601
		1,342,694,516	1,362,994,681

21.1 MATURITY OF DUE TO BANKS

	2018			2017		
	Payable within One Year Rs.	Payable after One Year Rs.	Total Rs.	Payable within One Year Rs.	Payable after One Year Rs.	Total Rs.
Bank overdrafts	442,609,799	-	442,609,799	362,848,294	-	362,848,294
Bank loans (21.3)	777,022,000	118,465,500	895,487,500	780,360,286	213,487,500	993,847,786
Finance lease creditors (21.2)	1,856,373	2,740,844	4,597,217	1,701,384	4,597,217	6,298,601
	1,221,488,172	121,206,344	1,342,694,516	1,144,909,964	218,084,717	1,362,994,681

21.2 FINANCE LEASE CREDITORS

	As at 31 March 2018 Rs.	Not later than 1 Year Rs.	Later than 1 Year and Not Later than 5 Years Rs.
Gross liability	5,099,157	2,185,353	2,913,803
Finance charge allocated to future periods	(501,939)	(328,980)	(172,959)
Net liability	**4,597,218**	**1,856,373**	**2,740,844**

21.3 BANK LOANS

Bank	Type of the Loan	Amortised Cost Rs.	Interest Rates	Securities Pledged
Commercial Bank of Ceylon	Term Loan	93,700,000	AWPLR+2.50%	Nil
Commercial Bank of Ceylon	Revolving short term loan	250,000,000	15%	Nil
HNB Bank	Revolving short term loan	300,000,000	AWPLR+2%	Nil
Seylan Bank	Term Loan	119,787,500	AWPLR+ 2%	Mortgage over lease and hire purchase receivables for Rs. 300,000,000
People's Bank	Revolving short term loan	132,000,000	AWPLR+ 3.5%	Mortgage over lease and hire purchase receivables for Rs. 250,000,000

22. DUE TO CUSTOMERS

	2018			2017		
	Payable within One Year	Payable after One Year	Total	Payable within One Year	Payable after One Year	Total
				Restated	Restated	Restated
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Time deposits	13,097,035,080	3,241,092,743	16,338,127,823	14,008,336,208	1,986,055,112	15,994,391,320
Savings deposits	53,819,466	-	53,819,466	54,082,607	-	54,082,607
	13,150,854,546	3,241,092,743	16,391,947,289	14,062,418,815	1,986,055,112	16,048,473,927

23. OTHER BORROWED FUNDS

Year ended 31st March 2018

	Notes	2018 Rs.	2017 Rs.
Securitization	23.2	214,842,984	509,217,694
FMO loan	23.1	-	315,551,687
Debentures	23.3	1,359,367,733	1,483,627,770
		1,574,210,717	2,308,397,150

23.1 OTHER BORROWED FUNDS

	2018			2017		
	Payable within One Year	Payable after One Year	Total	Payable within One Year	Payable after One Year	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Securitization	203,464,432	11,378,552	214,842,984	336,642,690	172,575,004	509,217,694
FMO loan	-	-	-	12,080,886	303,470,800	315,551,687
Debentures	99,397,733	1,259,970,000	1,359,367,733	18,627,770	1,465,000,000	1,483,627,770
	302,862,165	1,271,348,552	1,574,210,717	367,351,346	1,941,045,804	2,308,397,150

23.2 SECURITIZATIONS AND OTHER BANK FACILITIES

Bank	Type of the Loan	Amortised Cost Rs.	Interest Rates	Securities Pledged
Bank of Ceylon – Trust 1	Securitization	214,842,984	13.75%	Mortgage over personal loans receivables

23.3 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	29.11.13	28.11.18	65,000,000	67,484,247
					65,000,000	67,484,247

Listed Debentures

Debenture Category	Annual Interest Rate	Interest Payment Frequency	Allotment Date	Maturity Date	Face Value Rs.	Amortised Cost Rs.
Type A	10%	Quarterly	29.08.14	28.08.19	859,840,000	881,943,677
Type B	Three (03) Months Net Treasury Bill Rate Plus 1.50%	Quarterly	29.08.14	28.08.19	400,130,000	409,939,809
					1,259,970,000	1,291,883,486
Total debentures					1,324,970,000	1,359,367,733

24. OTHER NON FINANCIAL LIABILITIES

Year ended 31st March 2018	Notes	2018 Rs.	2017 Rs. Restated
Accrued expenses		9,424,010	7,786,676
Related party payables	24.1	1,390,029	4,980,602
Other payables		51,266,864	84,135,673
		62,080,903	96,902,951

24.1 RELATED PARTY PAYABLES

Year ended 31st March 2018	2018 Rs.	2017 Rs.
Softlogic BPO Services (Pvt) Ltd.	353,800	408,135
Softlogic Corporate Service (Pvt) Ltd.	2,300	-
Nextage (Pvt) Ltd.	-	117,742
Softlogic Life PLC	-	(443,404)
Softlogic Information Technologies (Pvt) Ltd.	418,429	116,434
Softlogic Stock Brokers	-	3,993,547
Softlogic Capital Ltd.	397,500	505,098
Softlogic Destination (Pvt) Ltd.	-	110,800
Central Hospital Limited	218,000	172,250
	1,390,029	4,980,602

25. RETIREMENT BENEFIT OBLIGATION

Year ended 31st March 2018	2018	2017
	Rs.	Rs.
At the beginning of the year	16,938,596	14,855,344
Current service cost	4,778,898	3,573,721
Interest cost	2,183,385	1,749,959
Transfer of liability from Group Company	-	768,734
Actuarial losses/(gains)	3,253,626	5,539,610
(Gains)/losses due to changes in assumptions	5,062,289	(1,513,271)
Contributions paid	(3,383,488)	(8,035,501)
At the end of the year	28,833,306	16,938,596

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

	Rs.	Rs.
Current service cost	4,778,898	3,573,721
Interest cost	2,183,385	1,749,959
	6,962,283	5,323,680

Amounts recognised in the other comprehensive income are as follows:

	Rs.	Rs.
Liability (gains)/losses due to changes in assumptions	3,644,848	(1,513,271)
Liability experience (gains)/losses during the year	2,342,611	5,539,610
	5,987,459	4,026,339

This obligation which is not externally funded is based on an actuarial valuation of the defined benefit plan based on the projected unit credit method, which is the benchmark method specified in Sri Lanka Accounting Standards (LKAS) No. 19 “Employee Benefits”, carried out by a professional actuaries as of 31st March 2017. The principal assumptions used for this purpose are as follows:

	2018	2017
Discount rate per annum	10.3%	12.9%
Annual salary increments rate	8%	8%
Retirement age	55	55

Discount Rate as at 31st March	2018	2017
	Rs.	Rs.
Effect on retirement benefit obligation due to 1% increase in discount rate	(2,180,676)	(1,198,213)
Effect on retirement benefit obligation due to 1% decrease in discount rate	2,487,943	1,353,731

Salary Increment Rate as at 31st March	2018 Rs.	2017 Rs.
Effect on retirement benefit obligation due to 1% increase in salary increment rate	2,469,956	1,376,106
Effect on retirement benefit obligation due to 1% decrease in salary increment rate	(2,204,744)	(1,236,409)

Average remaining working life of employees is 7.26 years as at 31st March 2018.

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.

26. 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

	2018 Rs.	2017 Rs. Restated
Property, plant & equipment	153,272,543	161,744,266
Lease capital balance	218,822,574	82,106,896
Taxable temporary differences	372,095,117	243,851,163
Retirement benefit obligation	(28,833,306)	(16,938,596)
Capital gain on land revaluation	130,818,822	-
Unclaimed tax losses	(474,426,921)	(117,151,743)
Total taxable/(deductible) temporary differences (net)	(346,288)	109,760,824
Applicable tax rate	28%	28%
Net deferred tax liabilities/(assets)	(96,961)	30,733,031

	2018		2017	
Deferred tax liabilities	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
At the beginning of the year	243,851,163	68,278,326	366,204,071	102,537,140
Originating/(reversing) during the year	259,062,776	72,537,577	(122,352,908)	(34,258,814)
At the end of the year	502,913,939	140,815,903	243,851,163	68,278,326
Deferred tax asset				
At the beginning of the year	134,090,339	37,545,295	473,097,456	132,467,288
Originating during the year	369,169,888	103,367,569	(339,007,117)	(94,921,993)
At the end of the year	503,260,227	140,912,864	134,090,339	37,545,295

27. STATED CAPITAL

	2018		2017	
	No.	Rs.	No.	Rs.
Issued and fully paid ordinary shares	67,928,384	2,002,269,999	59,070,988	1,692,615,435
No. of shares at the beginning of the year	59,070,988	1,692,615,435		
Shares issued during the year for convertible debts (FMO Loan)	8,857,396	309,654,564		
No. of shares at the end of the year	67,928,384	2,002,269,999	59,070,988	1,692,615,435

28. RESERVES

	Statutory Reserve Fund	Revaluation Reserve	Available-for-Sale Reserve	Total
	Rs.	Rs.	Rs.	Rs.
As at 1st April 2016	127,034,858	58,265,408	(50,657,400)	134,642,866
Transfers during the year	48,866,903	Nil	Nil	48,866,903
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 31st March 2017	175,901,761	88,265,408	(61,434,499)	202,732,670
Transfers during the year	43,753,133	Nil	Nil	43,753,133
Gain on revaluation of land and buildings	Nil	14,984,274	Nil	14,984,274
Gain/(loss) arising on remeasuring available-for-sale financial investments	Nil	Nil	(1,042,072)	(1,042,072)
Gain on available-for-sale investment transferred to profit or loss	Nil	Nil	-	-
As at 31st March 2018	219,654,894	103,249,682	(62,476,571)	260,428,004

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.

29. CORRECTION OF ERROR RESTATEMENT NOTE

The interest income on loans and leases is recognised by the system only up to the last statement/repayment due date due to system limitations. Thus accrued interest subsequent to such statement date till the reporting date is determined based on a spread sheet calculation for the purpose of financial reporting. During the current year, management of the Company noticed that there was an error in a data field used for such calculation and as a consequent interest income and interest receivable were overstated. In January 2018, the company conducted a detailed review of this calculation and concluded on the impact of the error.

Impact on equity (increase/(decrease) in equity)

	2017	2016
	Rs.	Rs.
Impact on loans and receivables	(205,378,092)	(419,452,852)
Other non-financial assets	27,406,855	24,733,460
Income tax receivable	89,296,440	-
Deferred tax assets	(64,593,062)	64,593,062
Total assets	**(153,267,859)**	**(330,126,330)**
Deferred tax liabilities	(32,802,488)	-
Total liabilities	**(32,802,488)**	**-**
Net impact on equity	**(120,465,371)**	**(330,126,330)**

Impact on statement of comprehensive income (increase/(decrease) in profit)

Year ended 31st March 2017	**Rs.**
Interest income	(205,378,092)
VAT and NBT on financial services	27,406,855
Income tax expense	57,505,866
Net impact on profit for the year	**(120,465,371)**
Impact on basic earnings per share (EPS) (increase/(decrease) in EPS	(2.04)

30. FINANCIAL RISK MANAGEMENT

INTRODUCTION AND OVERVIEW

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

1. Market Risk
2. Credit Risk
3. Liquidity Risk
4. Operational Risk

RISK MANAGEMENT FRAMEWORK

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

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

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

OBJECTIVES AND POLICIES

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

The Company's principal financial liabilities comprised of borrowings, public deposits, 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, whilst optimising returns.

	2018 Carrying Amount Rs.	2017 Carrying Amount Rs.
Financial assets subject to market risk		
Financial investments – Available-for-sale	268,148,316	184,193,580
	268,148,316	184,193,580

	2018 Carrying Amount Rs.	2017 Carrying Amount Rs.
Financial liabilities subject to market risk		
Due to banks	645,487,500	1,105,686,108
Other borrowed funds	400,130,000	770,297,971
	1,045,617,500	1,875,984,079

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.
31st March 2018		
Quoted shares – (Colombo Stock Exchange)	+10%	16,881,772
	-10%	(16,881,772)
31st March 2017		
Quoted shares – (Colombo Stock Exchange)	+10%	8,486,298
	-10%	(8,486,298)

30. FINANCIAL RISK MANAGEMENT (Contd.)

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.

	31st March 2018	31st March 2017
Fixed interest rate instruments:	Rs.	Rs. Restated
Financial assets	20,165,491,774	20,706,638,766
Financial liabilities	18,228,837,289	17,843,881,680
Floating interest rate instruments:		
Financial assets	Nil	Nil
Financial liabilities	1,045,617,500	1,875,984,079

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 31st March. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases shown.

	Changes in Basis Points	Effect on Profit Rs.
31st March 2018	+25 b.p	2,614,044
Floating interest rate instruments	-25 b.p	(2,614,044)
31st March 2017	+25 b.p	4,689,960
Floating interest rate instruments	-25 b.p	(4,689,960)

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 31st March 2018	Less than 3 Months	More than 3 and Less than 12 Months	More than 1 Year and Less than 3 Years	>3 Years	Non-Interest Bearing	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets						
Cash and cash equivalents	812,549,356	Nil	Nil	Nil	132,554,320	945,103,676
Financial investments – Available-for-sale	Nil	Nil	Nil	Nil	268,148,316	268,148,316
Financial investments – Loans and receivables	492,639,679	1,349,955,489	Nil	Nil	Nil	1,842,595,168
Lease and hire purchase receivables	530,718,007	314,852,656	517,816,767	203,149,165	Nil	1,566,536,595
Loans and receivables	6,842,528,339	6,130,734,646	2,257,101,989	580,891,360	Nil	15,811,256,334
	8,678,435,381	7,795,542,791	2,774,918,756	784,040,525	400,702,636	20,433,640,089
Financial liabilities						
Due to banks	499,814,331	721,673,840	121,206,344	-	Nil	1,342,694,516
Due to customers	5,538,926,703	7,611,927,843	2,758,984,882	482,107,860	Nil	16,391,947,289
Other borrowed funds	124,570,759	178,291,407	1,271,348,552	-	Nil	1,574,210,717
	6,163,311,793	8,511,893,091	4,151,539,778	482,107,860	Nil	19,308,852,522
Interest rate sensitivity gap	2,515,123,588	(716,350,299)	(1,376,621,022)	301,932,665	400,702,636	1,124,787,568

As at 31st March 2017 – Restated	**Less than 3 Months**	**More than 3 and Less than 12 Months**	**More than 1 Year and Less than 3 Years**	**>3 Years**	**Non-Interest Bearing**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**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	254,169,992	158,861,666	238,686,192	297,598,826	Nil	949,316,675
Loans and receivables	2,767,138,627	8,061,244,406	5,577,861,002	634,248,567	Nil	17,040,492,602
	4,799,131,035	8,220,106,072	5,816,547,194	931,847,393	939,007,073	20,706,638,766
Financial liabilities						
Due to banks	1,106,696,080	250,000,000	Nil	6,298,601	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	454,746,284	315,551,687	1,538,099,179	Nil	Nil	2,308,397,150
	8,798,449,437	7,345,819,290	3,401,769,677	173,827,354	Nil	19,719,865,758
Interest rate sensitivity gap	(3,999,318,402)	874,286,782	2,414,777,516	758,020,039	939,007,073	986,773,008

30. FINANCIAL RISK MANAGEMENT (Contd.)

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.

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.

	31st March 2018		31st March 2017 – Restated	
	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	945,103,676	Nil	754,813,493	Nil
Financial investments – Available-for-sale	268,148,316	268,148,316	184,193,580	184,193,580
Financial investments – Loans and receivables	1,842,595,168	1,842,595,168	1,777,822,416	1,777,822,416
Lease and hire purchase receivables	1,693,935,382	Nil	1,161,144,200	Nil
Loans and receivables	16,562,886,519	10,283,418,334	17,686,231,454	13,246,902,718
Total financial assets	21,312,669,062	12,394,161,818	21,564,205,143	15,208,918,714

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.

	2018	2017
	Rs.	Rs. Restated
Concentration by sector (Gross)		
Agriculture	710,450,815	818,135,219
Manufacturing	1,254,168,396	2,080,677,629
Tourism	1,370,097,675	768,079,088
Transport	570,275,746	579,264,858
Financial services	Nil	-
Construction	1,123,007,350	591,435,710
Trading	8,034,546,752	9,241,656,785
Services	859,695,961	1,395,885,254
Other	4,334,579,203	3,372,241,110
	18,256,821,898	18,847,375,654

	2018	2017
	Rs.	Rs. Restated
Concentration by location (Gross)		
Western	8,693,590,467	8,662,006,361
Uva	319,600,697	479,360,236
North Western	1,158,280,147	1,591,609,664
Southern	2,426,923,313	2,450,243,470
Central	3,199,955,469	2,240,864,163
North Central	1,071,385,485	1,389,854,315
Sabaragamuwa	734,593,620	1,053,739,765
Northern	649,215,255	979,697,679
Eastern	3,277,445	Nil
	18,256,821,898	18,847,375,654

30. FINANCIAL RISK MANAGEMENT (Contd.)

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:

31st March 2018	Neither Past Due Nor Impaired	Past Due But Not Impaired	Individually Impaired	Total
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	945,103,676	-	-	945,103,676
Financial investments – Available-for-sale	268,148,316	-	-	268,148,316
Financial investments – Loans and receivables	1,842,595,168	-	-	1,842,595,168
Lease and hire purchase receivables	871,292,889	663,785,409	158,857,083	1,693,935,382
Loans and receivables	10,072,322,783	5,005,864,949	1,484,698,787	16,562,886,518
Total financial assets	13,999,462,832	5,669,650,358	1,643,555,870	21,312,669,060

31 March 2017 – Restated	**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	12,323,842,262	3,968,454,029	1,393,935,162	17,686,231,453
Total financial assets	15,416,304,824	4,604,439,124	1,543,461,195	21,564,205,142

(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	61 to 90 Days	More than 91 Days	Total
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**
As at 31st March 2018	1,729,345,830	702,953,200	362,655,906	2,874,695,422	5,669,650,358
As at 31st March 2017 – Restated	1,524,579,800	735,640,973	389,958,054	1,954,260,298	4,604,439,124

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

As at 31st March 2018	Less than 3 Months	More than 3 and Less than 12 Months	More than 1 Year and Less than 3 Years	>3 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets					
Cash and cash equivalents	945,103,676	Nil	Nil	Nil	945,103,676
Financial investments – Available-for-sale	Nil	Nil	Nil	268,148,316	268,148,316
Financial investments – Loans and receivables	492,639,679	1,349,955,489	Nil	Nil	1,842,595,168
Lease and hire purchase receivables	633,442,719	534,452,990	744,121,690	236,795,378	2,148,812,777
Loans and receivables	7,932,743,478	6,926,266,607	2,692,479,393	756,361,975	18,307,851,453
Total financial assets	9,058,825,876	8,810,675,086	3,436,601,083	1,261,305,669	23,512,511,389
Financial liabilities					
Due to banks	530,318,208	781,099,733	127,276,630	Nil	1,438,694,570
Due to customers	5,817,858,603	8,324,319,418	3,375,659,812	610,630,257	18,128,468,091
Other borrowed funds	105,778,401	351,036,122	1,346,575,211	Nil	1,803,389,733
Total financial liabilities	6,453,955,212	9,456,455,272	4,849,511,653	610,630,257	21,370,552,394

At 31 March 2017 – Restated	**Less than 3 months**	**More than 3 and Less than 12 Months**	**More than 1 Year and Less than 3 Years**	**> 3 Years**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**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	7,680,707,380	8,736,609,324	2,746,257,929	240,830,780	19,404,405,413
Total financial assets	9,233,971,839	10,756,497,377	3,077,418,226	425,527,747	23,493,415,189
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

30. FINANCIAL RISK MANAGEMENT (Contd.)

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 31st March	2018	2017
	%	%
Average for the year	15.73	15.75
Maximum for the year	18.69	18.14
Minimum for the year	13.44	12.99

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:

	2018	2017
	Rs.	Rs.
Cash in hand & bank balances	643,032,443	427,658,645
Deposits in commercial banks free from lien	537,267,049	466,155,865
Sri Lanka government treasury bills and treasury bonds, maturing within one year, free from any lien or charge	1,607,399,352	1,638,821,400
Total liquid assets as at end of March	2,787,698,844	2,532,635,909

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

	2018		2017 Restated	
	Encumbered	Unencumbered	Encumbered	Unencumbered
	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	Nil	945,103,676	Nil	754,813,493
Financial investments – Available-for-sale	Nil	268,148,316	Nil	184,193,580
Financial investments – Loans and Receivables	Nil	1,842,595,168	Nil	1,777,822,416
Lease and hire purchase receivables	381,448,013	1,185,088,582	550,000,000	399,316,675
Loans and receivables	2,029,189,102	13,782,067,232	1,746,426,523	15,294,066,079
Other non financial assets	Nil	488,861,448	Nil	352,012,443
Intangible assets	Nil	78,044,789	Nil	95,066,053
Property, plant & equipment	Nil	522,564,162	Nil	373,817,940

**Encumbered – Pledged as collateral in borrowings*

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 31st March 2018 and 31st 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.

	31st March 2018	31st March 2017
	Rs.	Rs. Restated
Due to banks	1,342,694,516	1,362,994,681
Due to customers	16,391,947,289	16,048,473,927
Other borrowed funds	1,574,210,717	2,308,397,150
Less: cash and cash equivalents	(945,103,676)	(754,813,493)
Net debt	18,363,748,846	18,965,052,266
Total capital	2,280,449,864	1,841,542,022
Capital and net debt	20,644,198,710	20,806,594,288
Gearing ratio	88.95%	91.15%

31. 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 amoristed cost and financial instruments carried at fair value by valuation methods.

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

	2018				
	Fair Value Measurement			Total Fair Value	Carrying Value
	Level 1	Level 2	Level 3		
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets					
Cash and cash equivalents	945,103,676	Nil	Nil	945,103,676	945,103,676
Financial investments – Available-for-sale	168,817,716	Nil	99,330,600	268,148,316	268,148,316
Financial investments – Loans and receivables	Nil	1,842,595,168	Nil	1,842,595,168	1,842,595,168
Lease and hire purchase receivables	Nil	1,531,375,379	Nil	1,531,375,379	1,566,536,595
Loans and receivables	Nil	16,143,949,832	Nil	16,143,949,832	15,811,256,334
Financial liabilities					
Due to banks	Nil	1,343,451,872	Nil	1,343,451,872	1,342,694,516
Due to customers	Nil	16,160,535,372	Nil	16,160,535,372	16,391,947,289
Other borrowed funds	Nil	1,695,602,258	Nil	1,695,602,258	1,574,210,717

	2017 – Restated				
	Fair Value Measurement			Total Fair Value	Carrying Value
	Level 1	Level 2	Level 3		
	Rs.	Rs.	Rs.	Rs.	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	1,161,131,040	Nil	1,161,131,040	949,316,675
Loans and receivables	Nil	17,328,089,164	Nil	17,328,089,164	17,040,492,602
Financial liabilities					
Due to banks	Nil	1,362,486,094	Nil	1,362,486,094	1,362,994,681
Due to customers	Nil	15,960,467,858	Nil	15,960,467,858	16,048,473,927
Other borrowed funds	Nil	1,535,790,632	Nil	1,535,790,632	2,308,397,150

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

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

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

32. FINANCIAL INSTRUMENTS BY CATEGORY

(a) Financial Instruments

31st March 2018	Loans and Receivables	Fair Value through Profit or Loss	Available for Sale	Held to Maturity Investments	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Assets as per the statement of financial position					
Cash and cash equivalents	945,103,676	Nil	Nil	Nil	945,103,676
Financial investments – Available-for-sale	Nil	Nil	268,148,316	Nil	268,148,316
Financial investments – Loans and receivables	1,842,595,168	Nil	Nil	Nil	1,842,595,168
Lease and hire purchase receivables	1,566,536,595	Nil	Nil	Nil	1,566,536,595
Loans and receivables	15,811,256,334	Nil	Nil	Nil	15,811,256,334
	19,220,388,098	Nil	-	Nil	20,433,640,090

31st March 2018	Liabilities at Fair Value through Profit or Loss	Other Financial Liabilities	Total
	Rs.	Rs.	Rs.
Liabilities as per the statement of financial position			
Due to banks	Nil	1,342,694,516	1,342,694,516
Due to customers	Nil	16,391,947,289	16,391,947,289
Other borrowed funds	Nil	1,574,210,717	1,574,210,717
	Nil	19,308,852,522	19,308,852,522

31st March 2017 – Restated	**Loans and Receivables**	**Fair Value through Profit or Loss**	**Available for Sale**	**Held to Maturity Investments**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**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	17,040,492,602	Nil	Nil	Nil	17,040,492,602
	20,522,445,187	Nil	Nil	Nil	20,706,638,766

31st March 2017 – Restated	**Liabilities at Fair Value through Profit or Loss**	**Other Financial Liabilities**	**Total**
	Rs.	**Rs.**	**Rs.**
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

33.COMMITMENTS AND CONTINGENCIES

	2018	2017
	Rs.	Rs.
Contingent liabilities		
Guarantees issued to banks and other institutions	1,500,000	3,000,000
Commitments		
Commitment for unutilised facilities	13,637,300	75,575,674
Capital Commitment for Software	Nil	28,611,720

ANALYSIS OF COMMITMENT AND CONTINGENCIES BY REMAINING CONTRACTUAL MATURITIES

As at 31st March 2018	Less than 3 Months	More than 3 and Less than 12 Months	More than 1 Year and Less than3 Years	More than 3 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Contingent liabilities					
Guarantees issued to banks and other institutions	1,500,000	Nil	Nil	Nil	1,500,000
	1,500,000	-	Nil	Nil	1,500,000
Commitments					
Commitment for unutilised facilities	13,637,300	Nil	Nil	Nil	13,637,300
Oracle Project commitment	Nil	28,611,720	Nil	Nil	28,611,720
	13,637,300	Nil	Nil	Nil	13,637,300

34. EVENTS AFTER THE BALANCE SHEET DATE

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

35. TRANSFER OF FINANCIAL ASSETS (LEASE AND HP RECEIVABLE)

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

	2018	2017
Carrying value of assets and associated liabilities		
Lease and hire purchase receivables	381,448,013	550,000,000
Securtisation payable	2,029,189,102	1,746,426,523

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.

	2018	2017
	Rs.	Rs.
Short-term employee benefits	43,375,750	37,591,900
	43,375,750	37,591,900

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:

	Reported Under	2018 Rs.	2017 Rs.
Statement of financial position			
Liabilities			
Time Deposits	Due to customers	44,255,370	84,500,000
Savings Deposits	Due to customers	597,175	172,005
Statement of comprehensive income			
Interest expense on customer deposits	Interest expenses	3,579,172	8,087,106
Other transactions			
Dividend Paid on shareholding		241,118	271,258

36.1.2 Transactions with Group Companies

The Company enters into transactions with group companies and the following table shows the outstanding balances and corresponding transactions during the period ended 31st March 2018.

		As at 31 March 2018			
	Relationship	Receivables/ (Payables)	Loans, Advances & Investments	Borrowings/ Deposits	Income Earned
		Rs.	Rs.	Rs.	Rs.
Softlogic Holdings PLC	Ultimate Parent Company	Nil	Nil	Nil	Nil
Softlogic Capital PLC	Parent Company	(397,500)	Nil	Nil	Nil
Softlogic Corporate Services (Pvt) Ltd.	Affiliated Company	(2,300)	Nil	Nil	Nil
Softlogic Life Insurance PLC	Group Company	Nil	Nil	Nil	Nil
Suzuki Motors Lanka (Pvt) Ltd.	Affiliated Company	Nil	3,286,435	1,258,348	1,387,916
Softlogic Stock Brokers (Pvt) Ltd.	Group Company	Nil	Nil	74,858,333	Nil
Softlogic Retail (Pvt) Ltd.	Affiliated Company	Nil	Nil	14,359,609	Nil
Softlogic Communications (Pvt) Ltd.	Affiliated Company	Nil	Nil	Nil	Nil
Softlogic Computers (Pvt) Ltd.	Affiliated Company	Nil	Nil	Nil	Nil
Softlogic Information Technologies (Pvt) Ltd.	Affiliated Company	(418,429)	Nil	Nil	Nil
Softlogic Automobiles (Pvt) Ltd.	Affiliated Company	Nil	Nil	Nil	3,107,761
Softlogic BPO Services (Pvt) Ltd.	Affiliated Company	(353,800)	Nil	Nil	Nil
Softlogic City Hotels (Pvt.) Ltd.	Affiliated Company	Nil	Nil	Nil	Nil
Softlogic Destination Management (Pvt) Ltd.	Affiliated Company	Nil	Nil	Nil	Nil
Softlogic Mobile Distributors (Pvt.) Ltd.	Affiliated Company	Nil	Nil	Nil	Nil
Central Hospital Ltd.	Affiliated Company	(218,000)	Nil	Nil	Nil
Odel PLC	Affiliated Company	Nil	Nil	Nil	Nil
Nextage (Pvt) Ltd.	Affiliated Company	Nil	Nil	Nil	Nil
BPM One (Pvt) Ltd.	Affiliated Company	Nil	Nil	Nil	Nil
Future Automobiles (Pvt) Ltd.	Affiliated Company	Nil	Nil	Nil	Nil

Cost Incurred Rs.	Plant & Equipment Purchased/ (Sold) Rs.	Guarantees Obtained Rs.	Nature and Terms of the Transaction	The Rationale for Entering into the Transaction
16,054,885	Nil		Management Salary Reimbursement	Normal business activity of the company
29,040,000	Nil	Nil	Technical & management fees	Normal business activity of the company
1,878,455	Nil	Nil	Secretarial services	Normal business activity of the company
Nil	Nil	Nil	Rent reimbursements for utilizing branch spaces. Debenture interest cost at 16%, 17% for 36 months which were settled during the year	To manage working capital requirement of the company & normal business activity of the company
432,705	Nil	Nil	Loan granted at the rate of 20% PA. Interest cost on fixed deposit accepted and withdrawn during the year at the rate of 13% per annum. Business promotion expenses 50% on motor bike leasing	Normal business activity of the company
754,789	Nil	Nil	Interest cost on fixed deposit accepted and withdrawn during the year at the rate of 14% per annum. Payable for investment arranged in shares	To manage working capital requirement of the company & normal business activity of the company
3,069,920	3,985,714	Nil	Fixed deposit accepted at 12% to 14% per annum for one year and interest cost on it. Savings accepted at 7.6% and interest cost on it. Fixed assets purchase and depreciation on purchased fixed assets	To manage working capital requirement of the company & normal business activity of the company
Nil	Nil	Nil	Depreciation on purchased fixed assets	Normal business activity of the company
547,050	Nil	Nil	Data Cabling Expenses & Fixed assets purchase and depreciation on purchased fixed assets	Normal business activity of the company
1,571,211	8,885,927	Nil	Fixed assets purchase and depreciation on purchased fixed assets	Normal business activity of the company
Nil	Nil	Nil	Income from hiring vehicles	Normal business activity of the company
23,653,255	Nil	Nil	Hardware managed services	Normal business activity of the company
273,299	Nil	Nil	Meeting & meal expenses	Normal business activity of the company
1,141,500	Nil	Nil	Air line ticketing, hotel reservation and VISA related services	Normal business activity of the company
154,269	Nil	Nil	Purchase mobile phone units for company usage	Normal business activity of the company
570,100	Nil	Nil	Obtaining training center/auditorium facilities	Normal business activity of the company
345,000	Nil	Nil	Hoarding space rental	Normal business activity of the company
1,651,960	Nil	Nil	Commission on coordinating advertising & promotions events with media	Normal business activity of the company
2,006,000	Nil	Nil	IT consultancy services	Normal business activity of the company
859,747	Nil	Nil	Vehicle repair services	Normal business activity of the company

37. BUSINESS SEGMENT INFORMATION

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.

	2018	2017	2018	2017	2018	2017
	Leasing		Hire Purchases		SME, Term and Mortgage Loans	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest income	117,758,265	163,038,054	51,162,980	252,038,615	2,272,446,366	1,856,340,156
Interest expenses	-	-	-	-	-	-
Net interest income	117,758,265	163,038,054	51,162,980	252,038,615	2,272,446,366	1,856,340,156
Fees and commission income	15,718,749	28,614,951	6,829,398	44,235,517	303,333,394	325,807,877
Net trading income/(loss)	-	-	-	-	-	-
Other operating income	-	-	-	-	-	-
Total operating income	133,477,014	191,653,005	57,992,378	296,274,132	2,575,779,760	2,182,148,033
Impairment charges for loans and advances	39,402,800	(9,404,286)	(21,312,382)	(9,941,727)	(225,062,313)	(85,885,003)
Net operating income	172,879,814	182,248,719	36,679,996	225,236,472	2,350,717,448	2,019,814,821
Depreciation for property, plant and equipment	(4,768,759)	(2,236,599)	(417,724)	(772,072)	(40,170,331)	(41,991,028)
Amortisation of intangible assets	(1,130,840)	(333,966)	(99,057)	(115,285)	(9,525,793)	(6,270,045)
Personal cost	-	-	-	-	-	-
Other operating expenses	(21,044,536)	(28,600,670)	(9,143,317)	(44,213,440)	(406,108,058)	(325,645,276)
Segment profit before VAT on financial services	145,935,679	151,077,483	27,019,897	180,135,675	1,894,913,266	1,645,908,472
VAT and NBT on financial services						
Segment profit before tax	145,935,679	151,077,483	27,019,897	180,135,675	1,894,913,266	1,645,908,472
Income tax reversal/(expenses)						
Profit for the year	145,935,679	151,077,483	27,019,897	180,135,675	1,894,913,266	1,645,908,472
Total assets	1,440,366,202	705,707,210	126,170,394	243,609,490	12,133,132,141	13,249,299,180
Total liabilities	1,288,860,201	645,834,800	112,899,066	222,941,588	10,856,899,525	12,125,224,683

2018	2017	2018	2017	2018	2017	2018	2017
Personal Loans		Other Loans and Receivables		Unallocated		Total	
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
320,828,261	567,266,019	457,500,628	336,228,230	303,859,434	256,840,497	3,523,555,934	3,431,751,571
-	-	-	-	-	-	(2,561,129,565)	(2,291,408,431)
320,828,261	567,266,019	457,500,628	336,228,230	303,859,434	256,840,497	962,426,369	1,140,343,140
42,825,180	99,561,353	61,068,644	59,011,709	40,560,127	45,078,299	470,335,493	602,309,706
-	-	-	-	-	-	4,791,000	16,128,488
-	-	-	-	147,710,989	128,517,859	45,377,737	56,450,831
363,653,441	666,827,372	518,569,272	395,239,939	344,419,561	301,918,796	1,482,930,599	1,815,232,165
86,362,327	(89,088,562)	12,184,419	(246,501,933)	-	-	(108,425,149)	(440,821,511)
450,015,768	577,738,810	633,086,943	358,349,176	344,419,561	301,918,796	1,476,838,702	1,446,477,682
(4,573,669)	(6,110,077)	(7,603,852)	(5,905,359)	(14,244,449)	(11,777,674)	(71,778,785)	(68,792,809)
(1,084,577)	(912,349)	(1,803,140)	(881,780)	(3,377,858)	(1,758,627)	(17,021,264)	(10,272,052)
-	-	-	-	-	-	(465,936,874)	(441,067,262)
(57,335,101)	(99,511,665)	(81,759,770)	(58,982,258)	(54,302,608)	(45,055,802)	(629,693,391)	(602,009,112)
387,022,421	471,204,719	541,920,182	292,579,779	272,494,646	243,326,694	292,408,389	324,336,448
						(99,329,008)	(40,733,745)
387,022,421	471,204,719	541,920,182	292,579,779	272,494,646	243,326,694	193,079,381	283,602,703
						25,686,284	(39,268,188)
387,022,421	471,204,719	541,920,182	292,579,779	272,494,646	243,326,694	218,765,665	244,334,517
1,381,440,715	1,927,893,802	2,296,683,478	1,863,299,620	4,302,423,663	3,716,173,056	21,680,216,593	21,705,982,359
1,236,132,836	1,764,330,717	2,055,105,102	1,705,216,724	3,849,869,999	3,400,891,825	19,399,766,729	19,864,440,337

38. 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.

	2018			2017		
	Within 12 Months	After 12 Months	Total as at 31st March 2018	Within 12 Months	After 12 Months	Total as at 31st March 2018
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets						
Cash and cash equivalents	945,103,676	Nil	945,103,676	754,813,493	Nil	754,813,493
Financial investments – Available for sale	Nil	268,148,316	268,148,316	184,193,580	Nil	184,193,580
Financial investments – Loans and receivables	1,842,595,168	Nil	1,842,595,168	1,777,822,416	Nil	1,777,822,416
Lease and hire purchase receivables	845,570,663	720,965,932	1,566,536,595	413,031,657	536,285,018	949,316,675
Loans and receivables	12,973,262,986	2,837,993,349	15,811,256,334	10,828,383,033	6,212,109,569	17,040,492,602
Other non-financial assets	488,861,448	Nil	488,861,448	295,710,465	108,442,293	404,152,758
Income tax receivable	157,009,143	Nil	157,009,143	126,306,841	Nil	126,306,841
Deferred tax asset	Nil	96,961	96,961	Nil	Nil	Nil
Intangible assets	Nil	78,044,789	78,044,789	Nil	95,066,053	95,066,053
Property, plant and equipment	Nil	522,564,162	522,564,162	Nil	373,817,940	373,817,940
Total assets	17,252,403,083	4,427,813,509	21,680,216,591	14,380,261,486	7,325,720,873	21,705,982,359
Liabilities						
Due to banks	1,221,488,172	121,206,344	1,342,694,516	1,362,994,681	Nil	1,362,994,681
Due to customers	13,150,854,546	3,241,092,743	16,391,947,289	14,062,418,815	1,986,055,112	16,048,473,927
Other borrowed funds	302,862,165	1,271,348,552	1,574,210,717	367,351,346	1,941,045,804	2,308,397,150
Other non financial liabilities	62,080,903	Nil	62,080,903	96,902,951	Nil	96,902,951
Retirement benefit obligations	Nil	28,833,306	28,833,306	Nil	16,938,596	16,938,596
Deferred tax liabilities	Nil	Nil	Nil	Nil	30,733,031	30,733,031
Total liabilities	14,737,285,786	4,662,480,945	19,399,766,731	15,889,667,794	3,974,772,543	19,864,440,337

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. 2,002,269,999.12

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 38.86 % as at 31st March 2018. The number of public shareholders as at 31st March 2018 was 1,348.

Float Adjusted Market Capitalization as at 31st March 2018 is Rs. 804,414,667.59

The Company is Compliant with Option 5 of the Listing Rules 7.13.1 (a), where the Float Adjusted Market Capitalization is less than Rs. 2.5 Bn and requires a minimum 20% public holding.

4. DISTRIBUTION OF SHAREHOLDING AS AT 31ST MARCH 2018

There were 1,353 Registered shareholders as at 31st March 2018.

No. of Shares held		No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
From	To				
1	1,000	937	69.25%	274,581	0.40%
1,001	10,000	313	23.13%	1,154,855	1.70%
10,001	100,000	84	6.21%	2,521,151	3.71%
100,001	1,000,000	13	0.96%	4,314,578	6.35%
	Over 1,000,000	6	0.44%	59,663,219	87.83%
	Total	**1,353**	**100.00%**	**67,928,384**	**100.00%**

5. ANALYSIS REPORT OF SHAREHOLDERS AS AT 31ST MARCH 2018

Category	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
Individual	1,258	92.98%	7,292,283	10.74%
Institutional	95	7.02%	60,636,101	89.26%
Total	**1,353**	**100.00%**	**67,928,384**	**100.00%**
Resident	1,347	99.56%	58,656,193	86.35%
Non-Resident	6	0.44%	9,272,191	13.65%
Total	**1,353**	**100.00%**	**67,928,384**	**100.00%**

6. TWENTY MAJOR SHAREHOLDERS AS AT 31ST MARCH 2018

Shareholder	No. of Shares as at 31.03.2018	%
Softlogic Capital PLC	28,493,841	41.95
Pan Asia Banking Corporation PLC/Softlogic Capital PLC	12,015,240	17.69
Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	8,857,396	13.04
Vanik Incorporation Ltd.	5,376,068	7.91
Mr. Kulappuarachchige Don Dammika Perera	2,830,674	4.17
L B Finance Ltd.	2,090,000	3.08
Softlogic Holdings PLC	779,969	1.15
Mr. Murugesu Mahibalan	762,929	1.12
People's Leasing & Finance PLC/Mr. L P Hapangama	587,912	0.87
People's Leasing & Finance PLC/Hi Line Trading (Pvt) Ltd.	529,783	0.78
HSBC International Nominee Ltd. – SSBT-Deustche Bank AG Singapore	389,604	0.57
Mr. Pasqual Handi Dayananda Waidyathilaka	248,294	0.37
Mr. Asoka Kariyawasam Pathirage	228,000	0.34
Seylan Bank PLC/Shashimaal Ruhash Fernando	227,786	0.34
Mrs. Pamela Christine Cooray	132,444	0.19
Asha Financial Services Ltd.	111,025	0.16
Mr. Wetthinge Jinadasa	110,019	0.16
Mr. Sithampalam Abishek	105,000	0.15
Seylan Bank PLC/Lasantha Chandika Ranaweera Pathirana	101,813	0.15
Mr. Addara Pathiranage Somasiri	100,000	0.15
	64,077,797	94.33
Others	3,850,587	5.67
	67,928,384	100.00

7. SHARE TRADING INFORMATION

	2017/18
Highest (Rs.)	42.50
Lowest (Rs.)	30.80
Closing (Rs.)	35.00
Turnover (Rs.)	147,752,117.20
No. of Shares Traded	3,917,121
No. of Trades	1,744

8. EQUITY INFORMATION

	2017/18
Earnings per share (Rs.)	3.70
Dividend per share (Rs.)	1.65
Dividend pay out	44.55%
Net Asset Value per share (Rs.)	33.57

9. DEBT INFORMATION

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-29/08/19 A-10	10.00%	100.00	100.00	100.00
B – CRL-BC-29/08/19 B-7.69	3 Month Net Treasury Bill Rate + 1.5%	100.00	100.00	100.00

YIELD OF DEBENTURES DURING THE YEAR

Debenture Type	Interest Rate	Interest Yield	Last Traded Date
A – CRL-BC-29/08/19 A-10	10.00%	10.00%	26-Mar-18
B – CRL-BC-29/08/19 B-7.69	3 Month Net Treasury Bill Rate + 1.5%	9.19%	8-Mar-18

RATIOS

	2017/18
Debt to Equity Ratio (Times)	8.51
Interest Cover (Times)	1.11
Liquid Assets Ratio (%) – Statutory Minimum 10%	15.90

INTEREST RATE OF COMPARABLE GOVERNMENT SECURITIES

(Below rates are excluding 10% withholding tax)	2017/18
3 Year Treasury Bond	10.05%
5 Year Treasury Bond	10.54%

TEN YEAR SUMMARY

	2017/18*	2016/17*	2015/16*
(Rs.'000)			
OPERATING RESULTS			
Gross Income	4,146,393	4,178,708	4,080,598
Profit before Tax	292,408	324,336	157,709
Taxation	73,643	80,002	84,567
Profit after Tax	218,766	244,335	73,142
As at 31st March			
ASSETS			
Investments	2,110,743	1,962,016	2,165,798
Loans & Advances	15,811,256	17,040,493	14,462,118
Lease/HP Rentals Receivables	1,566,537	949,317	1,444,231
Vehicle Stocks	18,984	25,644	58,695
Real Estate Stocks	105,141	82,799	423,763
Property and Equipment	522,564	373,818	373,352
Other Assets	1,544,990	1,271,897	1,014,427
	21,680,217	21,705,982	19,942,383
LIABILITIES			
Public Deposits	16,391,947	16,048,474	14,055,203
Borrowings	2,916,905	3,671,392	4,076,520
Other Liabilities	90,914	144,575	154,810
	19,399,767	19,864,440	18,286,533
SHAREHOLDERS' FUNDS			
Share Capital/Stated Capital	2,002,270	1,692,615	1,692,615
Reserves and Retained Earnings	278,180	148,927	(36,765)
	2,280,450	1,841,542	1,655,850
SHARE INFORMATION			
Earnings per Share (Rs.)	3.70	4.14	1.40
Net Assets per Share (Rs.)	33.57	31.18	28.03
Debt to Equity Ratio (times)	8.51	10.79	11.04
OTHER INFORMATION			
No. of Employees	551	490	491
Supporting Network	35	31	30

**Financial Years 2017/18, 2016/17, 2015/16, 2014/15, 2013/14, 2012/13 and 2011/12 have been prepared based on SLFRSs.*

2014/15*	2013/14*	2012/13*	2011/12*	2010/11	2009/10	2008/09
3,972,902	3,338,543	2,277,546	1,534,039	650,610	346,881	309,382
270,934	228,450	233,180	194,928	84,787	26,162	17,761
54,444	62,796	69,126	74,101	16,251	2,558	3,862
216,490	165,654	164,053	120,827	68,536	23,605	13,899
2,059,796	1,600,660	193,668	70,486	299,225	105,031	13,232
12,432,979	3,887,396	3,412,910	1,985,510	283,956	30,793	28,294
3,095,119	8,324,788	7,221,967	6,004,641	3,371,328	1,526,854	1,002,663
262,585	375,798	105,235	10,209	4,855	10,288	10,259
356,885	59,723	37,858	39,258	16,647	15,848	15,365
333,803	312,247	177,863	176,248	39,587	17,413	23,332
1,472,666	3,699,127	2,069,302	1,534,250	298,478	161,481	74,129
20,013,834	18,259,739	13,218,803	10,075,741	4,438,398	1,867,708	1,167,274
12,363,202	9,312,743	6,956,951	4,681,850	1,584,807	821,816	406,768
5,581,737	6,484,267	4,234,833	3,717,284	2,008,094	633,222	453,121
117,191	1,153,180	822,422	568,527	314,311	195,149	93,404
18,062,130	16,950,191	12,014,206	8,967,661	3,907,212	1,650,187	953,293
1,404,523	1,003,231	1,003,231	1,003,231	468,174	200,646	200,646
284,467	306,318	201,366	104,849	63,012	16,875	13,335
1,688,990	1,309,549	1,204,597	1,108,080	531,186	217,521	213,981
5.44	4.42	3.66	4.38	3.07	1.18	0.69
33.23	34.96	32.16	29.79	19.86	10.84	10.66
10.69	12.94	9.97	8.09	7.36	7.59	4.46
521	502	467	550	291	103	48
18	17	17	16	9	8	8

BRANCH NETWORK

DISTRICT-WISE REPRESENTATION

Colombo

Head Office
No. 13, De Fonseka Place, Colombo 04
011-2359700/011-2359799
headoffice@softlogicfinance.lk

City Office
No. 14/9, Sri Jinarathana Road, Colombo 02
011-2303373/011-2303363
cityoffice@softlogicfinance.lk

Pettah
No. 12, Srimath Rathanajothi Sarwanamuththu Mawatha, Colombo 12
011-2334461/011-2334549
pettah@softlogicfinance.lk

Borella
No. 1072, Maradana Road, Borella
011-2698016/011-2694261
borella@softlogicfinance.lk

Dematagoda
No. 85, Kolonnawa Road, Dematagoda, Colombo 09
011-2679089/011-2646226
dematagoda@softlogicfinance.lk

Kotahena
No. 244, George R De Silva Mawatha, Colombo 13
011-2337040
kotahena@softlogicfinance.lk

Kottawa
No. 87/A, Highlevel Road, Kottawa
011-2178464/011-2842824
kottawa@softlogicfinance.lk

Nawala
No. 305B, Nawala Road, Nawala
011-2807080/011-2807082
nawala@softlogicfinance.lk

Bambalapitiya
No. 292/B, Galle Road, Colombo 04
011-2367901/011-2055517
pamankada@softlogicfinance.lk

Kalutara

Kalutara
No. 264, Galle Road,
Kalutara South, Kalutara
034-2224714/034-2223262
kalutara@softlogicfinance.lk

Gampaha

Gampaha
No. 57/A, Bauddhaloka Mawatha, Gampaha
011-2281285/033-2227506
gampaha@softlogicfinance.lk

Kadawatha
No. 139/7/D, Kandy Road, Kadawatha
011-2923011/011-2923013
kadawatha@softlogicfinance.lk

Wattala
No. 180, Negombo Road, Wattala
011-2051660/011-2051676
wattala@softlogicfinance.lk

Negombo
No. 406/1, Udayarthoppuwa Road, Negombo
031-2224714/031-2224716
negombo@softlogicfinance.lk

Matara

Matara
No. 8A, 1st Floor, F N Building, Station Road, Matara
041-2220195/041-2227257
matara@softlogicfinance.lk

Matara Metro
No. 382A, Galle Road, Pamburana, Matara
041-2238690/041-2238691
matarametro@softlogicfinance.lk

Weligama
No. 325/A, Old Matara Road, Weligama
041-2252888/041-2260523
weligama@softlogicfinance.lk

Polonnaruwa

Polonnaruwa
No. 125, Batticaloa Road, Polonnaruwa
027-2226727/027-2225909
polonnaruwa@softlogicfinance.lk

Anuradhapura

Anuradhapura
No. 561/11, Maithreepala Senanayake Mawatha,
New Town, Anuradhapura
025-2226279/025-2234743
anuradhapura@softlogicfinance.lk

BRANCH NETWORK

Ratnapura

Ratnapura
No. 1/200, Ground Floor, Main Street, Ratnapura
045-2230677/045-2223574
rathnapura@softlogicfinance.lk

Embilipitiya
No. 176, Ratnapura Road, Pallegama, Embilipitiya
047-2230590/047-2230592
embilipitiya@softlogicfinance.lk

Puttalam

Chilaw
No. 28B, Kurunegala Road, Chilaw
032-2221415/032-2223754
chilaw@softlogicfinance.lk

Kochchikade
No. 42, Chilaw Road, Kochchikade
031-2274233/031-2272672
kochchikade@softlogicfinance.lk

Nuwara Eliya

Nuwara Eliya
No. 72, Kandy Road, Nuwara Eliya
052-2223382/052-2223383
nuwaraeliya@softlogicfinance.lk

Hatton
No. 107, Main Street, Hatton
051-2222108/051-2225739
hatton@softlogicfinance.lk

Matale

Dambulla
No. 719, Anuradhapura Road, Dambulla
066-2284737/066-2284717
dambulla@softlogicfinance.lk

Matale
No. 253, Main Street, Matale
066-2226461/066-2228863
matale@softlogicfinance.lk

Kandy

Kandy
No. 165, Katugodella Street, Kandy
081-2224912/081-2224916
kandy@softlogicfinance.lk

Senkadagala
No. 288, Katugastota Road, Kandy
081-2232601/081-2232603
senkadagala@softlogicfinance.lk

Jaffna

Jaffna
No. 62/64, Stanly Road, Jaffna
021-2219444/021-2219666
jaffna@softlogicfinance.lk

Chunnakam
No. 101 & 105, K.K.S Road, Chunnakam
021-2242770/021-2242772
chunnakam@softlogicfinance.lk

Badulla

Badulla
No. 38, Anagarika Dharmapala Mawatha, Badulla
055-2224205/055-2223905
badulla@softlogicfinance.lk

Kurunegala

Kurunegala
No. 13, Rajapihilla Mawatha, Kurunegala
037-2232875/037-2232565
kurunegala@softlogicfinance.lk

Hambantota

Tissamaharama
No. 28, Main Street, Thissamaharama 047-2239933/047-2239504 tissamaharama@softlogicfinance.lk

Galle

Galle
No. 64, Colombo Road, Kaluwella, Galle
091-2248920/091-2248095
galle@softlogicfinance.lk

Kegalle

Mawanella – Gold Loan Centre
No. 131,132, Kandy Road, Mawanella
035-2247304

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. 07 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 04.

PRINCIPAL PLACE OF BUSINESS
No. 13, De Fonseka Place, Colombo 04.
Tel : +94 112 359 600, +94 112 359 700
Facsimile : +94 112 359 799
E-mail : info@softlogicfinance.lk
Website : www.softlogicfinance.lk

BOARD OF DIRECTORS
Mr. Ashok Pathirage (Chairman)
Mr. Aaron Russell-Davison (Deputy Chairman)
Mr. Nalin Wijekoon (CEO)
Mr. Chris Corea
Mr. Dushan Soza
Mr. Haresh Kaimal
Mr. Nilantha Bastian (appointed w.e.f. 20th April 2018)

EXECUTIVE COMMITTEE
Mr. Aaron Russell-Davison (Deputy Chairman)
Mr. Nalin Wijekoon (CEO)
Mr. Lohika Fonseka (COO)
Mr. Sanjeewa Premawardena (CFO)
Mr. Asanka De Silva (CRO)
Ms. Nadeeka Wimalathunga (CLO)
Ms. Roshani Abeysundara (CCO)
Mr. Nalaka De Silva (DGM – Lending)

SECRETARIES
Softlogic Corporate Services (Pvt) Ltd.

AUDITORS
Ernst & Young
Chartered Accountants

LEGAL ADVISORS TO THE COMPANY
Nithya Partners

BANKERS
Hatton National Bank PLC
Commercial Bank of Ceylon PLC
Seylan Bank PLC
Peoples' Bank
Pan Asia Banking Corporation PLC
Sampath Bank PLC
Bank of Ceylon PLC
Nations Trust Bank PLC
DFCC Bank PLC
Deutsche Bank
Union Bank of Colombo PLC

NOTICE OF MEETING

SOFTLOGIC FINANCE PLC
Co. Reg. No. PB 641 PQ
13, De Fonseka Place,
Colombo 04.

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 Friday the 21st day of September 2018 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 2018 together with the Report of the Auditors thereon.
2. To ratify the Interim Dividend of Rs. 1.65 per share paid on 28th August 2017 as the Final Dividend for the year ended 31st March 2017.
3. To re-elect Mr. A K Pathirage who retires by rotation in terms of Articles 91 and 92 of the Articles of Association, as a Director of the Company.
4. To re-elect Mr. H K Kaimal who retires in terms of Article 97 of the Articles of Association, as a Director of the Company.
5. To re-elect Mr. W N R Bastian who retires in terms of Article 97 of the Articles of Association, as a Director of the Company.
6. 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.
7. To authorize the Directors to determine and make donations for the year ending 31st March 2019 and up to the date of the next Annual General Meeting.

By Order of the Board,
SOFTLOGIC CORPORATE SERVICES (PVT) LTD.

(Sgd.)
SECRETARIES
29th June 2018
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 herewith.

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 Wednesday the 19th day of September 2018, being forty eight (48) hours before the time appointed for the holding of the meeting.

NOTES

FORM OF PROXY

SOFTLOGIC FINANCE PLC
Co. Reg. No. PB 641 PQ
13, De Fonseka Place, Colombo 04.

**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. N H G Wijekoon	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. A Russell-Davison	of Colombo or failing him*
Mr. H K Kaimal	of Colombo or failing him*
Mr. W N R Bastian	of Colombo

as my/our* proxy to represent me/us*, to vote as indicated hereunder for me/us* and to speak for me/us* and on my/our* behalf at the ANNUAL GENERAL MEETING OF THE COMPANY to be held at the Auditorium of Central Hospital Limited, No. 114, Norris Canal Road, Colombo 10 at 10.00 a.m. on Friday the 21st day of September 2018 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 2018 together with the Report of the Auditors thereon.		
2. To ratify the Interim Dividend of Rs. 1.65 per share paid on 28th August 2017 as the Final Dividend for the year ended 31st March 2017.		
3. To re-elect Mr. A K Pathirage who retires by rotation in terms of Articles 91 & 92 of the Articles of Association, as a Director of the Company.		
4. To re-elect Mr. H K Kaimal who retires in terms of Article 97 of the Articles of Association, as a Director of the Company.		
5. To re-elect Mr. W N R Bastian who retires in terms of Article 97 of the Articles of Association, as a Director of the Company.		
6. To reappoint Messrs. Ernst & Young, as Auditors and to authorize the Directors to determine their remuneration.		
7. 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.

FORM OF PROXY

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 Wednesday the 19th day of September 2018, 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)**

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