Softlogic Finance

ANNUAL REPORT 2018 / 2019

GROW

Envisioning growth through innovative solutions

Business Financing

Fixed Deposits

Savings

Gold Loans

Leasing and Vehicle Loans

Personal Loans

www.softlogicfinance.lk

Envisioning Growth Through
Innovative Solutions

CONTENTS

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 the 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 for their career enhancement and reward them for good performance.

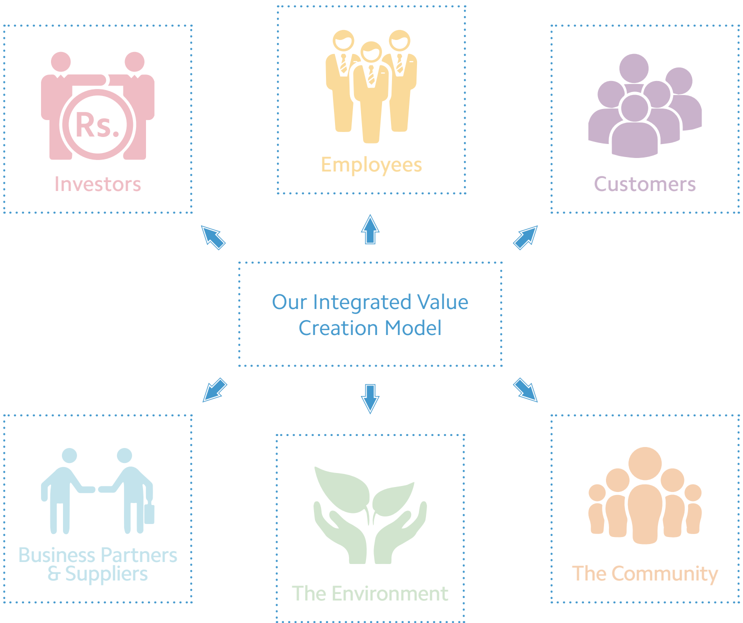
Success
We always strive to be the best in our business and possess a will to win.

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 & 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 fourth 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 spectrums.

Further, we recognize 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 2018/2019 ending on 31st March 2019. 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 2019 have been prepared in compliance with the applicable Sri Lanka Accounting Standards. All relevant disclosures have been made as per applicable laws and regulations. Disclosures on Corporate Governance have been made as per the Code of Best Practice on Corporate Governance (Direction No. 03 of 2008) and its amendments issued for finance companies by the Central Bank of Sri Lanka and also in line with the 2013 version of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. Further, disclosures have also been made as per the Listing Rules of the Colombo Stock Exchange 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: 136..

OUR JOURNEY

2006/2007

Obtained the **Registered Finance Company License** 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.**

2009/2010

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

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**

2018/2019

Softlogic Finance PLC launches its **trail-blazing Vehicle Loan Product** and further cements its presence in the Business Financing and Working Capital Financing market with its **new Factoring Product.**

Softlogic Holdings PLC **acquires Capital Reach Leasing PLC** in August 2010

2010/2011

2011/2012

Softlogic Finance PLC **launches Personal Loan & Gold Loan Products**

2012/2013

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

2013/2014

Softlogic Finance PLC **concludes the first ever medium term Cross Currency Swap for USD 4.8 Mn** with the foreign counterparty TCX

2014/2015

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

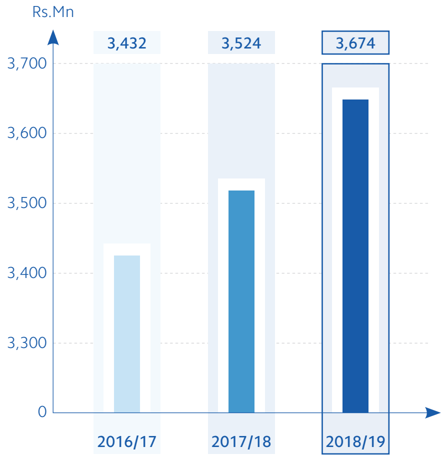
2015/2016

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

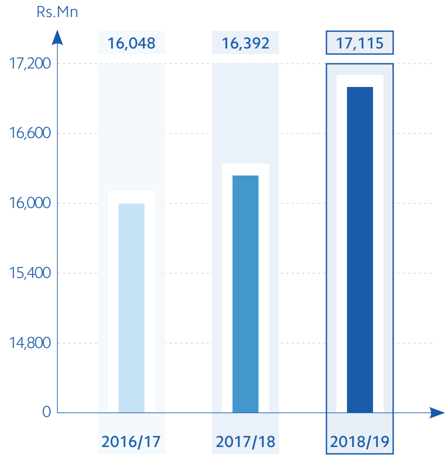
FINANCIAL HIGHLIGHTS

	2018/19	2017/18	Change
OVERVIEW OF FINANCIAL PERFORMANCE			
Financial Results (Rs. Mn)			
Total Gross Income	4,019	4,146	-3%
Interest Income	3,674	3,524	4%
Interest Expenses	2,491	2,561	-3%
Net Interest Income	1,184	962	23%
Other Income	344	623	-45%
Total Operating Income	1,528	1,585	-4%
Total Operating Expenses	1,274	1,184	8%
Impairment Charges	190	108	75%
Profit Before Tax (PBT)	64	292	-78%
Taxation (Income Tax & VAT & NBT on Financial Services)	(139)	74	-289%
Profit After Tax (PAT)	204	219	-7%
Financial Position as at 31st March 2019 (Rs. Mn)			
Total Assets	22,555	21,680	4%
Loans and receivables	15,904	15,811	1%
Lease and hire purchase receivables	1,971	1,567	26%
Customer Deposits	17,115	16,392	4%
Total Borrowed Funds	3,343	2,917	15%
Shareholders' Funds	1,907	2,280	-16%
Financial Ratios & Indicators			
Cost to Income Ratio (%)	83.37	74.72	866 bps
Return on Average Assets (ROA) - before tax (%)	0.28	0.89	-61 bps
Return on Average Equity (ROE) - after tax (%)	9.74	10.61	-87 bps
Earnings Per Share (EPS) (Rs.)	3.00	3.70	-19%
Earnings Yield (%)	13.90	10.57	333 bps
Dividend Per Share (Rs.)	-	1.65	-100%
Dividend Yield (%)	-	4.71	- 471 bps
Dividend Cover (Times)	-	2.24	-100%
Dividend Payout Ratio (%)	-	44.55	-4455 bps
Net Assets Value Per Share (Rs.)	28.08	33.57	-16%
Market Price Per Share (Closing) (Rs.)	21.60	35.00	-38%
Market Capitalization (Rs.) (Mn.)	1,467	2,377	-38%
Price to Earnings (Times)	7.19	9.46	-24%

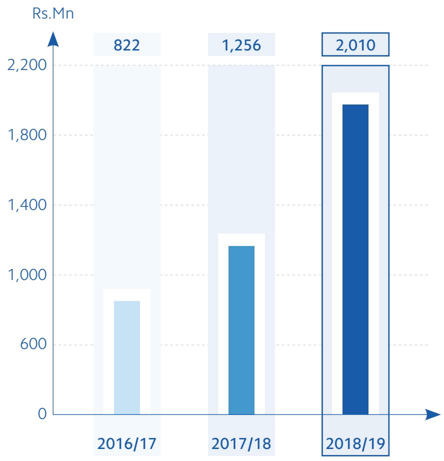
Interest Income



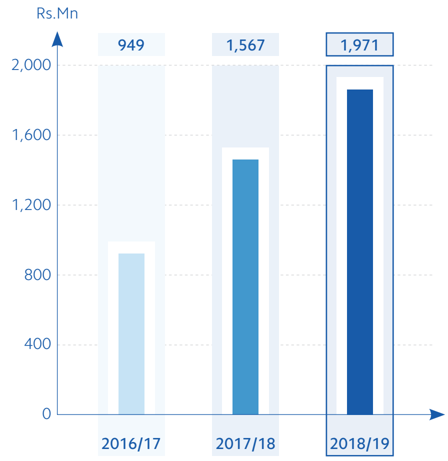
Customer Deposits Base



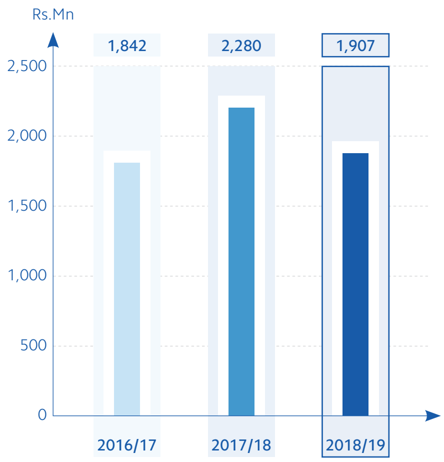
Gold Loan Portfolio



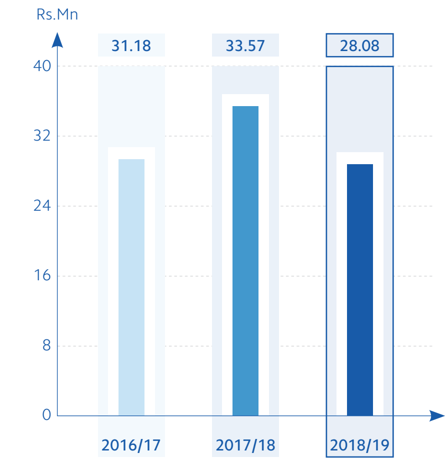
Lease and Hire Purchase Receivables



Shareholders' Funds



Net Assets Per Share



CHAIRMAN'S MESSAGE

Reflecting On A Period Of Consolidation And Rationalization

I would like to take this opportunity to present to you the Annual Report of Softlogic Finance PLC for the financial year 2018/19. Our ability to redefine and reengineer our business model and the accompanying strategy has helped us manage our operations, in the midst of a sluggish macro-economic environment, whilst continuing to excel at facing competitive forces in our industry with our progressively evolving product arsenal.

As a result of the combined effect of a sluggish economic environment, political instability and heightening industry competition, we experienced downward pressure on our bottom line during the 2018/19 financial year. In this context, on a year-on-year basis, our Net Profit after Tax contracted from Rs. 219 Mn to Rs. 204 Mn, thus signifying a contraction of 7%. This downward movement in profitability was primarily triggered by a deliberate downsizing of our unsecured short term SME working capital loan portfolio, as we shifted our strategic focus towards secured lending like leasing, vehicle loans and gold loans. The persistent economic slowdown that affected a multitude of sectors unfavorably also affected the performance of our SME loan product, which used to constitute a major portion of our loan book. Therefore in order to minimize and manage our exposure to this sector, we continued our shift towards securitized lending that we began in the previous financial year. Hence, a temporary slowdown in the growth of our interest income was experienced as we went through this strategic shift.

However, we are confident that this change in our lending mix would serve as a turning point and a catalyst that would drive us towards sustained interest income generation in the medium and long term. With our increased focus on securitized lending like leasing, vehicle loans, term loans and gold loans and with the continued success of our high margin "Atha Hitha" small business loan product and our newly introduced Factoring product, we are forging ahead with our reengineered business model whilst being mindful of existing and expected economic and industry challenges..

Economic Sluggishness Setting The Tone For Our Operating Environment

During 2018, just as in 2017, the Sri Lankan economy experienced a trend of economic deceleration, thus posting a real GDP growth of only 3.2%, down from even the modest figure of 3.4% recorded in 2017. This general economic slowdown meant that a sense of

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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. For example, the Industry sector only grew by 0.9%, particularly due to the contraction in the construction sector, when compared to 4.1% in the previous year.

Further compounding the tight economic conditions were the market interest rates that remained generally high even in light of the neutral monetary policy maintained by the Central Bank. As a result, the lending rates increased, in effect, raising the cost of funds in the economy. Additionally, the economy experienced only nominal private sector credit growth. This sluggishness in private sector credit growth was experienced primarily in the Industry sector of the economy, where growth was recorded at 15.3%, which is a contraction from 19.6% recorded in the previous year. During 2018, credit growth in the economy only grew by 15.9% in comparison to the already lackluster 14.7% growth experienced in 2017.

Hence, in the context of our industry operating space, as a result of the overall economic stagnation experienced and the policy measures taken to curtail the imports of motor vehicles and credit facilities for purchasing motor vehicles, the LFC and SLC sectors experienced a decline in credit growth and profitability during the year. The profitability of the sector decreased due to increased funding costs and higher loan loss provisions against NPLs

CHAIRMAN'S MESSAGE

Forging Ahead With Our Strategic Shift

We have set our sights on shaping our company to be resilient and at the same time be able to confidently face any macroeconomic, industry and competitor challenges. This was the rationale that drove us to reengineer our business model and redefine our value proposition offered to our stakeholders. In this context, we continue to aggressively forge ahead with consolidating our lending product mix, with increased, consistent weightage on collateralized lending.

Our collateralized lending drive has been strengthened by our Leasing, Vehicle Loan, Gold Loan and Term Loan products. All these asset backed products have been structured and contoured with very competitive lending rates in the context of maintaining budgeted profit margins. More specifically, when considering our completely remodeled and repositioned Leasing and Vehicle Loan products, we offer a vast range of customized and tailor-made solutions, catering to the entire spectrum of market segments in the economy. In essence, the newly defined and reengineered value proposition of our leasing and vehicle loan product extends to solutions encompassing all bases of the leasing and vehicle loan market space, including motor cycles, three wheelers, commercial vehicles used in transportation and construction, machinery, personal vehicles and dual purpose vehicles. On a year-on-year basis, we have seen very encouraging signs with our Leasing product, with its 26% growth and also with our Vehicle Loans product, which grew up to Rs. 1.4 Bn within a year of its introduction. Further, in our collateralized lending space, our trailblazing Gold Loan product continues its aggressive growth with market leading rates and customer service and has achieved a year-on-year growth of 60%.

Our business model has been fashioned to accommodate short and medium term aggressive interest income generation also and this is been driven by our 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.

Furthermore, in order to accelerate the strengthening and diversification of our lending product portfolio, we also systematically started rolling out our Factoring product to identified markets and identified corporate entities. With this product, we have adopted a structured rollout and by the end of the financial year, our Factoring portfolio stood at Rs. 309 Mn.

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.

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

CHIEF EXECUTIVE OFFICER'S REVIEW

An Overview of our Performance

The 2018/19 financial year represented a year dominated by unsavory external challenges due to a sluggish economy as well as opportunities for growth, directly as a result of our reengineered business model. We were significantly tested from many fronts but our unwavering commitment to excellence and our aggressive execution of our new business model opened up new avenues for us to progressively evolve ourselves and adapt to the volatile external landscape and thus remain steadfast in our vision to be the preferred non-bank financial institution in Sri Lanka.

For the 2018/19 financial year, the company posted a subdued Net Profit After Tax of Rs. 204 Mn, which represented a 7% decline from the previous year's Net Profit After Tax of Rs. 219 Mn. This contraction in our financial performance was primarily due to the sluggish growth we experienced in our Interest Income as a consequence of our deliberate and calculated decision to reduce the exposure of our SME loan portfolio. This was done due to the macroeconomic challenges created by the economic slowdown during the year and the natural disasters that occurred in 2017 that continued to have lasting repercussions on the SME sector in the affected areas of the country. However, we were able to moderate the impact on our Interest Income through our successful shift from our unsecured SME working capital loan product to securitized loan products like leasing, vehicle loans and gold loans. Further, there was a notable uptick in our impairment charges also, which grew by 75%, as a result of the adoption of the SLFRS 09 accounting standard and the rising NPLs that affected the entire Non-Bank Financial Institutions (NBFI) sector.

A Challenging Operating Environment

For the year 2018 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 3.2% in 2018, compared to the 3.4% growth recorded in 2017.

During 2018, the Agriculture sector, which accounts for 7.0% of the economy, somewhat recovered during the year after being hammered by adverse weather conditions and grew by 4.8%, in comparison to the contraction of 0.4% experienced the previous year. However, a significant slowdown was experienced in the Industry sector of the economy. During 2018, Industry related economic activities, which account for 26.1% of the economy, grew only by 0.9%, compared to the 4.1% growth achieved in 2017. 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 57.7% of the GDP, it grew by 4.7% compared to the 3.6% growth achieved in the previous year.

During 2018, the private sector credit growth in the economy continued to show signs of sluggishness with growth recorded at 15.9%, on a year on year basis, when compared to the 14.7% growth experienced in 2017, even with the CBSL relaxing its monetary policy stance during the first half of 2018. More specifically, the credit growth in all major sectors did not show any accelerated growth. Hence, credit growth in the Industry sector dropped to 15.3% when compared to the 19.6% recorded at the end of the previous year. Meanwhile, the credit growth in the Agriculture and Services sectors of the economy expanded by 14.0% and 17.8% respectively in 2018, compared to the growth rates of 14.1% and 8.3% in 2017, respectively.

The LFC and SLC sectors experienced a significant slowdown in credit growth and profitability amidst rapidly increasing NPLs during 2018. Credit growth was negatively affected by the policy measures implemented to curb the importation of vehicles and the credit facilities granted thereof and as a result of the overall slowdown in economic activities. Thus asset growth in the sector was recorded only at 5.6%, down from the 11.8% recorded in 2017. When looking at the deposit growth in the sector, it slowed down to 4.4% in 2018, when compared to the growth of 29.4% achieved in 2017. The sector increased its dependence on bank borrowings over the year due to the flexibility in fund raising and also as a result of the negative public perception towards Licensed Finance Companies, which made fund mobilization through deposits challenging. Further, during 2018, just as the case was in 2017, the asset quality in the sector continued to deteriorate progressively due to the persistent effects of the severe weather conditions that occurred during the previous year and the slowdown in economic activities in 2018. Thus, the non-performing advances (NPAs) increased to 7.7% in 2018 from its position of 5.9% in the previous year. Moreover, when taking the profitability of the sector into consideration, the net interest income recorded a growth of 6% in 2018, which was a slower rate than that of 2017. This was primarily because the interest income of the sector only growing by 4.3% and also because of the increase in interest costs by 2.9%.

CHIEF EXECUTIVE OFFICER'S REVIEW

An Insight into our Performance

The persistent economic slowdown plaguing the country and the lingering effects of natural disasters that occurred in the previous year continued to pose a significant threat to our financial performance for the 2018/19 financial year as well. As a result of this challenging operating environment, we had to significantly reduce the exposure of one of our key income generators, the SME loan product, which effectively experienced a portfolio decline. With this economic depression and the catastrophic weather conditions that badly affected the country, continuing to affect the SME sector of our economy, in addition to the contraction of lending, the NPLs of this product also began to increase. Particularly, the inclement weather conditions that occurred last year, continued to affect the SME sector in the North, North Central, North Western, Sabaragamuwa and Southern provinces of the country and the sluggish economic environment affected our targeted market segments like the construction sector, the rice mills in the North-Central region and inland tourism, especially in the North-Central region.

However, company had already taken a number of calculated strategic steps to confidently and decisively tackle these macroeconomic and industry challenges. In this regard, with the intention of nurturing a healthy lending portfolio mix, primarily consisting of high margin non-asset backed products and comparatively low margin asset-backed products, we redefined our business model, with more weightage to asset-backed lending. Therefore, we were able to weather the storms of the operating environment and actually grow our lending portfolio by 5%, compared to a portfolio drop that was experienced in the previous financial year. In this context, our Gold Loan portfolio grew by 60% to pass the Rs. 2.0 Bn mark for the first time in our history. Further, our Leasing portfolio grew by 26% to also reach the Rs. 2.0 Bn mark. Moreover, within a year of its introduction, our newly designed Vehicle Loan product reached the Rs. 1.4 Bn mark by the end of the financial year. Additionally, we also introduced our new Factoring product during this financial year and implemented a carefully planned, structured rollout, targeting creditworthy corporate entities. By the end of the financial year, we were able to grow this new portfolio to Rs. 309 Mn.

Thus, through the aggressive expansion of our secured loan book, we were able to withstand the adverse effects of the contraction of our SME portfolio and actually grow our Interest Income marginally by 04%. However, with regard to our Non-Interest Income, it declined by 45% due to comparatively lower processing fees as a result of the drop in SME loan disbursements.

At this juncture, we have aggressively set in motion, our reengineered business model with the end objective being to ensure that we are well equipped to face anticipated economic, industry and competitor challenges.

With regard to our funding costs, as a result of effective ALCO management, we were able to actually reduce our interest costs by 03% and go against the industry tide where the industry actually experienced an interest costs increase of 03%. Moreover, this cost reduction was achieved whilst growing our Fixed Deposits portfolio by 04%. It is to be noted that this FD portfolio growth was in line with the industry deposit growth of 04%. We were able to manage and reduce our funding costs by reducing exposure to other borrowings like debentures, negotiating favorable rates with our banking partners and focusing on maturity-based Fixed Deposits. During the year, we undertook the repurchasing of our outstanding debentures and by the end of the financial year; we were able to reduce our debenture portfolio to Rs. 759 Mn from its Rs. 1.4 Bn position.

The company's Cost-to-Income ratio witnessed an increase from the previous year's position of 75% to 83% primarily as a result of issues with the company's topline performance. Essentially, the company's Total Operating Income reduced notably by 04% as a result of drops in Non-Interest Income and the stagnation of Interest Income. Additionally, the marginal increase of 08% in Operating Expenses also nominally contributed to this Cost-to-Income Ratio increase. The company was able to strictly monitor and manage its operating expenses and thus restrict the year-on-year cost increase to a marginal 08%. 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.

CHIEF EXECUTIVE OFFICER'S REVIEW

With regard to the impairment charges incurred during the year, there was a notable uptick where the impairment charges grew by 75%, as a result of the adoption of the SLFRS 09 accounting standard and the rising NPLs that affected the entire Non-Bank Financial Institutions (NBFI) sector. With the transition to the SLFRS 09 accounting standard from the SLFRS 39 standard, there was a change in the impairment calculation model and a shortage of Rs.547 Mn was realized with regard to the cumulative impairment already made. Therefore, in order to provide for this gap we charged this amount to our Retained Earnings as the Day 01 impact of this transition.

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-utilized bank credit lines right throughout the year. Additionally, 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. Moreover, our focus on individual retail investments meant that we have progressively been able to reduce our Top 20 single client exposure.

A Solid Foundation for our New Business Model

At this juncture, we have aggressively set in motion, our reengineered business model with the end objective being to ensure that we are well equipped to face anticipated economic, industry and competitor challenges. It has been twenty years since we started doing business and our ability to successfully face economic and industry challenges coming our way, serves as a fine testament to the trust and confidence that our clientele have placed in us. This trust and confidence is adequately showcased by our ability to grow both our deposit and lending portfolios in line with industry growth rates, during these trying times.

To further drive our business model and position ourselves as a competitive force to be reckoned with in the industry landscape, we have recently successfully implemented a best-in-class centralized integrated IT system, tailor-made for financial institutions, that would help us set in motion, new product innovations and service excellence.

To further drive our business model and position ourselves as a competitive force to be reckoned with in the industry landscape, we have recently successfully implemented a best-in-class centralized integrated IT system, tailor-made for financial institutions, that would help us set in motion, new product innovations and service excellence. We are forging ahead with introducing 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 cognizance of and welcome the new core capital and capital adequacy regimes introduced by the CBSL and we are in the process of introducing new capital into our company to meet these elevated capital adequacy requirements and ratios.

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.

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 organization.

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. ASHOK PATHIRAGE
Chairman

MR. AARON RUSSELL-DAVISON
Deputy Chairman

MR. HARESH KAIMAL
Non-Executive Director

MR. DUSHAN SOZA
Independent
Non-Executive Director

MR. NILANTHA BASTIAN
Independent
Non-Executive Director

MR. CHRIS COREA
Independent
Non-Executive Director

BOARD OF DIRECTORS PROFILES

MR. ASHOK PATHIRAGE
Chairman

Mr. Ashok Pathirage, recognized 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 11,000 employees. Mr. Pathirage gives strategic direction to the Group, which has a leading market presence in six core and non-core vertical sectors – Retail, Healthcare Services, Financial Services & IT and Leisure & Automobiles.

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

MR. AARON RUSSELL-DAVISON
Deputy Chairman

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

Mr. Aaron 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 Hypovereinsbank. 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. Nalin 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 being appointed as CEO, he served as the Deputy CEO of the Company. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, 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 People's 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 40 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.

BOARD OF DIRECTORS PROFILES

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 organizations. 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 took 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 01st August 2017. With over 30 years of experience in IT and Operations, he currently heads the IT division of the Group and has been instrumental in driving advancements in Information Technology and Enterprise Resource Management within the Softlogic Group. He is an Executive Director of Softlogic BPO Services (Pvt) Ltd, a Director of Odel PLC, Softlogic Life PLC and many other Group Companies.

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. NALIN WIJEKOON
Executive Director/CEO

MR. AARON RUSSELL-DAVISON
Deputy Chairman

MR. LOHIKA FONSEKA
Chief Operating Officer

MR. SANJEEWA PREMAWARDANA
Chief Financial Officer

EXECUTIVE MANAGEMENT

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. 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.

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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 organizations 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. 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 Hypovereinsbank. 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. SANJEEWA PREMAWARDANA
Chief Financial Officer

Mr. Premawardana has over 22 years of experience in the Banking Sector and has held Senior Management positions in several organizations 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.

EXECUTIVE MANAGEMENT PROFILES

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 19 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.

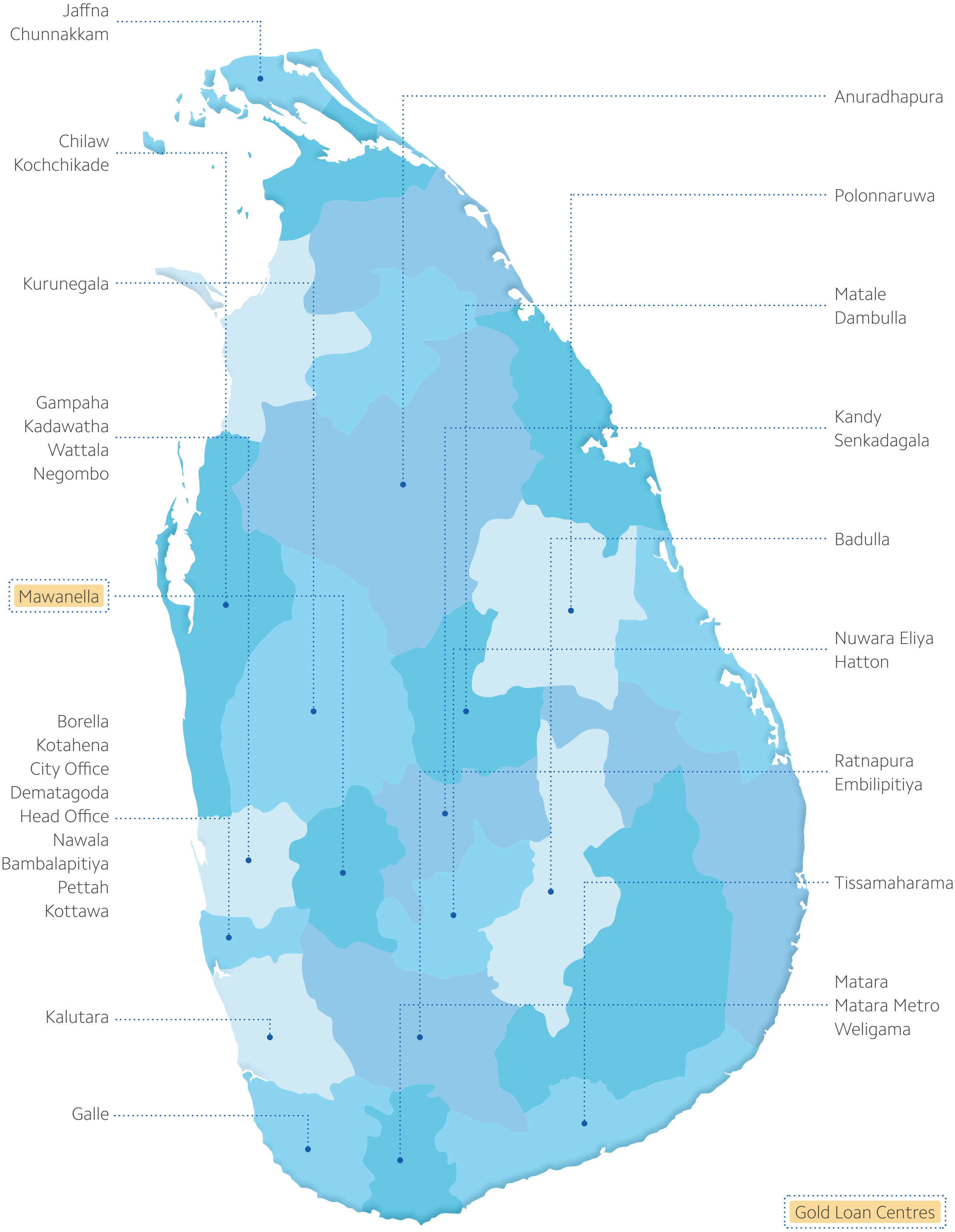
Mr. ASANKA DE ALWIS
Head of Recoveries

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

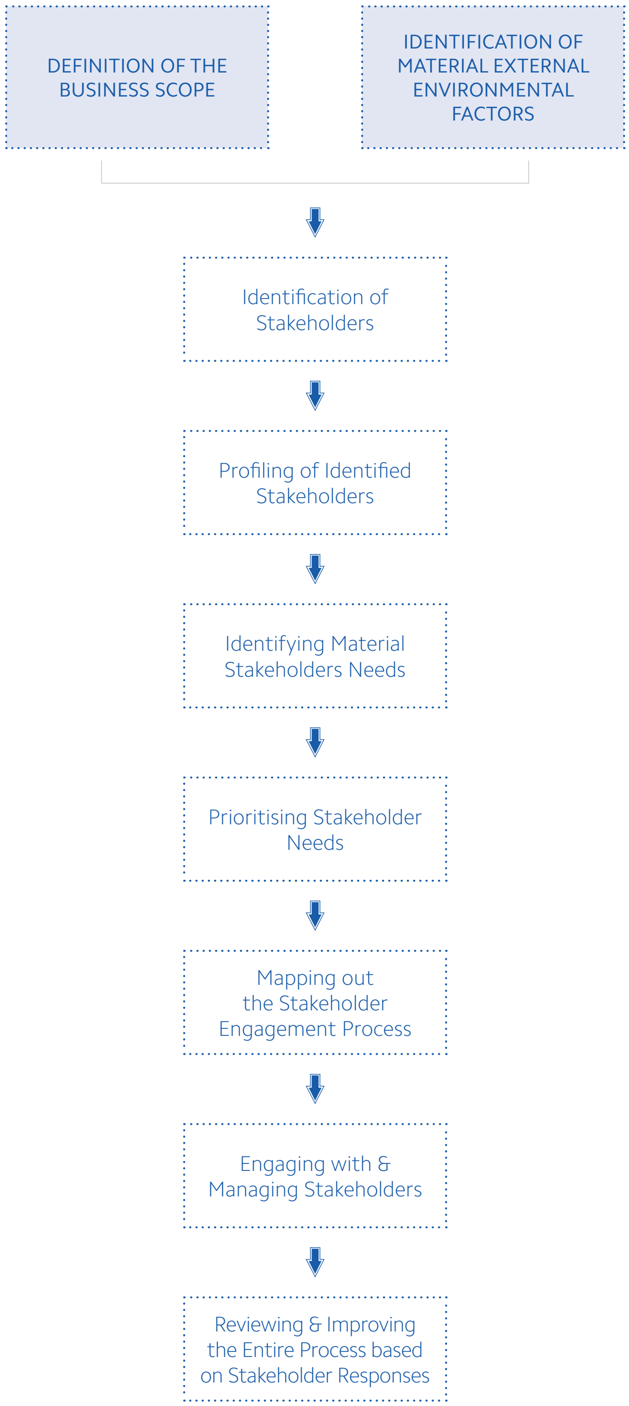
Ms. Wimalatunga transferred to Softlogic Finance PLC from the Asiri Hospitals Group with effect from October 2017 as its Head of Legal and overlooks the Legal Division of the company. She has over 8 years of experience in the legal field and has held senior management positions in several organizations 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.

OUR GEOGRAPHICAL FOOTPRINT



OUR APPROACH TO VALUE CREATION

STAKEHOLDER IDENTIFICATION AND ENGAGEMENT



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 formalized 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.

STAKEHOLDER IDENTIFICATION AND ENGAGEMENT

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 prioritize 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 prioritization by the stakeholder.

These two broad questions are always asked when deciding upon the significance of stakeholder issues and the level of priority that the company should assign to them. 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 & Investors	• Annual Financial Statements • Quarterly Financial Statements • Annual General Meeting • Extraordinary General Meetings as and when statutorily necessary • Media Releases • CSE Website • Company Website	From company perspective • Increased Shareholder confidence in the Board From stakeholder perspective • Increase in Share Price • Regulatory Compliance • Declaration of Dividends • Adoption and maintenance of best practices in corporate governance • Adoption of industry best practices
Customers	• Personalized interactions • Customer complaint handling process • Customer Satisfaction Surveys • Market Surveys • Communication through multiple media platforms	From company perspective • Customer Loyalty • Enhanced Brand Value and Brand Penetration • Increased Customer Satisfaction • Increased Cross Selling From stakeholder perspective • Ethical business practices and full disclosure of product information • Competitive Interest Rates on Lending & Deposits • Innovative products and services

STAKEHOLDER IDENTIFICATION AND ENGAGEMENT

Stakeholder Type	Engagement Approach	Expected Outcomes
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
Suppliers & Value Added Service Providers	• Dedicated personnel to interact with different types of suppliers and service providers on a continuous basis • Prioritized engagement with local suppliers • Mutually beneficial, long term relationships being the focus during contractual negotiations	From company perspective • Favourable funding facilities • Seamless execution of outsourced services From stakeholder perspective • Strategic partnerships to obtain competitive advantages • Long term service contracts

STAKEHOLDER IDENTIFICATION AND ENGAGEMENT

Stakeholder Type	Engagement Approach	Expected Outcomes
Regulators	• Dedicated personnel for continuous, personalized 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

STAKEHOLDER IDENTIFICATION AND ENGAGEMENT

Management of Stakeholder Issues

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

Source of Issue	Issue Description	Stakeholder Expectation	Company Response
Customer	Ethical marketing practices	All relevant product information to be fully disclosed before entering into any agreement	All marketing material and communication processes have been developed as per Central Bank requirements and all marketing material is vetted by the Central Bank prior to publication
Customer	Customer complaints	Prompt handling of customer inquiries and complaints	Establishment of a customer complaint handling process. We continuously review this process and take steps to strengthen it.
Employee	Rewards and recognition	Objective and transparent system for deciding on rewards and recognition	Transparent performance appraisal system where employees know the grading methods and criteria beforehand. Explanations and clear development paths given on appraisals made
Employee	Training and professional development	Regular access to training and availability of career development opportunities	Based on training needs determined beforehand, multiple training programs are held each month with internal and external resource personnel. Priority is given to internal recruitment for all vacancies that arise
Society and the Environment	Environmental conservation	Avoidance of business practices that would harm the environment and contributing to environmental conservation	Public waste management has been focused upon with our "Clean Zone" initiative, which is expanded in tandem with our growing branch network. Further, public education of waste disposal methods is done through our branch network
Suppliers & Value Added Service Providers	Long term service contracts	Mutually beneficial, long term contracts for service provision	As per our procurement processes, we strive to enter into mutually beneficial, long term service contracts at all given opportunities.
Regulators	Regulatory compliance	Consistent compliance with regulatory requirements across all business operations	We have ensured that employees are trained and are well aware of Central Bank requirements applicable to their sphere of operations. Regular internal awareness sessions are conducted in this regard and dedicated resource personnel are available to process any employee queries. Further, all employees have access to Central Bank regulations through the company intranet

OUR VALUE CREATION MODEL

VISION, MISSION & VALUES

CORPORATE PLANNING & STRATEGY DEVELOPMENT

VALUE DRIVING INPUTS

FINANCIAL CAPITAL
- Budgeted Profitability & Balance Sheet Growth
- Optimum Product Mix
- Capital Structure & 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 & Investment Advisors
- Insurers
- Outsourced Service Providers
- Regulators, CRIB & Rating Agencies

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

INTELLECTUAL CAPITAL
- Industry Expertise & Industry Network
- Organizational Knowledge Base
- Best Practices & Process Excellence

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

VALUE GENERATION & ENHANCEMENT PROCESS

FINANCE & 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 & ISSUING FINANCIAL INSTRUMENTS

LENDING

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

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

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

PERSONAL FINANCING
- Consumer Loans
- Personal Cash Loans
- Group Personal Loans
- Gold Loans
- Loans Against Fixed Deposits

MARKETING

CREDIT

COLLECTIONS & RECOVERIES

BEST PRACTICES, INTERNAL POLICIES & PROCEDURES

RISK MANAGEMENT

CORPORATE GOVERNANCE

OUR VALUE CREATION MODEL

VISION, MISSION & VALUES

CORPORATE PLANNING & STRATEGY DEVELOPMENT

ENHANCED & VALUE DRIVEN OUTPUTS

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

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

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

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

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

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 & PROCEDURES

RISK MANAGEMENT

CORPORATE GOVERNANCE

CORPORATE STRATEGY ON VALUE CREATION

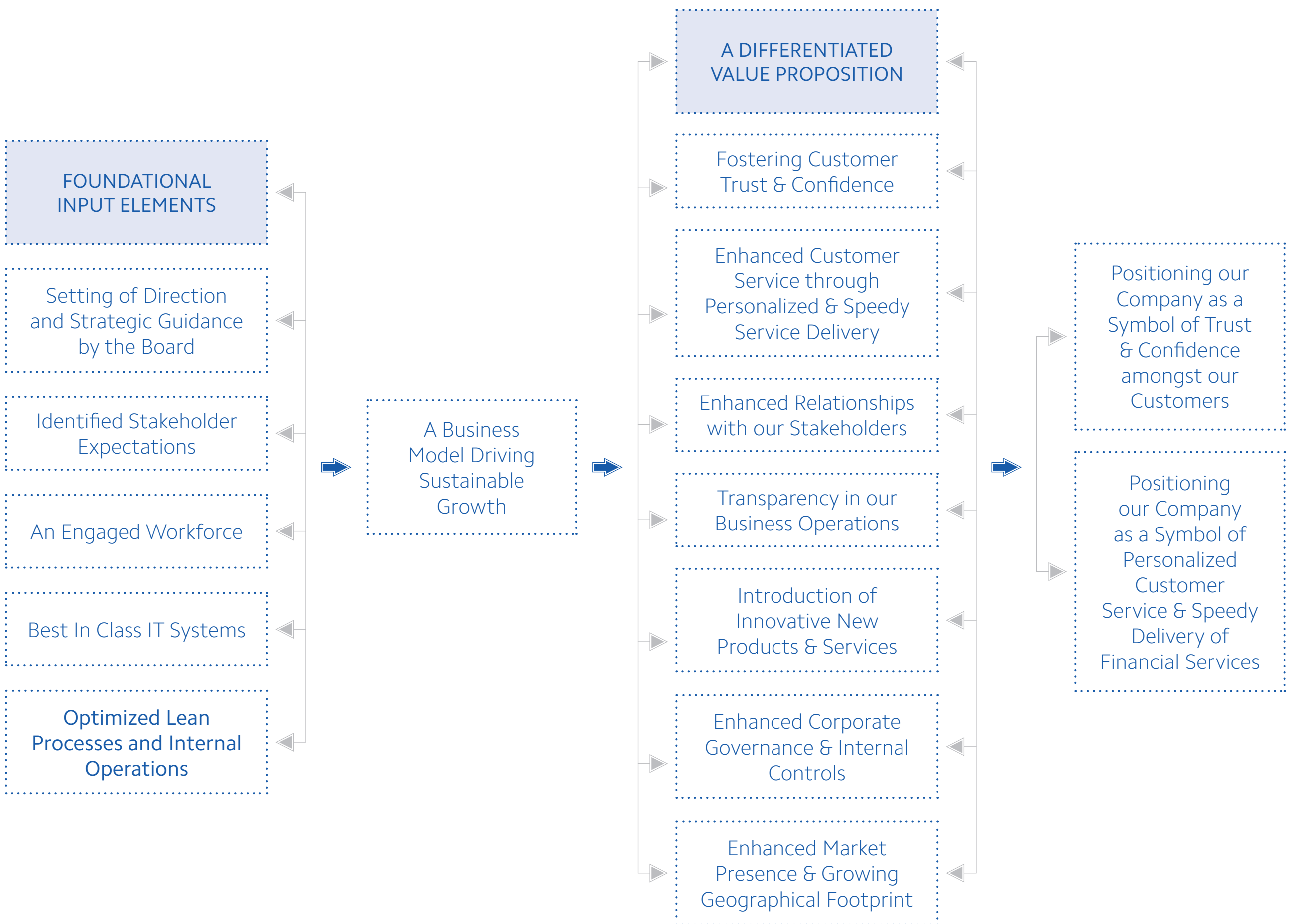
OUR BUSINESS MODEL AND CORPORATE STRATEGY EXECUTION

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, our Vehicle Loans product, our Factoring product and grow our Leasing and Gold Loan portfolios through aggressive marketing efforts.



CORPORATE STRATEGY ON VALUE CREATION

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

INFRASTRUCTURE CAPITAL

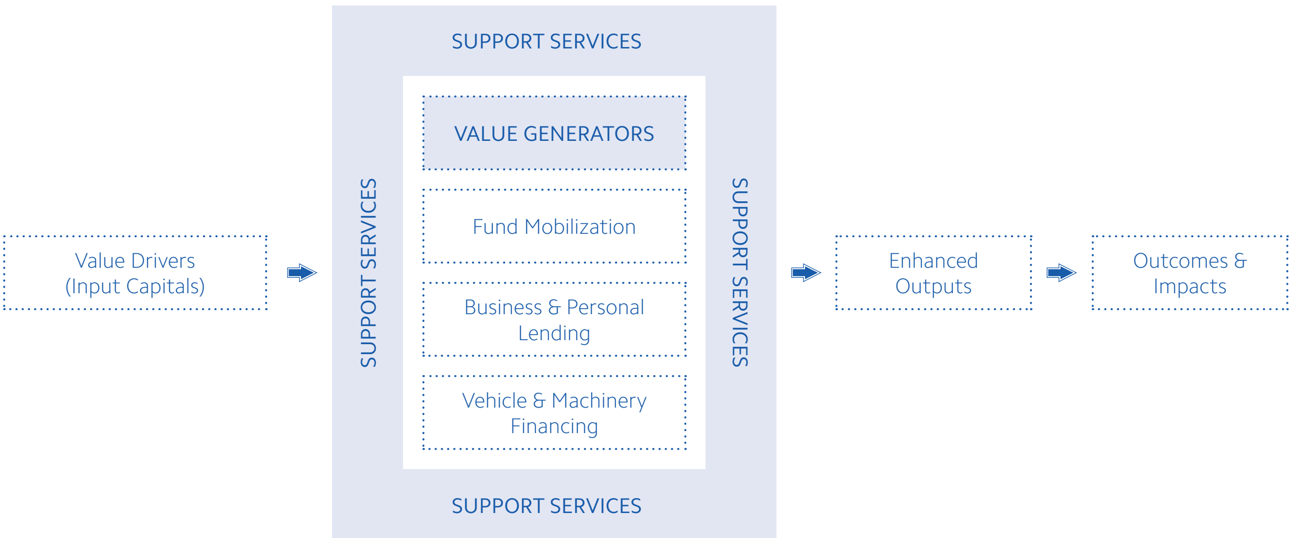
Infrastructure Capital that is brought into the process is the continuous expansion of our branch network, the substantial investments made in implementing best in class IT systems and the ATM partner network that is in the pipeline that would further enhance customer convenience.

CORPORATE STRATEGY ON VALUE CREATION

The Value Generation Process

The onus on our value generation process is to manage and effectively utilize the input capitals in order to produce the desired outputs whilst ensuring that the economic, environmental and social impacts of our business are managed as planned. In order to generate the expected value from our fund mobilization, specialized business financing, regular business financing, vehicle and machinery financing and personal financing activities, 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 maximize the value we create for our stakeholders. In the long term, adherence to the value creation processes in our business model helps us to manage the expectations of all our stakeholders and create win-win situations for all of them.



The Immediate Outputs

Our value generating process 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 categorized as:

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

The Outcomes & Impactss

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

KEY VALUE DRIVERS
FINANCIAL CAPITAL

Impacts on Profitability

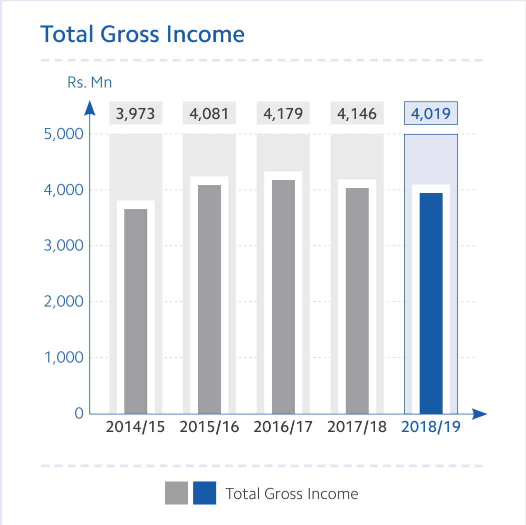
For the 2018/19 financial year, the company posted a subdued Net Profit After Tax of Rs. 204 Mn, which represented a 7% decline from the previous year's Net Profit After Tax of Rs. 219 Mn. This contraction in our financial performance was primarily due to the sluggish growth we experienced in our Interest Income as a consequence of our shift from our unsecured SME working capital loan product to securitized loan products like leasing, vehicle loans and gold loans. We took a deliberate and calculated decision to reduce the exposure of our SME loan portfolio due to the macroeconomic challenges created by the economic slowdown during the year and the natural disasters that occurred in 2017 that continued to have lasting repercussions on the SME sector in the affected areas of the country. Further, there was a notable uptick in our impairment charges also, which grew by 75%, as a result of the adoption of the IFRS 09 accounting standard and the rising NPLs that affected the entire Non-Bank Financial Institutions (NBFI) sector.

Even though external factors such as a sluggish economy, lasting effects of inclement weather conditions, industry-wide deteriorating asset quality and the general increase in interest rates affected our bottom line during the year under review, with the aggressive rollout of our reengineered business model that is currently underway, which has repositioned our value proposition offered to our customers in terms of secured lending and fund mobilization, we are extremely confident that we would be able to consistently improve our financial performance in a sustainable manner in the medium and long term.

Income Analysis

During the year under review, in terms of Interest Income, we were able to post a modest year-on-year increase of 4% from Rs. 3.5 Bn to Rs. 3.7 Bn. However, in the context of Total Gross Income, which collectively contains Interest Income, Fee and Commission Income and Other Operating Income; we experienced a 3% drop from Rs. 4.1 Bn to Rs. 4.0 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 the strategic shift towards collateralized lending, triggered by a host of macroeconomic factors.

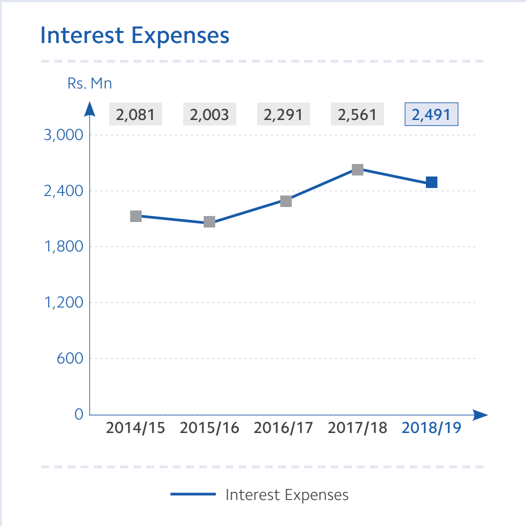
Further, with regard to Non-Interest Income also, we experienced a 45% drop primarily as a result of the year-on-year drop in Fee Income by 52% caused by contractions in SME loan disbursements.



When analyzing the product-wise income contributions, on a year-on-year context, we experienced noteworthy interest income increases in our Gold Loan product, our Leasing and Vehicle Loan products and our "Atha Hitha" Small Business Loans product. With reference to our Gold Loan product, there was a year-on-year increase of 70 % 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. Moreover, spurred by our reengineered business model, the Interest Income generated from our Leasing product grew by 238% when compared to the previous financial year. With the accelerated growth rate that our Leasing portfolio and the Vehicle Loan product is experiencing, we are in a prime position to experience income growth from both these products in the upcoming years.

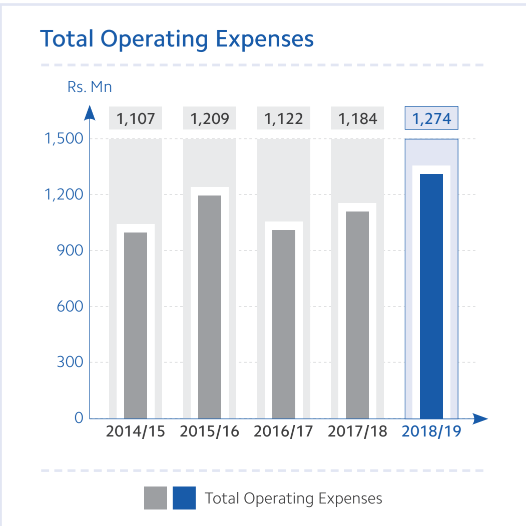
Interest Costs Analysis

During the year under review, the interest costs of the company decreased by 03% in the backdrop of a generally high interest rate environment that existed especially during the second half of the financial year under review. We were actually able to reduce our Interest Costs by 03% whilst the industry interest costs actually increased by 03%, with our effective ALCO management. Further, in an effort to further manage the interest costs, we directed our focus towards the mobilization 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.



Cost Management

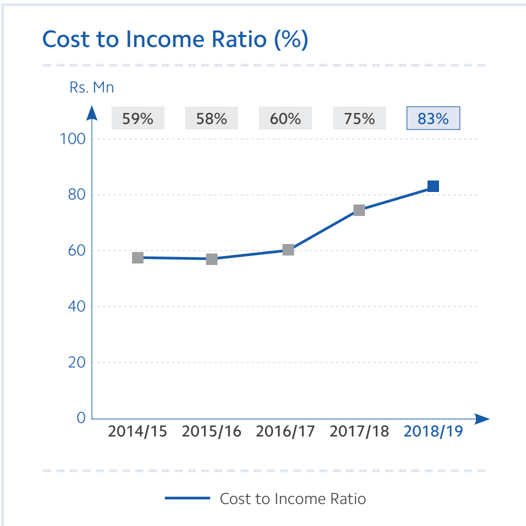
During the financial year under review, the company was able to effectively manage its operational expenses through the numerous cost management initiatives it undertook. Thus when compared to the previous year, the company's Operating Expenses grew only by a nominal 08%. This was as a result of an overarching 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 analyzing the composition of Operating Expenses, it is seen that Personnel Costs amount to 35% of the total Operating Expenses. In order to ensure that this cost is effectively controlled, especially in light of the recently implemented state-of-the-art integrated IT system, 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 59% of total Operating Expenses and consist of administrative, marketing, maintenance and professional expenses, among others. Continuous action was taken to streamline and re-engineer internal processes, minimize wastage, renegotiate contractual terms with vendors and execute various cost saving initiatives in order to control these costs. The result being that the company was able to increase its efficiencies and productivity, whilst managing its cost exposure.

The company's Cost-to-Income Ratio for the year under review stood at 83%, primarily as a result of issues with the company's topline performance. Essentially, the company's Total Operating Income reduced notably by 04% as a result of drops in Non-Interest Income and the stagnation of Interest Income. Additionally, the marginal increase of 08% in Operating Expenses also nominally contributed to this Cost-to-Income Ratio increase.



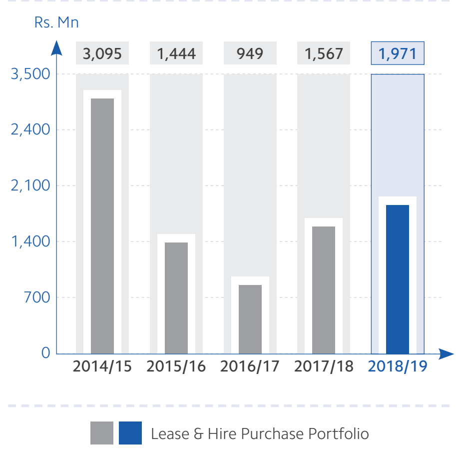
Lending Portfolio Analysis

The total Net Lending Portfolio of the company increased by 05% from Rs. 17.4 Bn as at 31st March 2018 to Rs. 18.2 Bn as at 31st March 2019. This lending portfolio growth was spurred primarily by significant growth experienced in the Gold Loan, Leasing, Vehicle Loan and the "Atha Hitha" Small Business Loan products. The company was able to deliver this portfolio growth during the year, in the backdrop of the deliberate downsizing of our unsecured SME working capital loan portfolio as a result of the stagnant economic conditions that had a depressing effect on the SME sector of the country and past natural disasters still having last repercussions on this sector. Further, this overall portfolio growth was also achieved whilst the coming decided to reduce its focus on Personal Financing, which also led that portfolio to drop.

This portfolio growth serves as clear evidence of the aggressive drive of the recently reengineered business model of the company, with its amplified focus on collateralized lending like leasing, vehicle loans and gold loans and high margin non-asset backed lending in terms of its "Atha Hitha" small business loan product.

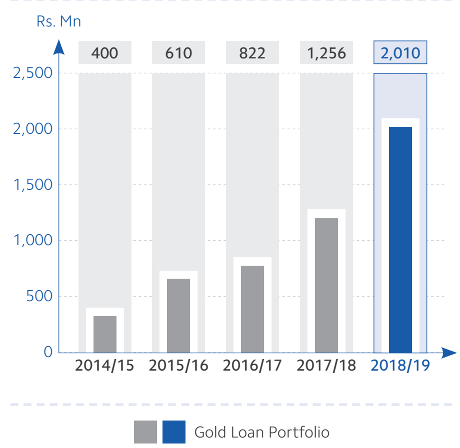
Driven by the company's renewed strategic focus on collateralized lending as a result of the realigned business model, the company aggressively pushed its entire newly re-launched leasing product range during this financial year. In effect, the company experienced a resultant formidable year-on-year growth of 26% in its Net Leasing Portfolio from Rs. 1.6 Bn as at 31st March 2018 to Rs. 2.0 Bn as at 31st March 2019. 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.

Lease & Hire Purchase Portfolio



The company's Gold Loan portfolio experienced a year-on-year growth of 60% during the 2018/19 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 optimize the customer experience without compromising on internal checks and balances.

Gold Loan Portfolio



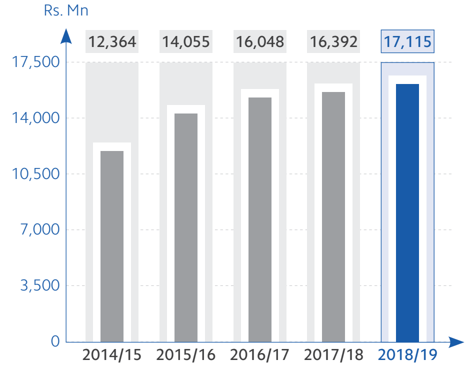
Liquidity Management

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. 553 million in excess of the minimum regulatory level. Further, the company maintained unutilized credit lines right throughout the year and as at 31st March 2019, had access to Rs. 167 million in unutilized credit lines.

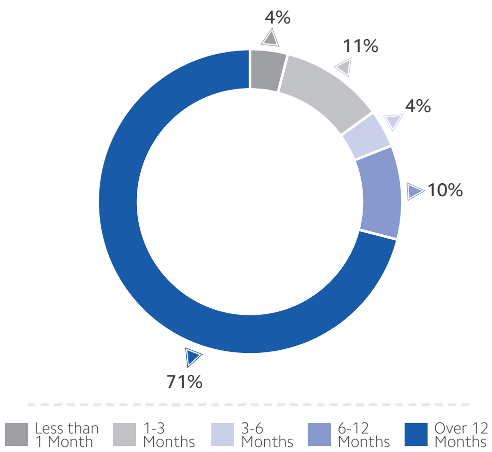
Deposit Portfolio Analysis

For the 2018/19 financial year, the company was able to grow its public deposit portfolio from Rs. 16.4 Bn to Rs. 17.1 Bn, which signifies a 04% year-on-year growth. This growth is in line with the industry growth rate of 4% for 2018. During the early part of the 2018/19 financial year, there was a marginal drop in interest rates, making it not an ideally conducive environment to mobilize deposits. However, towards the end of 2018, the interest rates rose, even though it showed an overall decline on a year-on-year basis when compared to 2017. In this backdrop, we continued with our strategy of crafting a stable deposit base for the future by adopting a two-pronged approach with regard to fixed deposit mobilization. The strategy was to encourage the mobilization of time deposits for periods of over 01 year and carrying maturity based payment methods. Further, we planned to operationalize 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.

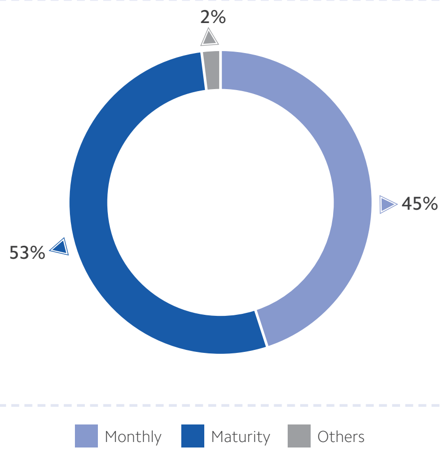
Customer Deposits Base



Fixed Deposit Portfolio – Period-wise

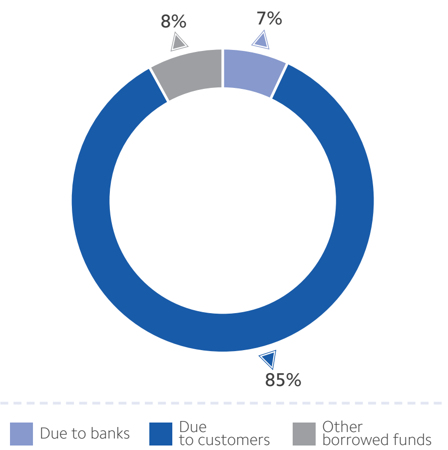


Fixed Deposit Portfolio –Payment Method-wise

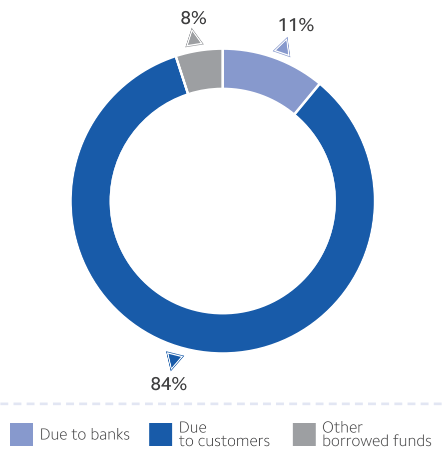


Overall, when looking at the company's funding mix, it is seen that the company's reliance on public deposits has comparatively decreased slightly to 84% in 2018/19 from its position of 85% in 2017/18. The fact that there was no major decrease in the dependency on public deposits signifies the company's ability to draw in public funds even in the face of increased competition from other financial institutions, based on the trust the customers have on the company. Further, armed with its strategy of focusing on long term maturity based time deposits, the company continued its focus on mobilizing this comparatively cheaper funding line at the expense of issuing other financial debt instruments, even though there was a short term uptick on the dependency on bank borrowings spurred by an increase of short term bank borrowings. However, the dependency on other funding sources such as debentures decreased as we continued to buy back our issued debentures during the course of the year.

Funding Mix 2017/18



Funding Mix 2018/19



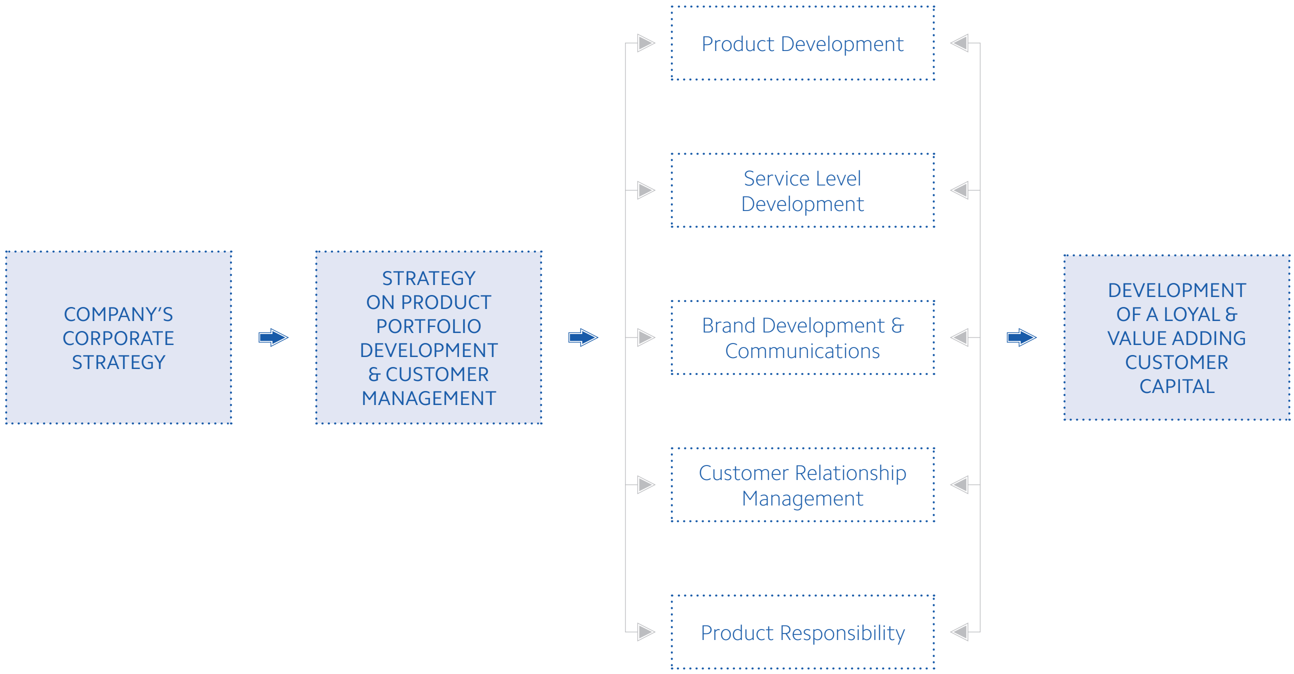
CUSTOMER CAPITAL

Management Approach

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

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

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 formalized 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 mobilization 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
- Factoring

Fund Mobilization Products

- Fixed Deposits
- Savings

Achieving Service Excellence

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

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

An Overview of Measures taken to drive Customer Excellence

- 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 organization, 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 implemented an organization-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, 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.

Product Responsibility

We ensure that all our business transactions with our customers are carried out in an ethical and transparent manner and we ensure that we give primacy to educating the customer of the features of our products and the conditions that they entail. The personalized customer engagement process that we have adopted in dealing with our customers helps us to directly interact with the customer on a one-on-one basis and explain to them all the relevant financial and legal implications that their financial transactions with us entail.

Fairness and Transparency in Customer Interactions

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

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

Anti-Competition

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

Anti-Corruption

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

Customer Privacy

As a 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 organization has been recognized by our management as the driving force behind future business expansion. With the planned expansion of our branch network and the implementation of our integrated IT system, we are positioning ourselves to achieve customer loyalty and sustainable business growth in the future, across all product lines.

KEY VALUE DRIVERS
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 localized 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 realized.

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

KEY VALUE DRIVERS
BUSINESS PARTNER CAPITAL

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 personalized 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 & 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 & 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
- Specialized Recovery Service Providers

With these strategic partners, the focus is on forming long-term strategic partnerships to facilitate the realization 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 specialized services like IT infrastructure development. Moreover, other strategic partners assist in business development by acting as distribution-channel facilitating agents for our products such as 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.

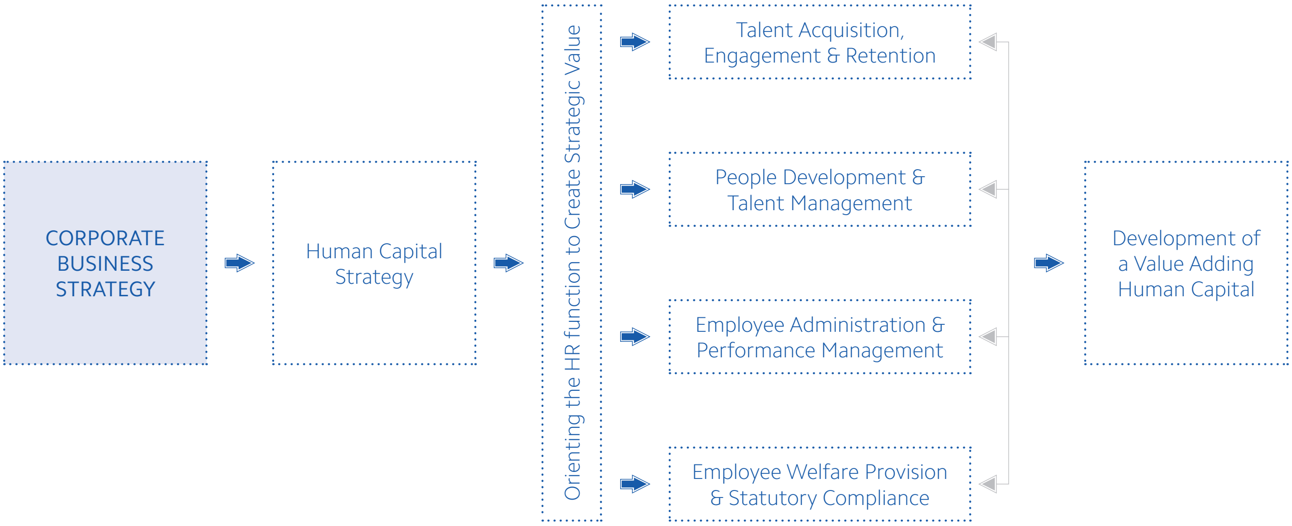
While both parties can mutually benefit from this partnership, from our end, we take the initiative to engage with our regulators and ensure that issues are resolved without delay so that our operations are never compromised. All regulatory reporting and disclosures are performed in the context of partnership 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 recognized 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 centralized 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 –** Conducted 80 training programs during the year.
- **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 utilization and management.
- **Expansion of our E-Training Program –** Since its introduction, 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 organization.
- **Short Leave Facility –** A Short Leave facility of 2 hours per month was introduced.
- **Introduction of a Comprehensive Network-Wide Fire Safety Mechanism –** We re-appointed Fire Wardens and Evacuation Officers from each branch and department and conducted training programs and live drills to test our ability to face fire emergencies.
- **Loan Facilities for Internal Staff –** Personal Loans and Vehicle Loans facilities have been introduced with special interest rates for the internal staff

Key HR Indicators

Key HR Indicators	2018/19	2017/18
Employee Head Count	528	551
New Recruitments	130	216
Internal Transfers	94	57
Promotions	24	28
No. of Training Programs	80	122
No. of Training Hours	7230	9846
Investment In Training	Rs. 2.8 Mn	Rs. 5.0 Mn
Total Income Per Employee	Rs. 7.6 Mn	Rs. 7.5 Mn
Net Profit After Tax Per Employee	Rs. 0.4 Mn	Rs. 0.4 Mn
Staff Costs Per Employee	Rs. 0.8 Mn	Rs. 0.8 Mn

Employee Composition Analysis

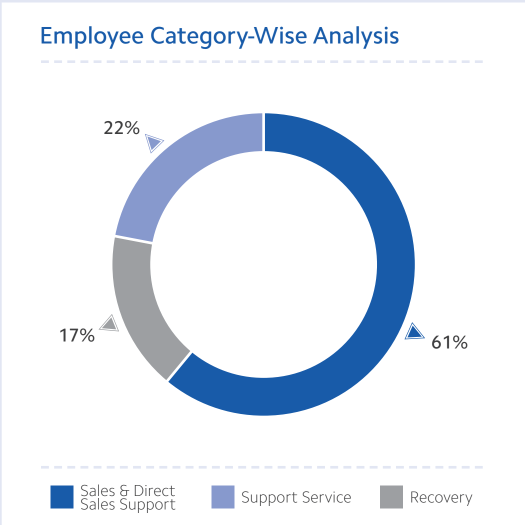
Management Approach

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.

Employee Category-Wise Analysis

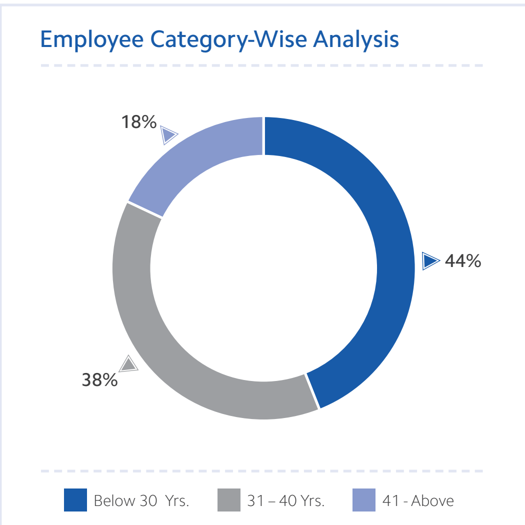
Employee Category	2018/19		2017/18		2016/17	
	Number	Percentage	Number	Percentage	Number	Percentage
Sales & Direct Sales Support	324	61%	340	62%	282	58%
Recovery	87	16%	96	17%	94	19%
Support Services	117	22%	115	21%	114	23%
Total	**528**	**100%**	**551**	**100%**	**490**	**100%**



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	2018/19		2017/18		2016/17	
	Number	Percentage	Number	Percentage	Number	Percentage
Below 30 Yrs.	233	44%	288	52%	218	44%
31 – 40 Yrs.	201	38%	192	35%	191	39%
41 - Above	94	18%	71	13%	81	17%
Total	**528**	**100%**	**551**	**100%**	**490**	**100%**

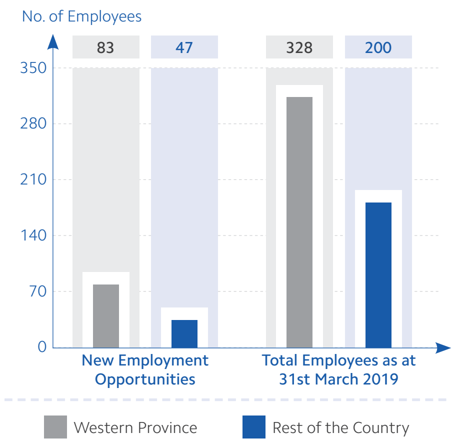


We have consistently invested in maintaining a healthy mix of employees when it comes to age distribution in order to have the ideal mix of young talent and experience to drive the strategic needs of our business. In recent years, we have increasingly focused on hiring young talent with diverse skill 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	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
New Employment Opportunities	145	83	71	47	216	130
Total Employees as at 31st March	**345**	**328**	**206**	**200**	**551**	**528**

Geographical Distribution of Employees



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

Talent Acquisition and Retention

Key Indicators

Indicator	2018/19	2017/18
No. of External Recruitments	130	216
No. of Internal Recruitments (Transfers)	94	57
No. of Promotions	24	28

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	2018/19	2017/18
Sales & Direct Sales Support	71	34
Recovery	17	11
Support Services	6	12
Total	**94**	**57**

External Recruitments by Employee Category

Employee Category	2018/19	2017/18
Sales & Direct Sales Support	91	160
Recovery	12	18
Support Services	27	38
Total	**130**	**216**

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

Service Period Analysis as at 31st March 2019

No of Years	No of Staff in each category		
	Senior Management	Manager/ Executive Level	Others
15 & Above	3	16	0
10-15	2	10	0
5-10	6	114	11
1-5	14	149	76
Below 1 year	0	61	66
Total	**25**	**350**	**153**

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

Performance Appraisal System

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

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

Promotions by Employee Category

Employee Category	2018/19	2017/18
Sales & Direct Sales Support	16	17
Recovery	1	4
Support Services	7	7
Total	**24**	**28**

Remuneration & Rewards

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

People Development

Key Indicators

Indicator	2018/19	2017/18
No. of Training Programs	80	122
No. of Training Hours	7230	9846
Investments In Training	Rs. 2.8 Mn	Rs. 5.0 Mn

Management Approach

Our philosophy towards employee training and development is to attempt to bring out the best version of our employees. The overarching goal that we have in mind is to foster a learning culture within our organization. We are committed to providing opportunities for employees to continuously enhance their existing skills and competencies. A significant amount of resources and time is invested to continuously develop the skill pool in light of changing organizational needs. Our training and development plans are formulated based on a multitude of factors. Broadly, we take into account the following factors:

- Strategic organizational development needs
- Succession planning
- The performance skill gaps of employees and training needs identified during the annual performance appraisal process
- Technical training requirements with regard to our products (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

Type of Training Program	No. of Programs 2018/19	No. of Programs 2017/18
External	38	50
Internal	31	60
Internal (With External Trainers)	11	12
Total	**80**	**122**

Gross No. of Employees Trained By Employee Category

Employee Category	2018/19	2017/18
Sales & Direct Sales Support	387	357
Recovery	110	78
Support Services	58	128
Total	**555**	**563**

During this financial year, we conducted 80 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 recognized 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 organized a number of training programmes with industry bodies such as the Central Bank of Sri Lanka (CBSL), The Finance Houses Association of Sri Lanka (FHASL), The Institute of Credit Management (ICM) and the Institute of Bankers of Sri Lanka (IBSL) to enhance and cultivate job specific competencies required to achieve performance excellence.

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 organizational performance. In this context we have set in motion a number of measures to ensures that our employees work at their optimum productivity levels.

We have taken steps to provide our employees with a work environment and an organizational operating structure that is conducive to nurturing employee productivity. This has been identified as important as these factors directly affect employee motivation. Further, we have undertaken to continuously adopt industry best practices and re-engineer our processes to facilitate employee productivity. In this regard, if the necessity arises, we are 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 standardized provision of employee welfare to be a decisive component of employee management and development. We go above and beyond the minimum statutory requirements when modelling our employee benefit schemes in order to be on par with and go beyond industry standards. Our approach to the provision of employee welfare has resulted in increased employee productivity and employee loyalty.

Employee Wellbeing

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

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

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

Employee Health & Safety

In order to provide all our employees across our entire branch network with a safe and healthy work space, we expend a considerable amount of resources to ensure that the right infrastructure and operational processes are in place, in this regard. Based on constant assessments done by our Operational Risk department across our entire network, we take measures to anticipate identified occupational health and safety risks and take preventive measures to minimize the impacts of their occurrence. For example, we have comprehensive fire safety procedures in place and we regularly conduct planned and unplanned fire drills, fire safety training, the maintenance and upgrading of fire safety equipment and have appointed trained fire wardens 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 organizing a host of sports and recreational activities in order to promote a work-life balance and a collaborative work culture amongst our employees. During the year, for example, our Recreation Club organized a number of sports activities, religious activities, New Year celebrations, staff parties and the annual dinner dance. 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 organized 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.

Employee Engagement Methods

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

Key Concerns	Our Response	Engagement Method	Frequency
Employee Grievances & Suggestions	Grievance Redressal Procedure & Discussions of key issues at the Executive Committee (EC) meetings.	Open door policy at all levels of management and the provision of formalized procedures to ensure grievance redressal.	As and when required
Operational issues, business performance issues, internal procedures related issues.	Discussion, delegation & progress tracking at 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

- Softlogic Finance continues to strengthen its Training & Development process, offering numerous training programs at all levels using various strategic tools and designing training programs which address current learning requirements and critical business areas. In line with the Company's corporate objectives, the HR team was able to successfully organize trainings on Leadership, Motivation, Service Excellence, etc. Also other internal training programs are constantly being organized and developed to enhance technical awareness amongst staff members whilst they are continuously being trained on internal business areas such as new system implementation and product development. Apart from the above, we always focus on developing our people by engaging with external training institutes namely the Central Bank of Sri Lanka (CBSL), Institute of Credit Management, Institute of Bankers of Sri Lanka (IBSL), Finance Houses Association of Sri Lanka (FHA) and other reputed government and private training institutes.
- Annually, the Management continues to offer special opportunities to follow the Diploma in Credit Management conducted by the Institute of Credit Management for selected staff members who have shown high level of performance in the previous year, which also has aided to motivate employees.

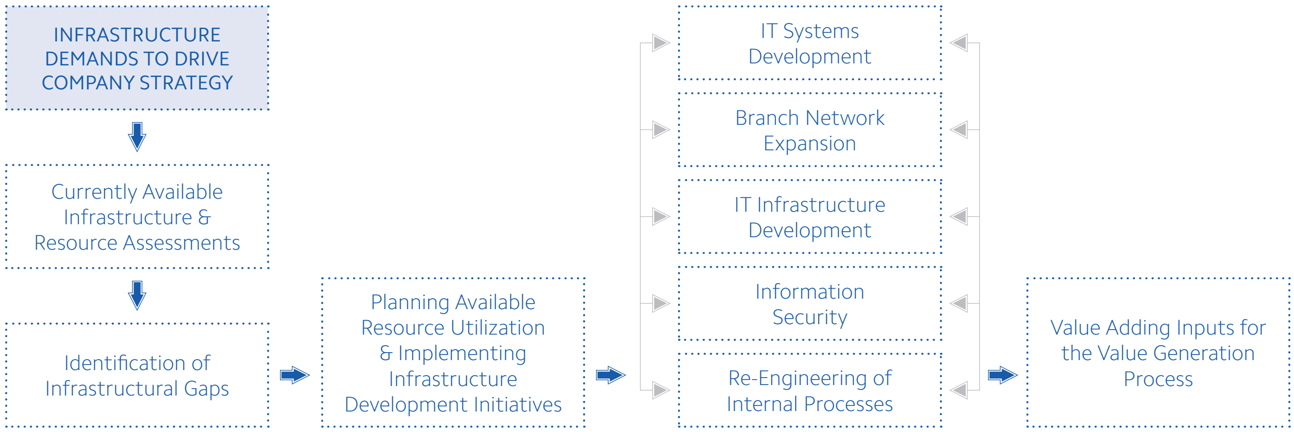
Performance Management

- Employee commitment and motivation is a high corporate priority and therefore, we continue to invest in developing employee skills and providing growth opportunities for all our employees, to build employee confidence and motivation.
- Softlogic Finance monitors and manages employee performance using a well-known performance monitoring tool the Balanced Score Card and increments in the past have been based taking into account performance during that year and distributed according to the Bell Curve.
- The 2019/20 increments have been decided according to the performance objectives realized during 2018/19 and lower/under performers would be getting low or no increment and opportunities to improve their performance.
- Out of 525 employees, 413 were eligible for annual increments. Employees in Probation employment were not included. Salary enhancements were made to 24 staff members who were promoted, and special consideration was made to 82 critical staff members who warranted such increases.
- The Company successfully completed the Performance Management System (PMS) during the year under review, which further strengthened and developed a performance-oriented culture through the identified Key Performance Indicators (KPIs) within the organization. This program empowers and enables employees at all levels to take up higher responsibilities, based on the needs of the Company. The program synchronized the requirement for rewarding employees on performance that met with the need to conform to this highly motivational performance culture. We are confident that the PMS system-based culture linked with the reward mechanism will be a major contributory factor towards enhancing the overall performance and thereby profitability of the company in the years to come.
- In addition, an Individual Development Plan (IDP) system will be mapped out to enable long term life and career goals for our employees. The IDP will help our employees manage their career and growth aspirations and help achieve developmental objectives by setting milestones at different career development levels. Opportunities for employees to build team spirit among colleagues were also carried out during the year.

Recruitment & Retention

- Extension of our Internship Program – In line with the purpose of bringing in new and young talent into the organization, we will be further developing this program to attract diverse and high calibre talent to fuel the future growth of our organization.
- HR Network Head-hunter Program – We have established links with universities and professional bodies to facilitate targeted recruitment and we will continue to actively participate in job fairs.
- Continuation of our Internal Recruitment Program – This successful program that we have undertaken has helped improve employee motivation and morale as it has provided many of our employees with career development opportunities. Whenever recruitment needs arise, first priority will continue to be given to any available internal resources of the required calibre.
- 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.

KEY VALUE DRIVERS
INFRASTRUCTURE CAPITAL



Our Strategic Intent and Infrastructure Capital

Infrastructure capital has long served as one of the foundational inputs to the operationalization 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 have recently been introduced 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 optimize the personalized 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 & IT Audits.
- IT/ Technological enhancements and upgrades being reviewed and provided for during annual planning.
- Engaging external professional consultants with regard to the improvement of existing controls
- Regular review of internal processes and controls in order to minimize system frauds
- 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

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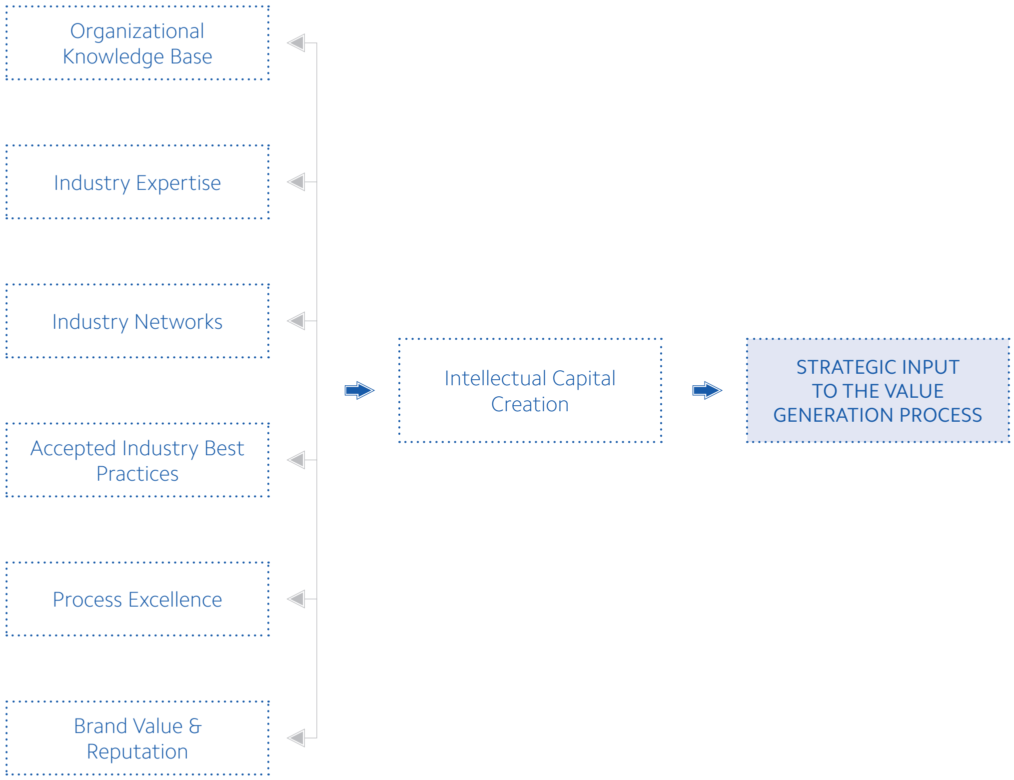
CUSTOMER SERVICE ENHANCEMENT

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

In line with our commitment to customer service excellence and the continuous improvement of customer 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 personalized and relaxed customer engagement, whilst providing facilities for customers to confidently discuss their financial needs in a confidential manner.

KEY VALUE DRIVERS
INTELLECTUAL CAPITAL



Enhancement of the Organizational Knowledge Base

We operate in a very competitive environment, rife with industry challenges. As a service sector organization and a pioneering financial services provider in the NBFI sector, our long term operational sustainability very much hinges on the development and the effective utilization of our organizational 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 organization, we have recognized the operationalization of best practices and the achievement of process excellence as sources of competitive advantage. This is why a conscious effort is been made to consistently drive the adoption of 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 & Reputation

As a key player in the NBFI sector, our aim is to move away from the perception of a traditional finance company and position our brand as a total financial solutions provider. Personalized service and prompt solution delivery are instrumental to the brand perception that we project. We constantly strive to cement our position as a symbol of trust and confidence amongst our customers. As we continue to expand our geographical presence, the positioning of our brand and the perception we project would be deciding factors of the success of our expansion drive.

External Recognition

In recognition of the transparency with which we conduct our business and the commitment we have made towards enhancing the value delivered to all our stakeholders, we have been bestowed with certain industry awards and accolades, this year as well. This is a clear testament to the success of the concerted efforts that we have put to enhance our brand exposure and create sustainable value to our stakeholders.

54th Annual Report Awards – Compliance Award

For the seventh consecutive year, we received an award for compliance in financial reporting at the 54th Annual Report Awards ceremony from the Institute of Chartered Accountants of Sri Lanka (ICASL) for adhering to financial reporting requirements set out by them.

Ian Dias Abeysinghe Memorial JASTECA CSR/ Sustainability Awards 2018 – Merit Award

In recognition of the commitment made by us towards environmental conservation and environmental pollution control through our "Clean Zone" Waste Management Project, we were adjudged a Merit Award Winner by the Japan Sri Lanka Technical & Cultural Association (JASTECA) at their Ian Dias Abeysinghe Memorial JASTECA CSR/ Sustainability Awards 2018.

CREATING SUSTAINABLE VALUE
OUR SUSTAINABILITY PHILOSOPHY

Our Sustainability Philosophy

As a responsible corporate citizen, we have taken cognizance 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 recognized 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

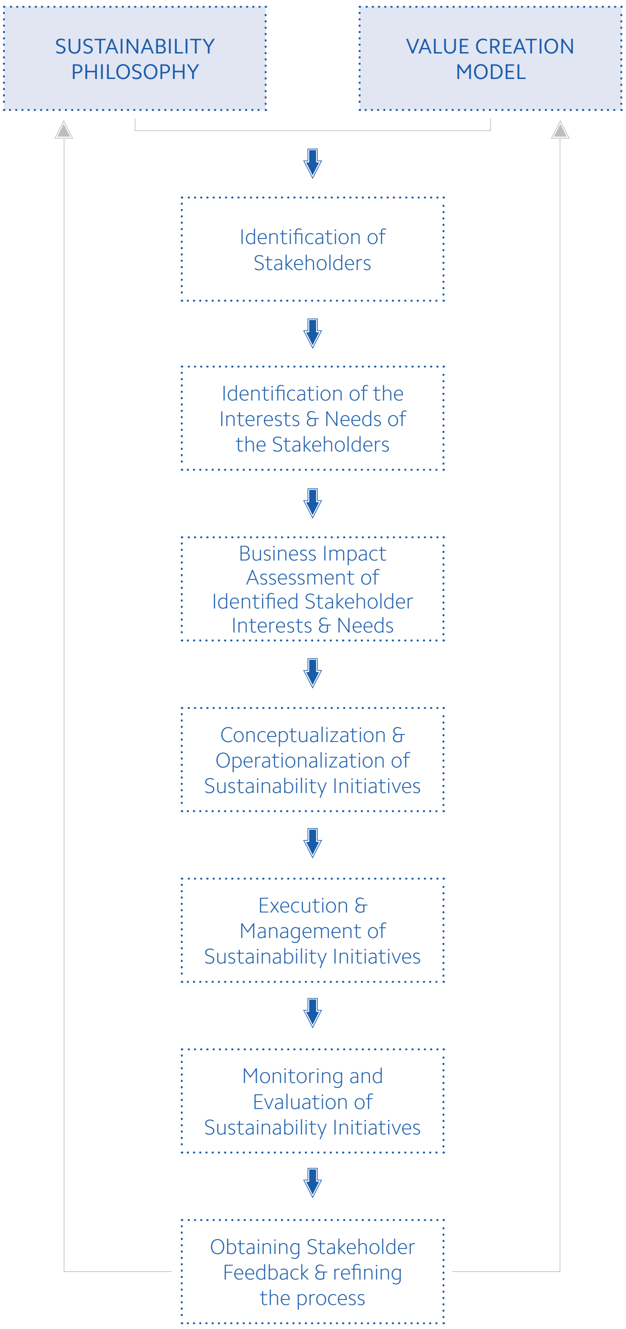
As a result of the consistent implementation and management of our business model, we have been able to adopt a holistic and all-encompassing approach to the management of the impacts of our business. Hence, as outcomes of our value creation process, we have identified three key domains that need to be managed by us for the medium and long term sustainability of our business. These have been categorized 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.

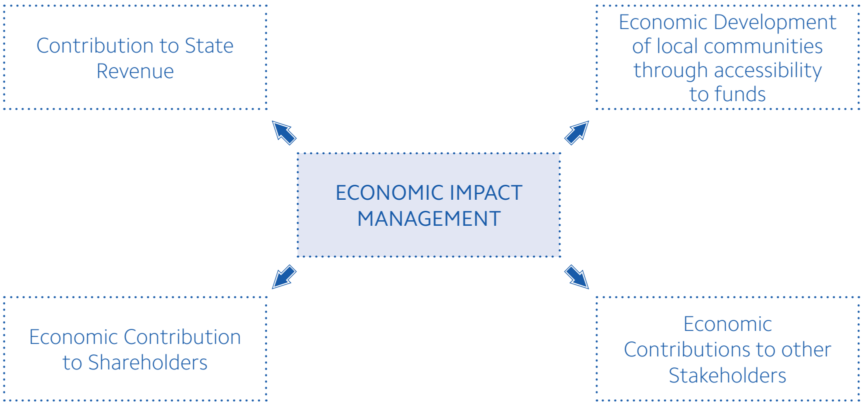
The Sustainability Framework

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

Our commitment to the sustainable development of our business is evidenced by the adoption of such a formalized 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.



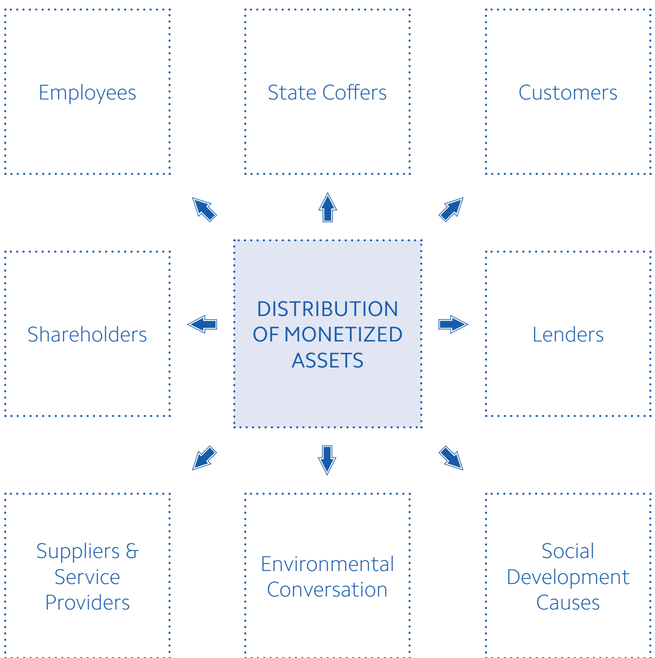
CREATING SUSTAINABLE VALUE
ECONOMIC CONTRIBUTION



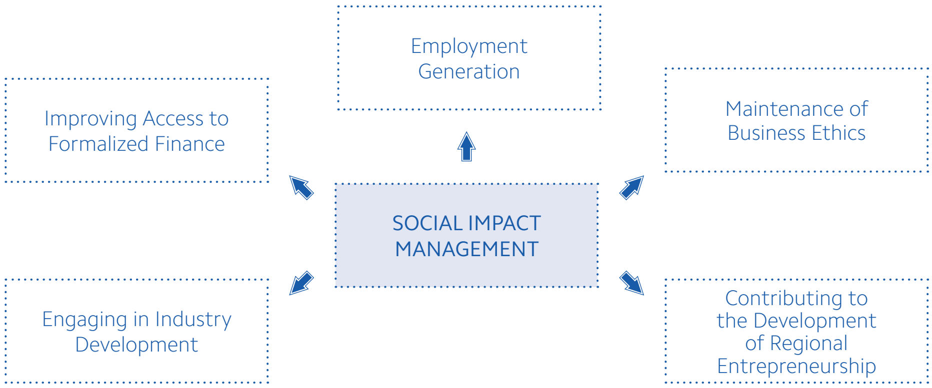
The monetized value we generate through our business model represents the foundation for our survival and in fact serves as the economic enabler that helps us to consistently and actively engage with our stakeholders. Further, our business model is designed in such a way that it enables us to share the 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 specialized 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 formalized 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 customizable 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 prioritize the recruitment of talent from the respective regions in order to foster localized 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.

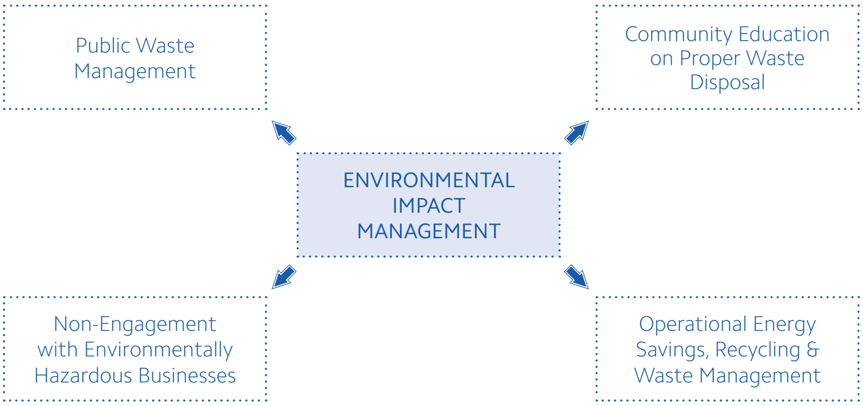
Ethical Business Practices

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 formalized 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 mobilize public support for waste segregation and recycling. Consequently, we formulated our "Clean Zone" campaign, which was launched in March 2015 at the Nawala branch. Initially, the "Clean Zone" encompassed a 500m roadside extent on either side of the branch and subsequently expanded gradually to cover a two kilometer extent. Following the first Softlogic Finance "Clean Zone" in Nawala, more were established across existing branches and each new branch 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 neighborhoods.

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 maximize 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 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

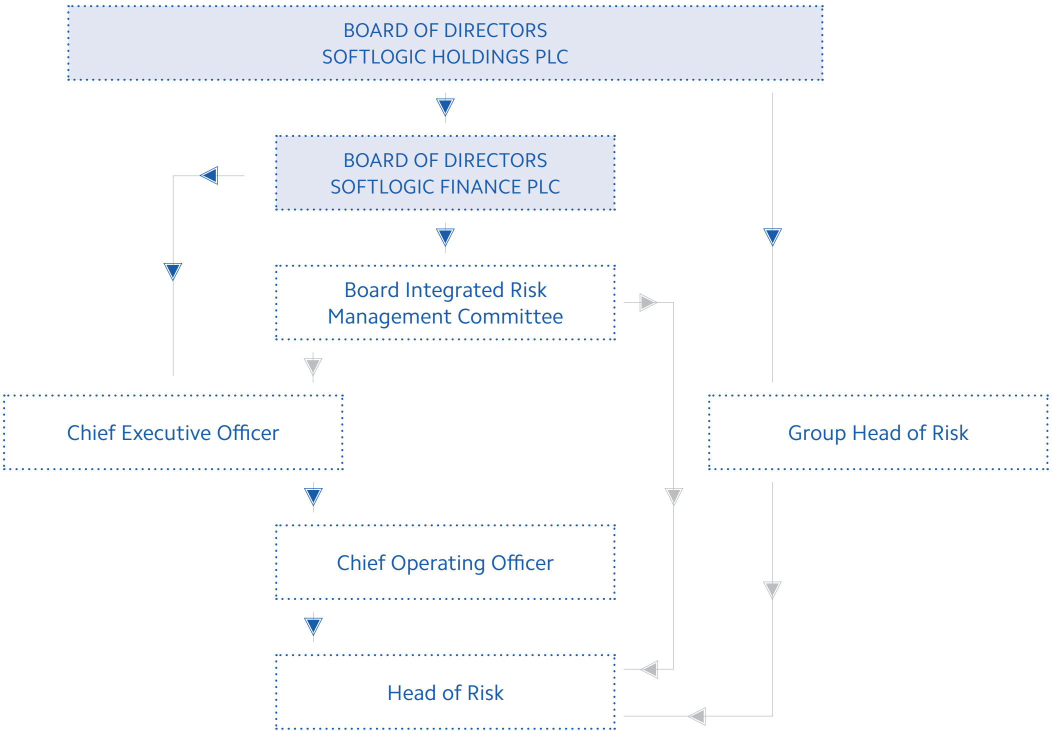
FIRST Line	The first line of defense is directly linked with the activities of operational management units which include identification, management and reporting of both current and potential risks of the day-to-day business.
SECOND Line	The Centralized Risk Management Division (RMD) functions as the second line of defense, providing guidance to ensure the implementation of governance standards, frameworks and policies for each type of risk that the company 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.

INTEGRATED RISK MANAGEMENT

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 Policy has been approved by the Board of Directors. The Risk Management Policy 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

The company's overall risk issues including Credit, Market, Liquidity, and Operational risks are monitored by the Risk Management Department in co-operation with the managers of the branches and heads of the departments.

Heard of Risk Management measures and pursues the status of the credit portfolio, undertakes impact evaluations and identifies early warning signals pointing to deterioration of health of the credit portfolio.

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 20 Million. A standardized Risk evaluation section has been amalgamated to the credit proposal, which is reviewed by the approving authority 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.

Further, Head of Risk Management has overall responsibility for monitoring the company's operational risk related matters and reporting overall risk measures to the Integrated Risk Management Committee. (IRMC)

The IRMC review and assess the performance of the credit portfolio against the internal limits, the attributes of the portfolio and other operational risk matters of the company. A Risk assessment report is presented to the Board of directors by the Chairman of the IRMC Quarterly.

The Board of Directors review the "Risk Assessment Report" which contains mitigation actions against the hazards identified. The "Board" makes suggestions to further strengthen the Risk Management process.

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 recognizes, 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 9%
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 6%
	Total risk weighted capital (Tier II) Requirement	Above 10%

Risk Assessment Map

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

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
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
Operating System
Systemic Risk - Macro Environment
Economic & Industry Indicators
Country's Security Situation
Law & Order

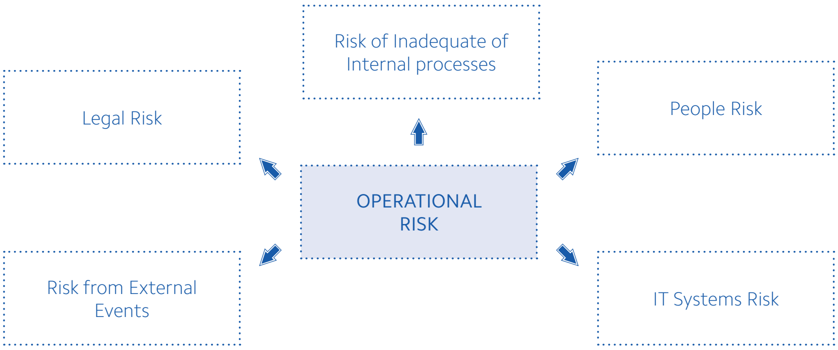
INTEGRATED RISK MANAGEMENT

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	Credit risk is an integral part of the financial business. 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 attributes, Policies and procedures have been formulated in line with the CBSL guidelines and the Integrated Risk Management framework which is approved by the Board of Directors. Standardized 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 Risk Contd.	Centralized credit department was set-up to manage the overall credit function of the company. The credit Department is responsible for evaluation & verification of the credit proposals forwarded by the branches, credit approval and recommendation of credit facilities which exceeds prescribed limits to the next approval level. Chief Credit Officer is Responsible for the credit risk when the department approves or recommend the credit facilities to the next level of approvals. Further, facilities over Rs 20.0 Million are referred to the Credit Committee through the Risk Management division to ensure proper pre-disbursement analysis to minimize Credit Risk Credit Committee has been established as a sub-committee of the Board of Directors to further Strength the credit evaluation process and to review the credit risk periodically. The Credit committee consists of Deputy Chairman, CEO and an Executive Director. All the credit facilities which exceeds Rs.20Mn are forwarded to the board of Directors for approval through the Credit Committee.
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 analyzed 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 IRMC.
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.
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 always given to the maintenance of an optimum interest spread. 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 11% when compared to the total lending portfolio. Therefore, the impact from this area is within the controllable level.

INTEGRATED RISK MANAGEMENT

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.
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 Integrated Risk Management Committee IRMC 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 analyzed 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 crystallization 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	
Liquidity Risk	Pre-mature withdrawals of large deposits (Top 20 deposits)	Low
Operational Risk	Increase in Operational Losses	
Concentration Risk	Exceeding of respective sector exposures and single/ group borrower limits	Medium
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 prioritized list according to the level of impact. The register provides an outline through which problems that threaten the delivery of the anticipated benefits are captured. As the first step towards achieving an integrated risk management framework, we have identified the main risks under each department. This allows the company to identify the main areas that need attention to mitigate any future losses as well as opportunities to gain through identifying new control measures. These risks have been scored and analyzed to achieve optimal decision making.

Risk Scoring Matrix

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

1 – 4 Low   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 & 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. 2. Central Credit department. 3. Credit Risk evaluation through specialized staff. 4. Post credit evaluation mechanism.	1. Board approved credit policies 2. Delegated Authority levels (DA's) 3. Annual reviews of credit policies and DA's. 4. Independent Credit Risk evaluation 5. Structured and standardized approval process. 6. Risk based pricing.	Medium
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. 2. Sector percentages verified with the total portfolio to assess the sector wise exposures. 3. Identify the high exposure sectors to put up limitations.	1. Sector exposures reviewed annually as per Board approved guidelines. 2. Compliance with Central Bank guidelines on sector lending. 3. Monitoring NPLs of each sector against each portfolio.	Medium

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

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. 2. Regular reviews and assessments of performance on an annual basis. 3. Recognize and reward talents/ skills. 4. Practicing a proper performance management system.	1. Strong and continuous staff development programs in place. (E.g. E-Learning, on the job training) 2. Comprehensive customer orientation programs aimed at marketing staff. 3. Recruitments /replacements done through proper screening and scanning. 4. Review of HR policies and procedures. 5. Transparency in evaluations. 6. Well established succession planning.	Medium
IT /Cyber Risk	High	1. Performing frequent System & IT Audits. 2. Plan IT/Technological enhancements during annual planning. 3. Empowering an IT Steering Committee.	1. External professional consultations for better improvements in systems. 2. Proper controls in place to minimize system frauds. 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.	Medium

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

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 Standardization of risk identification, assessment and governance of risk.	• Review, develop & upgrade the Integrated Risk Management framework and other policies such as disclosure, valuation, stress testing, model validation and whistle blowing etc.
To further improve the Internal Risk Monitoring mechanism	• Maintain a risk assessment report (Risk Register) for follow up actions for discussed findings. • Regular meetings (monthly) to review/discuss the overall risk aspects of the company. • Enhance the capacity of risk audit team.
Regularly assess the risk appetite criteria when executing of strategic plan	• Develop and regularly monitor the risk dash board.
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 for certain products. • Develop/strengthen Credit Risk Rating system.
Strengthening of POST-APPROVAL credit process	• Develop and maintain efficiency testing mechanism for approving officers. (Quarterly) • Setting up region/ cluster-wise loan review teams to monitor the post-approval process. • Develop a system based tracking mechanism for legal cases.
Further strengthening of Disaster Recovery capabilities	• BCP testing with more integrated functions in place. • Better equipped DR site setup will be in place.
Establish a strong IT security culture to ensure that IT system operations are in line with the set security procedures and controls	• Introduce a new, exclusive IT Security policy including new plans and the cyber security risk management. • Strong controls to be added/included in the IT related policies & procedures with regard to the company activities. • Strengthen the awareness culture and ability to proactively manage threats. • A new experienced IT Security Officer to be recruited to the team.

ACCOUNTABILITY AND TRANSPARENCY

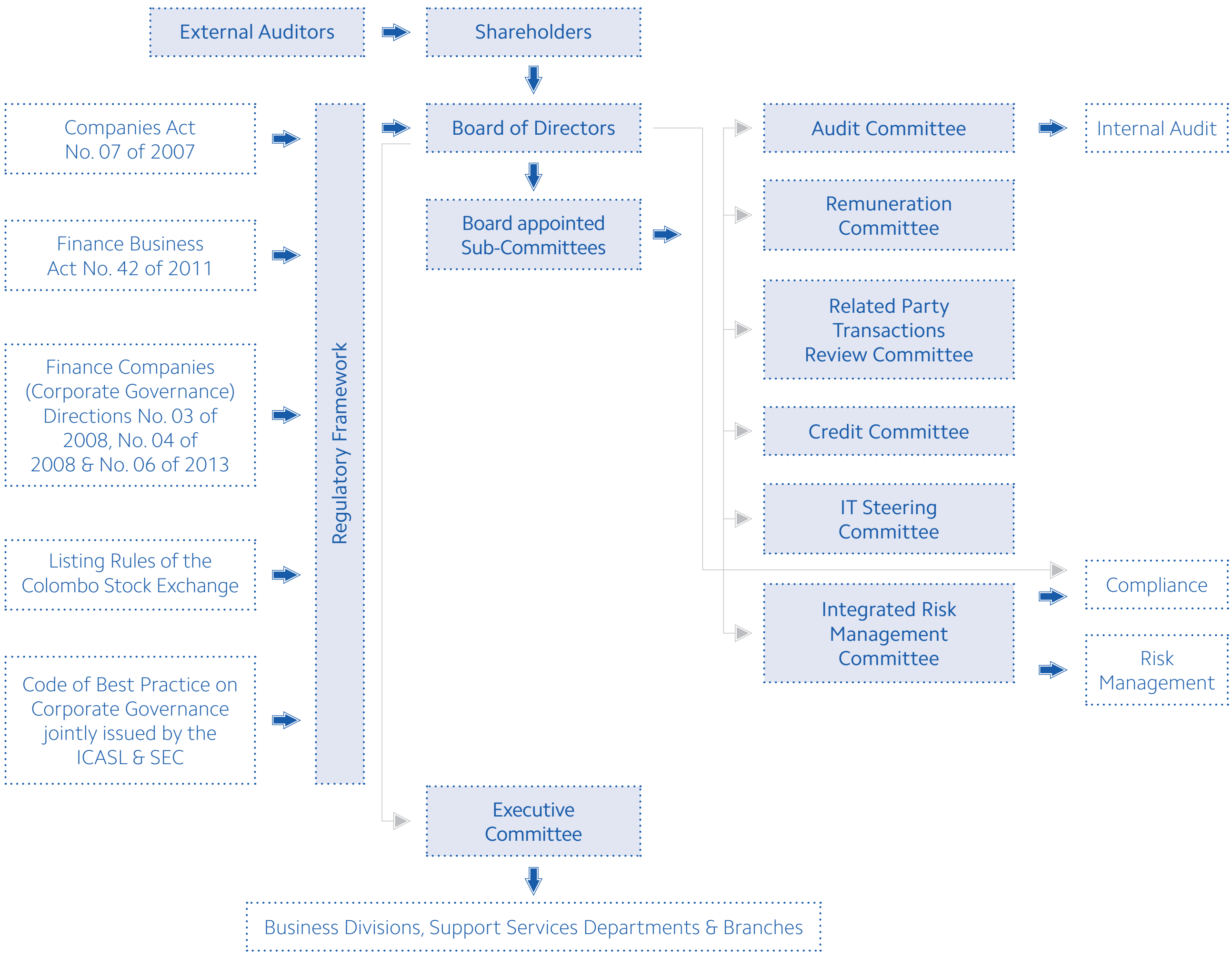
CORPORATE GOVERNANCE PHILOSOPHY

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 Framework



CORPORATE GOVERNANCE PHILOSOPHY

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.

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 six 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 on page 123 and the statement of Directors' responsibilities is given on page 129.

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

Internal Audit Function

The internal audit function of the company is an independent body in place that directly reports to the Board Audit Committee. Its overall mandate 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 12 times and the attendance of each Director at these meetings was as follows:

Name of Director	Nature of the Directorship	Attendance
Mr. A K Pathirage (Chairman)	Non-Executive Director	12
Mr. N H G Wijekoon (CEO)	Executive Director	12
Mr. A. Russell-Davison	Executive Director	10
Mr. C J E Corea	Independent Non-Executive Director	10
Mr. D T C Soza	Independent Non-Executive Director	9
Mr. H K Kaimal	Non-Executive Director	11
Mr. N. Bastian	Independent Non-Executive Director	12

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 130.
168 (1)(b)	Signed financial statements of the company for the accounting period completed	Page 139 to 200.
168 (1)(c)	Auditor's report on the financial statements of the company	Page 136 to 138.
168 (1)(d)	Applicable accounting policies and any changes therein made during the accounting period	Page 144 to 165.
168 (1)(e)	Particulars of entries in the interests register made during the accounting period	Page 131.
168 (1)(f)	Remuneration and other benefits of directors during the accounting period	Page 123.
168 (1)(g)	Total amount of donations made by the company during the accounting period	Page 132.
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 131.
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 131.
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 131.
168 (1)(k)	Acknowledgment 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 134.

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

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

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
7.6 (i)	Names of persons who during the financial year were directors of the Entity	Compliant	This is stated in page 130.
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 130.
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Compliant	This is stated in the Investor Information section in page 203.
7.6 (iv)	The Public Holding percentage	Compliant	This is stated in the Investor Information section in page 202.
7.6 (v)	A statement of each director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of the financial year	Compliant	This is stated in the Annual Report of the Board of Directors in page 131.

CORPORATE GOVERNANCE DISCLOSURES

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Compliant	This is stated in the Integrated Risk Management section from page 74 to 86 and in the Integrated Risk Management Committee Report in page 128.
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 54 to 63. There were no material issues relating to industrial relations of the entity.
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties	Compliant	This is stated in Note No: 27 in page 178.
7.6 (ix)	Number of shares representing the Entity's stated capital	Compliant	This is stated in Note No: 34 in page 184.
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings as at the end of the year	Compliant	This is stated in the Investor Relations section in page 202.
7.6 (xi)	Ratios and market price information on:	Compliant	This is stated in page 10.
	Equity: Dividend per share, Dividend payout ratio, Net asset value per share, Market value per share	Compliant	This is stated in page 10.
	Debt: Interest rate of comparable government security, Debt/equity ratio, Interest cover, Quick asset ratio, market prices & yield during the year	Compliant	This is stated in the Investor Relations section in page 204 to 205.
	Any changes to the credit rating	Compliant	Not applicable
7.6 (xii)	Significant changes in the Entity's fixed assets and the market value of land, if the value differs substantially from the book value	Compliant	This is stated in Note No 27 in page 179.
7.6 (xiii)	Details of funds raised by the entity either through a public issue, Rights Issue or a private placement during the year	Compliant	This is stated in Note No 34 in page 184.
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 92 to 93.
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 5 non-executive directors
7.10.2 (a)	Two or one-third of Non-Executive Directors appointed to the board of directors, whichever is higher, should be independent	Compliant	The Board comprises of 3 independent non-executive directors
7.10.2 (b)	Each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria	Compliant	All 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 89 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 22 to 23
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, one new Director was 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 133 of this report
7.10.5 (a)	Shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher	Compliant	The Remuneration Committee comprises of 2 independent non-executive directors and a non-executive director
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 125 of this report

CORPORATE GOVERNANCE DISCLOSURES

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
7.10.5 (c)	The annual report shall set out:	Compliant	The composition of this committee is stated in page 133 of this report
	(i) The names of the Directors that comprise the Remuneration Committee		
	(ii) A statement of remuneration policy	Compliant	Please refer the Remuneration Committee Report in page 125 of this report
	(iii) Aggregate remuneration paid to Executive and Non- Executive Directors	Compliant	Please refer page 198 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 133 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 3 independent non-executive directors
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings	Compliant	Both these officers attend Audit Committee meetings by invitation
	One non-executive director shall be appointed as Chairman of the committee by the board of directors	Compliant	The chairman of the Audit Committee is an independent non-executive director
	The Chairman or one member of the Committee should be a member of a recognised professional accounting body	Compliant	The chairman of the Audit Committee is a member of a recognized professional accounting body.
7.10.6 (b)	The functions of the Audit Committee shall be as set out in section 7.10.6 of the Listing Rules	Compliant	Please refer the Audit Committee Report in page 124 in this report
7.10.6 (c)	The names of the directors comprising the audit committee should be disclosed in the annual report	Compliant	Please refer the Audit Committee Report in page 124 in this report
	The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report	Compliant	Please refer the Audit Committee Report in page 124 in this report
	The annual report shall contain a report by the audit committee, setting out the manner of compliance by the Entity, during the period to which the annual report relates	Compliant	Please refer the Audit Committee Report in page 124 in this report

CORPORATE GOVERNANCE DISCLOSURES

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

Paragraph Reference	Guiding Principle	Status 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 formalized 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, share-holders & borrowers.	A communications policy and a set of communications processes 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.

CORPORATE GOVERNANCE DISCLOSURES

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; & (iii) exercise control over business activities, operations & risk management	The company has classified the KMPs as per the CBSL Direction and has considered these KMPs in the company's financial statements.
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.
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 the CEO/ Executive Director takes part in the discussions & reviews of business operations. Further, in the 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.

CORPORATE GOVERNANCE DISCLOSURES

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 company 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 Dept. of Supervision of Non-Bank Financial Institutions.
2 (7)	The Board shall include in the Annual Report, an annual corporate governance report setting out the compliance with this Direction	The annual corporate governance report, which forms an integral part of the annual report, has been published in the annual report.
2 (8)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, & maintain records of such assessments	The Board has implemented such an annual self –assessment on its performance in discharge of its key responsibilities, where each Director has to carry out a self-assessment. The company plans to review and if necessary update the process of obtaining self-evaluations and the analysis thereof, in order to ensure the effectiveness of this mechanism.

CORPORATE GOVERNANCE DISCLOSURES

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 12 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 formalized 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 2018/19 financial year. Further, no director has been absent from three consecutive regular board meetings.
3 (5)	The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board & shareholder meetings.	The board has appointed a company secretary – Softlogic Corporate Services (Pvt) Ltd. All Directors have access to the Board Secretary.
3 (6)	If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function	The Chairman has delegated the function of preparing the Agenda for the board meeting to the company secretary.
3 (7)	All directors shall have access to advice & services of the company secretary	The company secretary's services are available to all Directors, who need additional support to ensure they receive timely & accurate information to fulfill their duties. In order to make the availability of this service more efficacious, under the supervision of the Board, this avenue will be reviewed and a formalized and updated procedure will be introduced.
3 (8)	The company secretary shall maintain the minutes of Board meetings & such minutes shall be open for inspection by any director	The Board minutes are adequately maintained & open for inspection by any Director.
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 7 Directors as at 31st March 2019. 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 2018/19.
4 (3)	Appointment, election or nomination of an employee as a director and the qualifications applicable thereto.	In the composition of the board, Executive Directors do not exceed one half of the number of directors of the board.
4 (4)	The number of independent non-executive directors of the Board shall be at least one fourth of the total no. of directors. The criteria for assessing the independency of a non-executive director.	As at 31st March 2019, the Board comprised of three 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 no. of directors that constitute the quorum are non-executive directors.	The Company has complied with this requirement of the required quorum in all the board meetings.
4 (8)	The independent non-executive directors to be identified as such in all corporate communications containing the names of directors. Disclosure to be made of the board composition in the annual corporate governance report.	Company has properly disclosed the information required on board composition in its Annual Report. Independent non-executive directors will be expressly identified as such in the company's corporate communications.
4 (9)	Availability of formal, considered and transparent procedure for the appointment of new directors to the Board. Also to contain procedures for the orderly succession to the Board.	The Articles of Association of the company states the procedure applicable to the selection & appointment of directors of the company. Formal announcements are made to the Central Bank & the Colombo Stock Exchange in this regard. Appointments are only made once Central Bank approval is obtained. In order to make this whole process more efficient, the company plans to update and introduce a formalized procedure with regard to these requirements.
4 (10)	Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment	During the year under review, there was one Director appointed to fill a casual vacancy on 20th April 2018 and was subjected to being elected by the shareholders at the AGM held in September 2018.

CORPORATE GOVERNANCE DISCLOSURES

Paragraph Reference	Guiding Principle	Status and Details of Compliance
4 (11)	Resignations/ removals of directors & reasons thereto, to be announced to shareholders and notification given to the Director of the Dept. of Supervision of Non-Bank Financial Institutions of the Central Bank.	There were no resignations, removals or retirements of directors during the financial year.
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.
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.

CORPORATE GOVERNANCE DISCLOSURES

Paragraph Reference	Guiding Principle	Status and Details of Compliance
7 (5)	Primary responsibility in the preparation of the board meeting agenda is to be with the chairman, but it could be delegated to the company secretary.	The Chairman has delegated the function of preparing the board meeting agenda to the Company Secretary.
7 (6)	The chairman shall ensure that all directors are informed adequately & in a timely manner of the issues arising at each Board meeting	Directors are informed adequately & in a timely manner about the issues arising at Board meetings.
7 (7)	The chairman shall encourage each director to make a full & active contribution to the Board's affairs & take the lead to ensure that the Board acts in the best interests of the company	The Board is encouraged to actively contribute to the Board's affairs and also ensure that the Board acts in the best interests of the company. The Company Secretary will continue to review and update their minute taking and the level of detail gone into, in conjunction with the advice of the Board, in order to ensure that the individual contributions of the Directors are evidenced.
7 (8)	The chairman shall facilitate the effective contribution of non-executive directors in particular & ensure constructive relationships between executive & non-executive directors.	The Chairman ensures that constructive relationships are built between executive & non-executive directors and that substantial contribution comes from non-executive directors.
7 (9)	The chairman shall not engage in activities involving direct supervision of KMPs or any other executive duties.	The Board has delegated this responsibility to the CEO who leads the Corporate Management team in making and executing operational decisions. No direct supervision of KMPs or any other executive duties are handled by the Chairman.
7 (10)	The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Through the AGM, the Chairman ensures that the company's progress & strategy are effectively communicated to the shareholders & shareholders can communicate any concerns to the Board, through the company secretary.
7 (11)	The CEO shall function as the apex executive-in-charge of the day-to-day-management of the operations.	The CEO functions as the primary executive in charge of the day–to–day activities of the company.
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 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 & 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 Committee has implemented a formalized policy in relation to the service period, audit fee, any resignation or dismissal of the auditor and the applicable term limits of the auditor.
8 (2)(d)	Reviewing & monitoring the external auditor's independence & objectivity & the effectiveness of the audit processes in accordance with applicable standards & best practices	The committee regularly reviews & monitors the external auditor's independence, objectivity & the effectiveness of the audit processes as per the applicable guidelines.
8 (2)(e)	Responsibility of the Audit Committee to develop & implement a Board approved policy on the engagement of an external auditor for non-audit services, as per the criteria laid out in this rule.	In the context of the criteria laid out in this rule, the committee has approved the engagement of the external auditor to provide non-audit services. Through its continuous monitoring activities, the committee will continue to evaluate the effectiveness of the independence of the external auditors in the provision of non-audit services. In order to formalize this process, the Committee has implemented 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 & finalize 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.

CORPORATE GOVERNANCE DISCLOSURES

Paragraph Reference	Guiding Principle	Status and Details of Compliance
8 (2)(g)	Responsibility of the committee to review the financial information in order to monitor the integrity of the financial statements, its annual report, accounts & periodical reports prepared for disclosure,& the significant financial reporting judgments contained therein, as per the criteria in this rule.	The Audit committee has reviewed the company's annual report including financial statements, accounting standards and policies (and changes therein) & significant adjustments arising from the audit & quarterly financial statements. Further, the committee considers the going concern assumption & compliance with relevant accounting standards & other legal requirements.
8 (2)(h)	The committee shall discuss issues, problems & reservations arising from the interim & final audits & any matters the auditor may wish to discuss.	The committee has met the external auditors twice without the executive management being present to discuss any issues relating to the audit.
8 (2)(i)	The committee shall review the external auditor's management letter & the management's response thereto.	The audit committee has reviewed the applicable management letter & the management's responses thereto.
8 (2)(j)	The committee is responsible to take the following steps with regard to the internal audit function: (i) Review the adequacy of the scope, functions & resources of the internal audit dept. (ii) Review the internal audit programme & results of the internal audit process (iii) Review any appraisal or assessment of the performance of the head & senior staff members of the internal audit dept. (iv) Recommend any appointment or termination of the head, senior staff members & outsourced service providers to the internal audit function (v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit dept. including the chief internal auditor & any outsourced service providers. (vi) Ensure that the internal audit function is independent of the activities it audits	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 Board Audit Committee has reviewed the appraisal or assessment of the performance of the head & senior staff members of the internal audit dept. iv) The Committee has recommended the appointments of senior staff members for the internal audit function during the year. v) No senior staff of the Internal Audit Dept. resigned during the year. 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.

CORPORATE GOVERNANCE DISCLOSURES

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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 without the presence of any executive director.
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 12 times & due notice of issues to be discussed were given & records kept regarding matters discussed & action taken, by the company secretary.
8 (2)(o)	Annual Report to contain (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; & (iii) details of attendance of each individual member at such meetings.	These details have been disclosed in the annual report in the audit committee report.
8 (2)(p)	The secretary to the committee shall keep detailed minutes of the committee meetings	The company secretary, who acts as the secretary of this committee, maintains detailed minutes of all meetings.
8 (2)(q)	The committee shall review arrangements by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.	The company has in place, a formal whistle blowing policy. Further, the audit committee functionally reviews issues relating to matters of misconduct.
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 2019, the committee comprised of 2 independent non-executive directors, one executive director (the CEO) and the Head of Risk of the company. The terms of reference of this committee encompasses the duties assigned to it by this direction.
8 (3)(b)	The committee is to assess all risks on a monthly basis through appropriate risk indicators & management information.	The committee assesses & reviews on a monthly basis, risk in terms of liquidity, credit and operational risk by variance reports. 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.

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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.
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 organization is committed by an employee, the committee will recommend appropriate action against the employee.
8 (3)(g)	The committee shall submit a risk assessment report within a week of each meeting to the Board	The Committee has submitted the approved Integrated Risk Management Committee minutes to the main Board, seeking the Board's views and for specific directions. 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. Further, the compliance officer has been 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 favorable treatment & the terms of such transactions are similar to the usual terms between the company & any unrelated customer. In order to ensure that this functional process works effectively, plans are afoot to introduce a formalized process on related parties and their transactions with the company, which addresses categories of related parties, and for the company to avoid any conflicts of interest that may arise from any transaction of the company.

Paragraph Reference	Guiding Principle	Status and Details of Compliance
9 (3)	The types of transactions with related parties, to which this Direction applies, are laid out in this rule.	The Board has established a Related Party Transactions Review Committee to review related party transactions like the ones laid out in this rule. In order to ensure that the review committee functions effectively, the company plans to introduce a formalized process on related parties and their transactions with the company, which addresses categories of related parties, and for the company to avoid any conflicts of interest that may arise from any transaction of the company.
9 (4)	The Board shall ensure that the company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" (as defined in this rule) than that is accorded to other similar constituents of the company.	The company functionally reviews related party loans and advances, borrowings & deposits in order to ensure that such transactions do not involve "more favorable treatment" as stated in the direction. In order to further ensure that the company does not engage in such transactions in a manner that would grant such related parties "more favorable treatment" than that accorded to others carrying on the same business with the company, a formalized and documented process is to be introduced, addressing these factors.
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".

CORPORATE GOVERNANCE DISCLOSURES

Paragraph Reference	Guiding Principle	Status and Details of Compliance
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: 45 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: 45 in the Notes to the Financial Statements in the annual report.
10 (2)(f)	Total net accommodation outstanding in respect of each category of related parties & the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	As per Note No: 45 in the Notes to the Financial Statements in the annual report, two loans have been granted to 2 related parties, Softlogic Retail (Pvt) Ltd and Softlogic Brands (Pvt) Ltd and the total loan outstanding amount as at 31st March 2019 stands at Rs. 450 Mn. In effect, this translates to 25% 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: 45 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.

CORPORATE GOVERNANCE DISCLOSURES

Level of compliance with the Code of Best Practice on Corporate Governance 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 12 times, generally on a monthly basis.
A.1.2.	The Board's role and responsibilities	
	Ensuring the formulation and implementation of a sound business strategy	The Board sets the strategy of the company and drives and constantly monitors the company's 3 year strategic action plan. The various Board committees also play an important role in monitoring the execution of company strategy.
	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 management committee profiles are provided in pages 26 to 27.
	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 30 to 35.
	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 68 to 73 discusses this in detail. Further the company has adopted the "integrated reporting" methodology in its reporting.

Ref No:	Guiding Principle	Degree of Compliance
	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 pages 136 to 138 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.
A.1.2.	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.

Ref No:	Guiding Principle	Degree of Compliance
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.
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 7 directors in the Board as at 31st March 2019, 5 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 5 Non-Executive Directors. Out of these 5, 3 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 fulfill this criteria and are in a position to exercise unfettered and independent judgement.

Ref No:	Guiding Principle	Degree of Compliance
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 130 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.
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.

Ref No:	Guiding Principle	Degree of Compliance
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.

CORPORATE GOVERNANCE DISCLOSURES

Ref No:	Guiding Principle	Degree of Compliance
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.
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 22 to 23.
A.11.	Appraisal of the CEO:- The Board should be required, at least annually, to assess the performance of the CEO.	
A.11.1	The Board in consultation with the CEO should set out the short, medium & long-term objectives of the company and reasonable financial and nonfinancial targets that should be met by the CEO.	The Board has set out financial and non-financial targets and short, medium and long term objectives that need to be achieved by the CEO.
A.11.2.	The performance of the CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets set by the Board have been achieved and if not, whether the failure to meet such targets was reasonable in the circumstances.	This is an ongoing process and performance at the end of the financial year is assessed by comparing company performance with budgeted targets.
B. Directors' Remuneration		
B.1.	Remuneration Procedure:- Companies should establish a formal and transparent procedure for developing a policy on executive remuneration	
B.1.1.	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board, within agreed terms of reference, on the company's framework of remunerating Executive Directors.	A Remuneration Committee has been set up and its report is in page 133 of the Annual Report.
B.1.2.	Remuneration Committees should consist exclusively of Non-Executive Directors & should have a Chairman, who should be appointed by the Board.	The Remuneration Committee consists entirely of Non-Executive Directors and two out of the three Non-Executive Directors are Independent.
B.1.3.	The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year.	The members of the Remuneration Committee and its Chairman are listed in page 133 of the Annual Report.

CORPORATE GOVERNANCE DISCLOSURES

Ref No:	Guiding Principle	Degree of Compliance
B.1.4.	The Board as a whole, should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association.	The Board decides upon the remuneration of the Non-Executive Directors and the Non-Executive Directors do not play a part in the determination of their own remuneration. This process is conducted as per the Articles of Association of the company.
B.1.5.	The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors and have access to professional advice	As per the terms of reference of the Remuneration Committee, it has access to professional advice and is free to consult the Chairman and/ or CEO as it feels fit.
B.2.	The level & make-up of remuneration: - Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully.	
B.2.1.	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors of the quality required but should avoid paying more than is necessary for this purpose.	The remuneration policy of the company is structured in a manner to attract and retain high calibre professionals as Executive Directors, in line with industry standards.
B.2.2.	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.

Ref No:	Guiding Principle	Degree of Compliance
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 133. The remuneration policy has been set out in page 125. The aggregate remuneration has been set out in page 198.
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.

Ref No:	Guiding Principle	Degree of Compliance
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.

Ref No:	Guiding Principle	Degree of Compliance
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 130 to 134 For the Annual Report of the Board of Directors and page 123 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 130 to 134. The statement issued by the Auditors is in pages 136 to 138. The Statement of Directors Responsibilities is in page 129. The Statement on Internal Controls is in page 123.
D.1.6.	Annual Report should contain a Management Discussion & Analysis	The Management Discussion & Analysis is from page 42 to 68.
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 198.
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 the Audit Committee report in page 124 and the Integrated Risk Management Committee report in page 128.
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 130 to 134. The Statement of Directors Responsibilities is in page 129. The Statement on Internal Controls is in page 123.
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

Ref No:	Guiding Principle	Degree of Compliance
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 132 and the Statement of Internal Control in page 123.
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 Independent Non-Executive Directors and there are 3 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 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 124.

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 company has a formal RPT Policy in place.
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 placed 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.

Ref No:	Guiding Principle	Degree of Compliance
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 130 to 134.
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.
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.

CORPORATE GOVERNANCE DISCLOSURES

Ref No:	Guiding Principle	Degree of Compliance
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 organization's business model that IT devices within and outside the organization can connect to the organization'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 74 to 86.

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 recognized, 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 recognized, 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 organization 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 72 to 73.
H.1.3.	Social Factors	
H.1.3.1.	Social governance of an organization should include its relationship with the community, customers, employees, suppliers, outsourced providers and any other party that can influence or be influenced by the organization's business model.	Refer the Social Contribution section from page 70 to 71.
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, recognizing managing and reporting on all pertinent aspects of ESG.	Refer the Corporate Governance Philosophy section from page 88 to 89.
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 cognizance 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.

GOVERNANCE REPORTS
DIRECTORS' STATEMENT ON INTERNAL CONTROLS

Responsibility

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

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

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

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

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

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

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

- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of Company's daily operations and that the Company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Unit of the Company checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on branches and other centres, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the internal audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Company review internal control issues identified by the Internal Audit Unit, regulatory authorities and management, and 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 124.
- 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

26th June 2019

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)
- Mr. W N R Bastian - Independent Non-Executive Director (Appointed on 1st August 2018)

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 twelve times during the year 2018/19. 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	12/12
Mr. D T C Soza	Independent Non-Executive Director	6/12
Mr. W N R Bastian	Independent Non-Executive Director	7/8

Mr. A Russell-Davison was a member from 1st of April 2018 to 20th April 2018, during the financial year, however no meetings were held during this period.

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
26th June 2019

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
26th June 2019

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

Introduction

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

Composition of the Committee

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

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

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

Terms of Reference

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

The Terms of Reference of this Committee are as follows:

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

Policies and Procedures

The company identifies all persons and entities who are to be recognized as "related parties", as per the respective definitions set out in Section 9 of the Listing Rules. Self-declarations are obtained from each of the key management personnel, in order to identify parties related to them. Further, a Board approved Related Party Policy is in place in respect of the related party transactions and the applicable procedures.

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

Meetings of the Committee

With regard to the year under review, this committee met on 04 occasions.

Related Party Transactions during the 2018/19 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 45 in the Notes to the Financial Statements section.

The committee has reviewed the related party transactions during the financial year and has communicated its observations to the Board of Directors.

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
26th June 2019

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 are:

Mr. D T C Soza	– Independent Non-Executive Director (Chairman)
Mr. N H G Wijekoon	– Executive Director/ CEO
Mr. W N R Bastian	– Independent Non-Executive Director
Mr. A Russell-Davison	– Non-Executive Director (vacated his membership in the committee with his appointment as the Executive Deputy Chairman w.e.f. 20th April 2018)
Mr. N K Kongahawatta	– Head of Risk

(Sgd.)
D T C Soza
Chairman
Board Integrated Risk Management Committee
26 June 2019

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 124.

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 139 to 200 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.

For and on behalf of the Board of
Softlogic Finance PLC

(Sgd.)
Softlogic Corporate Services (Pvt) Ltd
Secretaries
26th June 2019
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 31 March 2019.

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, vehicle loans, group personal loans, personal loans, business loans, small business loans, SME loans, gold loans, mortgage loans, other credit facilities, vehicle hiring, factoring, 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 & CEO's Messages.

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 page 134.

Summarized Financial Results

Name of Director	2018/19 Rs.	2017/18 Rs.
Total operating income	1,528,335	1,585,264
Profit before income tax	63,115	193,079
Income tax expense	140,854	25,686
Net profit for the year	203,969	218,766

Auditors' Report

The Report of the Auditors on the Financial Statements of the Company is given on pages 136 to 138.

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 144 to 165. 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 22 to 23.

Executive Directors

Mr. A Russell-Davison – Deputy Chairman

Mr. N H G Wijekoon – Director/CEO

Non-Executive Directors

Mr. A K Pathirage – Chairman

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

Mr. D T C Soza - Director*

Mr. H K Kaimal – Director

Mr. W N R Bastian – Director***

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.3 of 2008

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

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

Interests Register

The Company maintains an Interest Register in terms of the Companies Act No. 07 of 2007 which is deemed to form part and parcel of this Annual Report and available for inspection upon request. All related party transactions which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period are recorded in the 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 31 March 2019 and 31 March 2018 are as follows:

Name of Director	Shareholding as at 31/03/2019	Shareholding as at 31/03/2018
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
Mr. W N R Bastian	Nil	Nil

Messrs. A K Pathirage and A Russell-Davison are Directors of Softlogic Capital PLC, which held 45,401,370 shares (66.84%) in Softlogic Finance PLC as at 31 March 2019. 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 31 March 2019.

Remuneration of Directors

The Directors' remuneration is disclosed under transactions with key managerial personnel in Note 45.1 to the Financial Statements on page 198.

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 45 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. 5,275,000 /- is payable by the Company to the Auditors for the year under review as audit fees.

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

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

Stated Capital
The Stated Capital of the Company as at 31 March 2019 was Rs. 2,002,269,999.12 represented by 67,928,384 ordinary shares.

Major Shareholders, Distribution Schedule and Other Information
Information on the twenty (20) largest shareholders of the Company, the distribution of shareholding, percentage of shares held by the public, market values per share as per the requirements of the Listing Rules of the Colombo Stock Exchange are given on pages 202 to 205 under the Investor Information section.

Reserves
The movements of reserves during the year are given under the Statement of Changes in Equity on page 142.

Property, Plant & Equipment
The details and movements of Property, Plant and Equipment owned by the Company are given in Note 27 to the Financial Statements on page 178.

Land Holdings
The Company owns freehold land worth Rs. 210,000,000/-.

Investments
Details of quoted and unquoted investments made by the Company as at 31 March 2019 are given in Note 26 to the Financial Statements on page 177.

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 124.

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

The Risk Management section on pages 74 to 86 sets out the processes currently practiced by the Company to identify and manage the risks.

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

Contingent Liabilities

Except as disclosed in Note 42 to the Financial Statements, 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.

Corporate Governance

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

The Board, in the discharge of its responsibilities, has been guided by the Code of Best Practices on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and 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 88 to 122.

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 and the IT Steering Committee. The compositions of the committees are as follows:

Audit Committee

- Mr. C J E Corea - Independent Non-Executive Director (Chairman)
- Mr. D T C Soza - Independent Non-Executive Director
- Mr. W N R Bastian - Independent Non-Executive Director (Appointed w.e.f. 01st August 2018)

Remuneration Committee

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

Credit Committee

- Mr. N H G Wijekoon - Director/CEO
- Mr. A Russell-Davison – Director/Deputy Chairman
- Mr. W N R Bastian - Independent Non-Executive Director

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
- Mr. A Russell-Davison – Served in the capacity of a Non-Executive Director but vacated his membership in the committee with his appointment as the Executive Deputy Chairman w.e.f. 20th April 2018
- Mr. N K Kongahawatta – Head of Risk

IT Steering Committee

- Mr. D T C Soza - Independent Non-Executive Director (Chairman)
- Mr. A Russell-Davison – Director/Deputy Chairman
- Mr. N H G Wijekoon - Director/CEO
- Mr. H K Kaimal – Non Executive Director
- Mr. Sanjeewa Premawardana – Chief Financial Officer
- 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 28th August 2019 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 211 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

26th June 2019
Colombo

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Building a better working world

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

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

APAG/WDPL/TW

TO THE SHAREHOLDERS OF SOFTLOGIC FINANCE PLC

Report on the audit of the 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 2019, 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 2019 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.

INDEPENDENT AUDITORS' REPORT

Key Audit Matter	How our audit addressed the key audit matter
Impairment Allowance for Lease receivables, Factoring receivables and Loan receivables including Company's transition to SLFRS 9: Our audit considered impairment for Lease receivables, Factoring receivables and Loan receivables as a key audit matter. The materiality of the reported amounts for Lease receivables, Factoring receivables and Loan receivables (and impairment thereof), the subjectivity associated with management's impairment estimation, complex manual calculations of impairment and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned our basis for considering it as a Key Audit Matter. As at 31 March 2019 the total of the Factoring receivables, Gold loan receivables, Loan receivables and Lease receivables amounted to LKR 18,183 Million (Note 21, 22,23 and 24), net of total allowance for impairment of LKR 1.101 (Note 21, 22,23 and 24). These collectively contributed 81% to the total assets. The impact on transition to SLFRS 9 on the Company's Financial Statements has been quantified and presented in the Note 6 to the Financial Statements.	To assess the reasonableness of the allowance for impairment, we carried out audit procedures (among others) to obtain sufficient and appropriate audit evidences, that included the following: • We evaluated the design, implementation and operating effectiveness of key internal controls over estimation of impairment for Lease receivables, Factoring receivables and Loan receivables, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. • We test-checked the underlying calculations and data used in such calculations. • In addition to the above, following focused procedures were performed: For those individually assessed for impairment: – we assessed the main criteria used by the management for determining whether an impairment event had occurred. – where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. For those collectively assessed for impairment: – we tested the completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT systems. – we also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays, by comparing them with relevant publicly available data and information sources. • We assessed the adequacy of the related financial statement disclosures as set out in Note 4.1.9, 21, 22, 23 and 24. • We also assessed the adequacy of the Company's disclosure on the impact of the initial adoption of SLFRS 9 as set out in note 6. This included testing of the quantitative impact of the transition.
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 2019 Annual Report

Other information consists of the information included in the Company's 2019 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 1697.

26 June 2019
Colombo

INCOME STATEMENT

Year ended 31st March 2019	Notes	2019 Rs.	2018 Rs.
Interest income		3,674,449,559	3,523,555,934
Less: Interest expenses		(2,490,557,311)	(2,561,129,565)
Net interest income	7	**1,183,892,249**	**962,426,370**
Fee and commission income	8	225,679,633	470,335,492
Other operating income	9	118,762,879	152,501,989
Total operating income		**1,528,334,761**	**1,585,263,851**
Less:Credit loss expense on financial assets and other losses	10	(189,681,869)	(108,425,149)
Net operating income		**1,338,652,892**	**1,476,838,702**
Less: Operating expenses			
Personnel expenses	11	(447,571,734)	(465,770,401)
Other operating expenses	12	(826,608,094)	(718,659,912)
Operating profit before taxes on financial services		64,473,064	292,408,389
Less: Taxes on financial services	13	(1,358,065)	(99,329,008)
Profit before income tax		63,114,999	193,079,381
Less: Income tax expense	14	140,854,189	25,686,284
Profit for the year		**203,969,188**	**218,765,665**
Basic/Diluted earnings per share (Rs.)	15	3.00	3.70
Dividend per share (Rs.)	16	-	1.65

The Accounting policies and Notes to the Financial Statements from pages 144 to 200 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31st March 2019	Notes	2019 Rs.	2018 Rs.
Profit for the year		203,969,188	218,765,665
Other comprehensive income/ (expenses)			
Other comprehensive income to be reclassified to profit or loss:			
Gain/(Loss) arising on remeasuring available for sale financial investments		(43,293,441)	(1,042,072)
Other comprehensive income that will not to be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit plan	33.2	422,364	(5,987,459)
Deferred tax effect on actuarial gain/(loss)	32	(118,262)	-
		304,102	**(5,987,459)**
Surplus from revaluation of property,plant & equipment		17,000,000	51,613,544
Deferred tax effect on revaluation surplus		(4,760,000)	(36,629,270)
	36	**12,240,000**	**14,984,274**
Other comprehensive income for the year,net of tax		(30,749,339)	7,954,743
Total comprehensive income for the year,net of tax		**173,219,849**	**226,720,408**

The Accounting policies and Notes to the Financial Statements from pages 144 to 200 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2019	Notes	2019 Rs.	2018 Rs.
Assets			
Cash and bank balances	18	709,894,804	945,103,676
Placements with banks	19	223,544,462	235,195,816
Securities purchased under repurchase agreements	20	1,523,032,534	1,607,399,352
Factoring receivables	21	309,225,914	-
Gold loan receivables	22	2,009,717,061	1,256,365,855
Loan receivables	23	13,893,841,388	14,554,890,479
Lease and hire purchase receivables	24	1,970,566,792	1,566,536,595
Other assets	25	983,098,818	645,870,594
Financial instruments- available for sale	26	224,854,875	268,148,316
Property, plant & equipment	27	512,018,453	522,564,163
Intangible assets	28	59,186,081	78,044,789
Deferred Tax	32	136,072,888	96,961
Total Assets		**22,555,054,070**	**21,680,216,595**
Liabilities			
Bank overdraft		818,689,936	442,609,799
Due to other customers	29	17,115,400,246	16,391,947,289
Other borrowed funds	30	2,524,015,987	2,474,295,434
Other payables	31	157,322,643	62,080,903
Retirement benefit obligations	33	32,474,984	28,833,306
Total Liabilities		**20,647,903,796**	**19,399,766,731**
Equity			
Stated capital	34	2,002,269,999	2,002,269,999
Statutory reserve fund	35	260,448,732	219,654,894
Revaluation reserve	36	115,489,682	103,249,682
AFS Reserve	37	(105,770,012)	(62,476,571)
Retained earnings	38	(365,288,126)	17,751,860
Total Equity		1,907,150,275	2,280,449,864
Total Liabilities and Equity		**22,555,054,070**	**21,680,216,595**
Net asset value per share (Rs.)		28.08	33.57
Commitments and contingencies	43	177,451,688	15,137,300

We certify that these Financial Statements are presented in compliance with the requirements of the Companies Act No.7 of 2007.

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

The Board of Directors is responsible for these Financial Statements.Approved and 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 to the Financial Statements from pages 144 to 200 form an integral part of these Financial Statements.

26 June 2019
Colombo

STATEMENT OF CHANGES IN EQUITY

	Stated Capital Rs.	Statutory Reserve Fund Rs.	Revaluation Reserve Rs.	Available for Sale Reserve\ Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01 April 2017	1,692,615,435	175,901,761	88,265,408	(61,434,499)	(53,806,083)	1,841,542,022
Profit for the year	-	-	-	-	218,765,665	218,765,665
Other comprehensive income,net of tax	-	-	14,984,274	(1,042,072)	(5,987,459)	7,954,743
Transfer to Statutory Reserve Fund (Note 38)	-	43,753,133	-	-	(43,753,133)	-
Dividend paid	-	-	-	-	(97,467,130)	(97,467,130)
Issue of shares for convertible debts	309,654,564	-	-	-	-	309,654,564
Balance as at 31 March 2018	**2,002,269,999**	**219,654,894**	**103,249,682**	**(62,476,571)**	**17,751,860**	**2,280,449,864**
Impact of adopting SLFRS 9 as at 1 April 2018	-	-	-	-	(546,519,438)	(546,519,438)
Restated balance under SLFRS 9 as at 1 April 2018	**2,002,269,999**	**219,654,894**	**103,249,682**	**(62,476,571)**	**(528,767,578)**	**1,733,930,426**
Profit for the year	-	-	-	-	203,969,188	203,969,188
Other comprehensive income,net of tax	-	-	12,240,000	(43,293,441)	304,102	(30,749,339)
Transfer to Statutory Reserve Fund (Note 38)	-	40,793,838	-	-	(40,793,838)	-
Dividend paid	-	-	-	-	-	-
Balance as at 31 March 2019	**2,002,269,999**	**260,448,732**	**115,489,682**	**(105,770,012)**	**(365,288,126)**	**1,907,150,275**

The Accounting policies and Notes to the Financial Statements from pages 144 to 200 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 March 2019	2019 Rs.	2018 Rs.
Cash flows from operating activities		
Profit before taxation	**63,114,999**	**193,079,381**
Depreciation	65,458,955	71,778,785
Amortization	6,764,438	17,021,264
Profit on disposal of property, plant & equipment	(427,716)	(5,460,830)
(Profit)/Loss on sale of motor vehicles & real estate	-	28,959,436
Impairment charge	189,681,869	108,425,149
Provision for defined benefit plans	9,567,417	6,962,283
Interest Expenses	2,490,557,311	2,561,129,565
Exchange loss on FCY denoted loans	-	24,819,309
	2,761,602,273	**2,813,634,960**
Operating profit before working capital changes	2,824,717,272	3,006,714,341
(Increase)/Decrease in lease and hire purchase receivables	(381,622,161)	(755,457,367)
(Increase)/Decrease in factoring receivables	(309,225,914)	-
(Increase)/Decrease in gold loan receivables	(759,472,605)	(434,759,962)
(Increase)/Decrease in loan receivables	(122,590,990)	1,572,258,526
(Increase)/Decrease in financial investments - Loans & receivables	96,018,172	(64,772,752)
(Increase)/Decrease in financial investments - Available for sale	43,293,441	(84,996,809)
(Increase)/Decrease in other assets	(337,228,224)	(113,021,820)
Increase/(Decrease) in due to other customers	723,452,957	343,473,362
Increase/(Decrease) in other payables	95,241,740	(32,022,255)
	(952,133,585)	**430,700,923**
Cash generated from operating activities	1,872,583,687	3,437,415,264
Interest expense paid	(2,490,557,311)	(2,561,129,565)
Taxes Paid	-	(70,793,129)
Gratuity paid	(5,434,687)	(3,383,488)
Net cash outflow from operating activities	**(623,408,312)**	**802,109,082**
Cash flow from investing activities		
Purchase of property, plant and equipment and intangible assets	(39,443,739)	(47,696,621)
Proceeds from sale of property, plant and equipment	1,842,489	5,795,990
Net cash inflow/(outflow) from investing activities	**(37,601,250)**	**(41,900,631)**
Net cash outflow before financing activities	(661,009,561)	760,208,451
Cash flow from financing activities		
Dividends Paid	-	(97,467,130)
Proceeds from bank loans	3,100,000,000	1,150,000,000
Repayments of bank loans	(2,350,000,000)	(1,250,061,670)
Repayment of debentures	(565,880,000)	(127,059,832)
Net proceeds from other borrowings	(134,399,447)	(325,091,141)
Net cash inflow from financing activities	**49,720,553**	**(649,679,773)**
Net increase/(decrease) in cash and cash equivalents	(611,289,008)	110,528,678
Cash & cash equivalents as at the beginning of the year	502,493,877	391,965,199
Cash and cash equivalents as at end of the year	**(108,795,132)**	**502,493,877**
Analysis of the cash and cash equivalents at the end of the year		
Cash and bank balances	709,894,804	945,103,676
Bank overdraft	(818,689,936)	(442,609,799)
	(108,795,132)	**502,493,877**

The Accounting policies and Notes to the Financial Statements from pages 144 to 200 form an integral part of these Financial Statements.

SIGNIFICANT ACCOUNTING POLICIES

1. CORPORATE INFORMATION

1.1 General

Softlogic Finance PLC ("The Company"), is a public limited liability company incorporated and domiciled in Sri Lanka under the Companies Act No. 17 of 1982. The Company was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007 and it is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto and has listed in the Colombo Stock Exchange on 22 January 2009. The registered office of the Company is located at No.13, De Fonseka Place, Colombo 4.

1.2 Principal Activities and Nature of Operations

The Company provides a comprehensive range of financial services encompassing accepting deposits, providing finance lease, hire purchase, vehicle loan facilities, mortgage loans, gold loan, debt factoring, revolving loans and business/personal loans.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking /ultimate parent and the controlling party is Softlogic Capital PLC (formerly known as Capital 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.

2. BASIS OF PREPARATION

The principal accounting policies adopted in the preparation of these annual financial statements are noted below.

2.1 Statement of Compliance

The Financial Statements of the Company, which comprise Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs & LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of these Financial Statements as per Sri Lanka Accounting Standards (SLFRS/ LKAS) and the provisions of the Companies Act No.7 of 2007.

2.3 Approval of Financial Statements by Directors

The Financial Statements of the Company as at and for the year ended 31 March 2019 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 26 June 2019.

This is the first set of Annual Financial Statements in which SLFRS 9 – Financial Instruments and SLFRS15 - Revenue from Contracts with Customers have been applied. The changes to the significant accounting policies are described in Note 3 to the Financial Statements.

2.4 Basis of Measurement

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following items in the Statement of Financial Position.

- Available for Sale Financial Instruments (applicable before 1st April 2018) at fair value (Note 26)
- Freehold land, which is measured at cost at the time of acquisition subsequently, measured at revalued amounts, which are the fair values at the date of revaluation (Note 27)
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation less the fair value of the plan assets (Note 33)

2.5 Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees (Rs.), which is the currency of the primary economic environment in which Softlogic Finance PLC operates. The Financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee unless indicated otherwise. There was no change in the Company's presentation and functional currency during the year under review.

2.6 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the Note 40.

2.7 Materiality and Aggregation
In compliance with Sri Lanka Accounting Standard -LKAS 01(Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position 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 income statement unless required or permitted by an Accounting Standard.

2.8 Comparative Information
The comparative information is re-classified whenever necessary to conform to the current year's presentation the details of which are given in Note 6 to the Financial Statements.

The comparative information has not been restated due to adoption of SLFRS 9, as explained in Note 3.

2.9 Statement of Cash Flow
The cash flow statement has been prepared by using the indirect method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby operating, investing and financial activities have been separately recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents include cash in hand, balances with banks, placements with banks (less than 3 months), net of unfavourable bank balances and securities purchased under repurchase agreement (less than three months).

2.10 Events After the Reporting Date
Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

No circumstances have arisen since the reporting date, which would require adjustments to, or disclosure in the financial statements, other than those disclosed in Note 43 to the Financial Statements.

2.11 Significant Accounting Judgements, 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 income, expenses, assets and liabilities and the accompanying disclosures as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with in next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond Company's control and are reflected in the assumptions if and when they occur.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows.

2.11.1 Going Concern
The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and does not intend either to liquidate or to cease operations. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.11.2 Impairment losses on loans and receivables
The measurement of impairment losses under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates driven by a number of factors, changes in which can result in different levels of allowances.

SIGNIFICANT ACCOUNTING POLICIES

Applicable from 1 April 2018

The Company's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their independencies. The elements of the ECL models that are considered accounting judgements and estimates include.

- The Company's internal credit grading system, which assigns PDs to the individual grades
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their fair values when their ECL is assessed on a collective basis.
- Development of ECLs, models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of default (PDs), Exposure at default (EADs) and loss given default (LGDs).
- Selection of forward –looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Applicable before 1 April 2018

The Company reviews its individually significant loans and advances at each financial reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement was required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates were based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such also an type, asset type and past due status etc., and judgements on the effect of concentrations of risks and economic data including levels of unemployment, consumer prices indices, interest rates, exchange rates). Impairment of loans and receivables is discussed in detail under Note 21 to 24 to the Financial Statements.

It is the Company's policy to regularly review its models in the context of actual loss experience and adjust whenever necessary.

2.11.3 Fair Value of Financial Instruments

The determination of fair value of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instrument is described in Note 41 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in Note 41 to the Financial Statements.

2.11.4 Financial Assets and Financial Liabilities Classification

The Company's accounting policies provide scope for assets and liabilities to be classified, at inception in to different accounting categories. The classification of financial instrument is given in Note 6 "Analysis of Financial Instruments by Measurement Basis".

2.11.5 Taxation

The Company is subject to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

The Company has adopted the requirements of the New Inland Revenue Act 24 of 2017 which was effective from 1 April 2018 and deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. 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.

2.11.6 Defined Benefit Plans

The cost of Defined Benefit Pension Plan is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. 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 extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate for the Company. The sensitivity of assumptions used in actuarial valuations are set out in Note 33 to the Financial Statements.

2.11.7 Fair value of Property, plant & Equipment

The free hold land of the Company is reflected at fair value at the date of revaluation less any accumulated impairment losses. The Company engages independent valuation specialists to determine fair value of free hold land in terms of Sri Lanka Accounting Standard –SLFRS 13, (Fair Value Measurement).The details of freehold land including methods of valuation are given in Note 27 to the Financial Statements.

2.11.8 Useful Life-time of the Property, Plant, Equipment and Intangible Assets

The Company reviews the residual values, useful lives and methods of depreciation and amortization of property, plant, equipment and intangible assets at each reporting date. The judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.11.9 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 42 to the Financial Statements.

3. CHANGES IN ACCOUNTING POLICIES

The Company has adopted SLFRS 9 –Financial Instruments, SLFRS 7 (Revised) - Financial Instruments Disclosures, SLFRS 15-Revenue from Contracts with Customers, effective for annual periods beginning on or after 01 April 2018, for the first time. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

SLFRS 9 -Financial Instruments

The Company has initially adopted SLFRS 9 with the date of transition as 1st April 2018. The Company has not early adopted this standard in previous periods. The adoption of SLFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. SLFRS 9 significantly amends the other standards dealing with financial instruments such as SLFRS 7 'Financial Instruments: Disclosure'.

As permitted by the transitional provisions of SLFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities, at the date of transition were recognized in the retained earnings as at 1 April 2018. Accordingly, the information presented for year ended 31 March 2017 does not reflect the requirements of SLFRS 9 and therefore not comparable to the information presented for the year ended 31 March 2018 under SLFRS 9.

SLFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement. The requirements of SLFRS 9 represents a significant change from LKAS 39. This new standard brings fundamental changes to the accounting for financial assets and to certain aspects of accounting for financial liabilities.

Additionally, the Company has adopted consequential amendments to SLFRS 7 Financial Instruments: Disclosures that are applied to disclosures of 2018, but have not been applied to the comparative information.

The key changes to the Company's accounting policies resulting from its adoption of SLFRS 9 are summarised below. The full impact of adopting SLFRS 9 is set out in Note 6 to the Financial Statements.

Classification of Financial Assets & Financial Liabilities

SLFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and Fair value through Profit & Loss (FVTPL). SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI),with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

SLFRS 9 largely retains the existing requirements in LKAS 39 for classification of Financial Liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows.

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

The Company's classification of its financial assets and liabilities is explained in Note 17 to the Financial Statements. The quantitative impact of applying SLFRS 9 as at 1 April 2018 is disclosed in Note 6 to the Financial Statements.

Impairment of financial assets

The adoption of SLFRS 9 has fundamentally changed the Company's accounting for loan loss impairments by replacing LKAS 39's incurred loss approach with a forward looking expected credit loss (ECL) approach. The SLFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Company's impairment method are disclosed in Note 4.1.9 to the Financial Statements. The quantitative impact of applying SLFRS 9 as at 1 April 2018 is disclosed in Note 6 to the Financial Statements.

To reflect the differences between SLFRS 9 and LKAS 39, Financial Instruments: Disclosures was updated and the Company has adopted it, together with SLFRS 7, for the year beginning 1 April 2018.Changes include transition disclosures as shown in Note 6, detailed information about the ECL calculations such as assumptions and inputs are set out in Note 4.1.9 to the Financial Statements.

SLFRS 15 –Revenue from Contracts with Customers

The Company has also adopted SLFRS 15 on 1 April 2018 prospectively. The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Company. Accordingly, the impact of comparative information is limited to new disclosure requirements.

Except for the changes mentioned above, the Company has consistently applied the accounting policies for all periods presented in these Financial Statements.

4. GENERAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements except for the changes mentioned in Note 3 to the Financial Statements.

4.1 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

4.1.1 Date of Recognition

All financial assets and liabilities are initially recognised on the trade date.i.e.the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trade means purchases or sales of financial assets with in the time frame generally established by regulation or convention in the market place.

4.1.2 Initial measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value ,except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL),transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for "Day 1 profit or loss", as described below.

4.1.3 Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Income Statement over the tenor of the financial instrument using effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Income Statement when the inputs become observable, or when the instrument is derecognised.

4.1.4 Measurement categories of Financial Assets and Financial Liabilities

4.1.4 (a) Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at,

- Amortised cost,
- fair value through other comprehensive income (FVOCI) or
- Fair value through profit or loss. (FVPL)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

4.1.4 (a) (i). Financial Assets at Amortised cost :

The Company only measures loans, receivables, and other financial investments, at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Loans and Receivables consist of cash and bank balances, securities purchased under repurchase agreements, factoring receivables, lease receivables, hire purchase receivables, loan receivables, gold loan receivables and other assets.

The details of the above conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflect how it manages groups of financial assets to achieve its business objective.

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 assets 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 values of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, 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 going forward.

The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal 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 the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms of that introduce a more than de minimis exposure to risks 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 payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

4.1.4 (a) (ii)Equity instruments at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Currently, the Company has recorded its non- quoted equity investments FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 26 to the Financial Statements.

4.1.4 (a) (iii)Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortised Cost in the form of term loans, short term loans, debentures, commercial papers and securitizations.

4.1.4 (b) Policy applicable before 1 April 2018

The Company classified its financial assets into one of the following categories, as per Sri Lanka Accounting Standard LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

a) Financial assets at Fair value through profit or loss (FVTPL);
b) Loans & Receivables (L&R)
c) Held to Maturity (HTM) Financial assets
d) Financial assets available for sale

The Company determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the investments were acquired or originated and based on the Company's ability to hold.

Subsequent measurement of financial assets depends on their classification.

a) Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

The Company does not have financial assets under this category.

b) Financial Assets Available for Sale

Financial Assets available for sale include equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

The Company's equity investments have classified under this category and he details of available for sale financial assets are given in Note 26 to the Financial Statements.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains or losses are recognised directly in equity (Other Comprehensive Income) in the 'Available for Sale Reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in 'Other Operating Income'. When the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the effective interest rate (EIR).

Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Income Statement in 'impairment charges for loans and other losses' and removed from the Available for Sale Reserve.

Currently, the Company has recorded its non- quoted equity investments classified as available for sale financial instruments at cost less impairment if any.

c) Held to Maturity Financial Assets

Held to Maturity Financial assets are non- derivative financial assets with fixed or determinable payments and fixed maturities, which the company has the intention and ability to hold to maturity. This includes investment in government securities.

After the initial measurement, held to maturity financial instruments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement in 'impairment charges for loans and other losses'.

If the Company were to sell or reclassify more than an insignificant amount of Held to Maturity investments before maturity (other than in certain specific circumstances) the entire category would be tainted and would be reclassified as available for sale. Furthermore, the Company would be prohibited from classifying any financial assets as held to maturity during the following two years.

The Company does not have financial assets under this category.

d) 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 in the near term and those that, upon initial recognition, designates as 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 investments, other than because of credit deterioration

After initial measurement, 'Loans and Receivables' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking in to account any discount or premium on acquisition, fees, and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in impairment charges for loans and receivables' in the Income Statement.

Loans and Receivables consist of cash and bank balances, securities purchased under repurchase agreements, factoring receivables, lease and hire purchase receivables, loan receivables, gold loan receivables and other assets.

Cash and Bank balances

Cash and bank balances comprise cash in hand, balances with banks, loans at call and at short notice that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short-term commitments. Details of cash and bank balances are given in Note 18 to Financial Statements.

4.1.5 Classification and Subsequent Measurement of Financial Liabilities

Financial liabilities, other than loan commitments and financial guarantees, are classified as,

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)

   a) Financial liabilities held for trading

   b) Financial liabilities designated at fair value through profit or loss

(ii) Financial liabilities at amortised cost, when they are held for trading and derivative instruments or the fair value designation is applied.

The subsequent measurement of financial liabilities depends on their classification.

i. Financial Liabilities at Fair Value Through Profit or Loss (FVTPL)

Financial Liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognized in Income Statement.

ii. Financial Liabilities at Amortised Cost

Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as financial liabilities at amortised cost under 'bank overdraft', 'due to other customers', 'debt issued and other borrowed funds' and 'other payables' 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 the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortised cost using EIR method.

After initial recognition, such financial liabilities are substantially 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 Income Statement. Gains and losses are recognized in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortised Cost in the form of term loans, short term loans and debentures.

4.1.6 Reclassifications of Financial assets and Financial Liabilities

From 1 April 2018, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities as at 31 March 2018.

4.1.7 Derecognition of Financial Assets and Financial Liabilities

4.1.7 (a) Derecognition of 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 financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset, if and only if, either:

- The Company has transferred its contractual rights to receive cash flows from the financial asset

  Or

- It retains the rights to cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'),but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if 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

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received(including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises as 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 the Company could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

4.1.7 (b) Derecognition - 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 derecognition 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.

4.1.8. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 41 to the Financial Statements.

4.1.9 Impairment of Financial Assets

4.1.9 (i).Policy applicable from 1 April 2018

a. Overview of the expected credit loss (ECL) principles
The Company recognises expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 42.4.1.(b).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform as assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

Stage 1 : When loans are first recognised, the Company recognises an allowance based on 12mECLs.Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2 : When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3 : Loans considered credit-impaired. The Company records an allowance for the LTECLs.

POCI : Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

b. The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the 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 calculations are outlined below and the key elements are, as follows.

PD : The probability of Default 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.

EAD : The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments.

LGD : The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The mechanism of the ECL method are summarised below.

Stage 1 : The 12mECL is calculated as the portion of LTECLs that represent the ECLs that represent the ECLs that result from default events on a financial instrument that are possible with in the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage2 : When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3 : For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Loan

Commitments :

When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For factoring receivables and revolving loans that include both a loan and an undrawn commitment. ECLs are calculated and presented with the loan.

Financial Guarantee contracts :

The Company's liability under each guarantee is measured at the higher of the initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability – weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

c. Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to Income Statement. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

d. Debt factoring and revolving loans

The Company's product offering includes debt factoring and revolving loan facilities, in which the Company has the right to cancel and/or reduce the facilities within a short notice. The Company does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Company's expectations of the customer behaviour, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is limited to 12 months.

The ongoing assessment of whether a significant increase in credit risk has occurred for debt factoring and revolving loan facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in utilization.

e.Forward looking information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rate
- Central Bank base rates
- Inflation

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

4.1.9 (ii) Policy applicable before 1 April 2018

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

Evidence of impairment may include: indications that the borrower or a group of borrowers are experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation default or delinquency in interest or principal payments; and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

a. Financial Assets carried at Amortised Cost

(i).Individually assessed Loans and Receivables-Factoring and Loans

For financial assets carried at amortised cost (such as loans and advances to customers as well as held to maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

The criteria used to determine that there is such objective evidence includes:

- 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 realisation; and
- Significant downgrading in credit rating by an external credit rating agency

SIGNIFICANT ACCOUNTING POLICIES

For those loans where objective evidence of impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in Income Statement.

The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

(ii). Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Company has incurred as a result of events occurring before the reporting date, which the Company is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk; and
- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

(iii). Collectively assessed Loans and Receivables

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that are not considered individually significant.

(iv). Homogeneous groups of Loans and Advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

- When the group of loan by nature short term, the company use net flow rate method

Under this methodology the movement in the outstanding balance of customers in to bad categories 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 Group is not able to identify on an individual loan basis, and that can be reliably estimated.

Under the methodology, loans are grouped into 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.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required covering inherent loss.

These additional macro and portfolio risk factors may include:

- recent loan portfolio growth and product mix,
- unemployment rates, Gross Domestic Production (GDP) growth, inflation
- exchange rates, interest rates
- changes in government laws and regulations

b. Available for Sale Financial Investments

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

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Company treats 'significant 'generally as 20% and 'prolonged' generally as greater than six months. 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 equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

c. Held to Maturity Financial Assets

An impairment loss in respect of held to maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of future cash flows discounted at the asset's original EIR and is recognised in profit or loss. Interest on impaired asset continues to be recognised through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

4.1.9 (iii) 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 income statement.

4.1.9 (iv). Renegotiated Loans

The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan renegotiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

From 1 April 2018,when the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 40. The Company also considers whether the assets should be classified as Stage 3.

If modifications are substantial, the loan is derecognised as explained in Note 4.1.9(iv).

4.1.9 (v). Write-off of Financial Assets at Amortised Cost

The Company's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

4.1.9 (vi). Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letter of credit/ guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

4.1.9 (vii). Collateral repossessed

The Company's accounting policy under SLFRS 9 remains same as it was under LKAS 39.The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

4.1.9 (viii). 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 currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

Income and expenses are presented on a net basis only when permitted under LKAS/ SLFRS, or for gains and losses arising from a group of similar transactions such as in the group's trading activity.

4.2 Finance and Operating Lease

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

4.2.1 Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease Receivable". The finance income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Company is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' and the corresponding liability to the lessor is including 'Other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Net interest income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

The details of Finance Lease Receivables are given in Note 24 to the Financial Statements.

4.2.2 Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'other operating expenses' and 'other operating income', respectively.

4.3 Property, Plant & Equipment

4.3.1 Recognition

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period.

The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

4.3.2 Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of an item of property, plant & equipment. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

4.3.3 Cost Model

The Company applies the cost model to property, plant &equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

4.3.4 Revaluation Model

The Company applies the revaluation model to the entire class of freehold land. Such properties are carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses. Freehold land of the Company are revalued every three years or more frequently if the fair values are substantially different from carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date. The Company has revalued its freehold land during the financial year 2018 and details of the revaluation are given in Note 27 to the Financial Statements.

On revaluation of an asset, any increase in the carrying amount is recognised in 'Other comprehensive income 'and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Income Statement. In these circumstances, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited to the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset.

The decrease recognised in other comprehensive income reduces the amount accumulated in equity under revaluation reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

4.3.5 Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be reliably measured. The costs of the day to day servicing of property, plant and equipment are charged to the Income Statement as incurred.

4.3.6 Repairs and Maintenance

Repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

4.3.7 Capital Work -in -Progress

Capital work in progress is stated at cost. It would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work in progress is stated at cost less any accumulated impairment losses.

4.3.8 Borrowing Costs

As per Sri Lanka Accounting Standard- LKAS 23 on 'Borrowing Costs', the company capitalizes the borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

4.3.9 De-recognition

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

4.3.10 Depreciation

Depreciation is recognized in income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant &equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The company has changed the usable period of motor vehicle from 4 years to 5 years considering the sale & repurchase agreement of its majority of motor vehicle assets.

The rates of depreciations based on the estimated useful lives are as follows:

	2019	2018
Buildings	5.00 % p.a.	5.00 % p.a.
Office Equipment	20.00 % p.a.	20.00 % p.a.
Furniture and fittings	15.00% p.a.	15.00% p.a.
Office Partitioning	15.00% p.a.	15.00% p.a.
Motor Vehicles	20.00% p.a.	25.00% p.a.

4.3.11 Change in Estimates

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

4.4 Intangible Assets

The Company's intangible assets include the value of computer software.

SIGNIFICANT ACCOUNTING POLICIES

4.4.1 Basis of Recognition

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 in accordance with the Sri Lanka Accounting Standard LKAS 38 on Intangible assets.

Intangible assets acquired are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses if any.

4.4.2 Subsequent Expenditure

Subsequent expenditure on Intangible Asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

4.4.3 Useful Economic life, Amortization and Impairment

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 financial year–end. 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 income statement in the expense category consistent with the function of the intangible asset.

4.4.4 Amortization

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual value over their estimated useful life as follows:

The Class of Intangible Assets	Useful Life	Amortisation Method
Computer software	5 Years	Straight line method
Core Computer Software	10 Years	Straight line method

The unamortized balances of Intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

4.4.5 Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. 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 recognised in the profit or loss in the year the asset is derecognised.

4.5 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 such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset 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.

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 estimates 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 Income Statement.

4.6 Dividend Payable

Dividends on ordinary shares are recognised as a liability and deducted in equity when they are recommended and declared by the Board of Directors and approved by the shareholders.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date in accordance with the Sri Lanka Accounting Standard – LKAS 10 on 'Events after the reporting period'.

4.7 Retirement Benefit Obligations

4.7.1 Defined Benefit Plan - Gratuity

All the employees of the company are eligible for 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 of the financial year 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 Company measures the present value of the promised retirement benefits for gratuity which is a defined benefit plan with the advice of an independent professional actuary using projected unit credit actuarial cost method as required by Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The item is stated under other liabilities in the Statement of Financial Position.

Recognition of Actuarial Gains and Losses

The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

Interest Cost

Interest cost is the expected increase due to interest at the end of the year. (The benefits are one year closer to settlement).

Funding Arrangements

The Gratuity liability is not externally funded.

4.7.2 Defined Contribution Plans

The Company also contributes defined contribution plans. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

The Company contributes to the following Schemes:

Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively of the employee's total earnings (as defined in the Employees' Provident Fund) to the Employees' Provident Fund.

Employees' Trust Fund

The Company contributes 3% of the employee's total earnings (as defined in the Employees' Trust Fund) to the Employees' Trust Fund.

4.8 Statutory Reserve Fund

The reserves recorded in the equity on the Company's Statement of Financial Position includes the 'Statutory reserve fund' which has been created in accordance with the Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. Accordingly, 20% of the net profit for the period is transferred to the Statutory reserve fund during the financial year.

4.9 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with Sri Lanka Accounting Standard – LKAS 37 on 'provision, contingent liabilities and contingent assets'.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligations at that date.

The expense relating to any provision is presented in the income statement net of any reimbursement.

4.10 Recognition of Interest Income Interest Expense

4.10.1 Interest Income Interest Expense

Under both SLFRS 9 and LKAS 39, interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under LKAS 39 is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The EIR (and therefore, the amortised cost of the asset/ liability) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income/ expense using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset/liability are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income/interest expense. The adjustment is subsequently amortised through Interest income/Interest expense in the income statement.

When a financial asset becomes credit-impaired (as set out in Note 42.4.1. (a)) and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate under net interest income.

4.10.2 Interest Income on Overdue Rentals

Interest from overdue rentals has been accounted for on cash received basis.

4.11 Fee and Commission Income and Expenses

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Company first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

The Company earns a fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided in to two categories.

a) Fee Income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period.

b) Fee Income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party.

4.12 Other operating income

(a) Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

(b) Recovery of Bad Debts Written Off

Recovery of amounts written off as bad and doubtful debts is recognised when received.

(c) Other Income

Other income is recognised on an accrual basis.

4.13 Personnel Expenses

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay all employee benefits relating to employee services in the current and prior periods and the obligation can be estimated reliably.

4.14 Taxes

As per Sri Lanka Accounting Standard –LKAS 12(Income Taxes),tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised in equity or in other comprehensive income.

4.14.1 Current tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantially enacted on the reporting date and any adjustment to the tax payable in respect of prior years.

Accordingly, provision for taxation is based on the profit for the year 2018 adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017(Inland Revenue Act No.10 of 2006 and amendments thereto up to 31 March 2018) and the amendment thereto, at the rate specified in Note 14 to the Financial Statements.

4.14.2 Deferred tax

Deferred tax is recognisedusing the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of current tax liabilities and deferred tax liabilities / (assets) are given in Note 32 to the Financial Statements respectively.

4.14.3 Value Added Tax (VAT) on Financial Services

VAT on financial services is calculated in accordance with the Value Added Tax (VAT) Act No.14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax, adjusted for the economic depreciation and emoluments payable to employees including cash, non-cash benefits and provisions relating to terminal benefits.

4.14.4 Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

4.14.5 Debt Repayment Levy

As per the provisions of the Finance Act No.35 of 2018, Debt repayment levy has been imposed for a limited period from 01 October 2018 to 31 December 2021.

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25C of the Value Added Tax (VAT) Act No. 14 of 2002.

4.14.6 Withholding Tax (WHT) on Dividends

Withholding tax on dividends distributed by the Company that arise from the distribution of dividends of the company is recognised at the time of liability to pay the related dividend is recognized. At present, the rate of 14 % (Up to 31 March 2018-10%) is deducted at source.

4.14.7 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006, and subsequent amendments thereto, the ESC is payable at 0.5% on liable gross turnover of the Company and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years.

4.15 Regulatory provisions

4.15.1 Deposit Insurance and Liquidity Support Scheme

In terms of the Finance Companies Direction No.2 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments thereto, all Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No.1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1 October 2010. The said Scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No. 1 of 2013.

The deposits to be insured shall include demand, time and savings deposit liabilities and exclude the following.

- Deposit liabilities to member institutions
- Deposit liabilities to the Government of Sri Lanka

- Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Finance Companies Act(Corporate Governance) Direction No.3 of 2008 for Registered Finance Companies
- Deposit liabilities held as collateral against any accommodation granted
- Deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.

Registered Finance Companies are required to pay a premium of 0.15% on total amount of eligible deposits as at end of the month with in a period of 15 days from the end of the respective month.

4.15.2 Crop Insurance Levy (CIL)

In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No.30 of 1988, Finance Business Act No.42 of 2011 and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 01 April 2013.

4.16 Earnings per Share (EPS)

Basic EPS is calculated by dividing the net profit or loss attributable to ordinary equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares if any.

4.17 Commitments and Contingencies

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent liabilities and Contingent assets'.

Financial guarantees and undrawn loan commitments

The Company issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the Financial Statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and - under LKAS 39 - the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or - under SLFRS 9 - an ECL provision.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under LKAS 39, a provision was made if they were an onerous contract but, from 1 April 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments are disclosed in Note 42.

5. SRI LANKA ACCOUNTING STANDARDS NOT YET EFFECTIVE AS AT 31 MARCH 2019

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka, which is not yet effective as at 31st March 2019. The Company intends to adopt these standards, if applicable, when they become effective.

A. SLFRS 16- LEASES

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations.

The Company is required to adopt SLFRS 16 Leases from 1 January 2019. The Company has done a preliminary assessment of the impact that the initial application of SLFRS 16 will have on its financial statements. The actual impact of adopting the standard on 1 January 2019 may change because:

- the Company has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

SLFRS 16 introduces a single, on-balance sheet lease accounting model for lessees eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

SLFRS 16 replaces existing leases guidance, including LKAS 17 Leases.

Leases in which the Company is a lessee

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying SLFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Company's lease portfolio, the Company's assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

The new standard requires a lessee to:

- Recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company will recognise new assets and liabilities for its operating leases of branch and office premises. The nature of expenses related to these leases will now change because SLFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

No significant impact is expected for the Company's finance leases.

Transition

The Company plans to apply SLFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting SLFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply SLFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with LKAS 17. The impact on the implementation of the above Standard has not been quantified yet.

NOTES TO THE FINANCIAL STATEMENTS

6. TRANSITION DISCLOSURES

The following set out the impact of adopting SLFRS 9 on the Statement of Financial Position,and retained earnings including the effect of replacing LKAS 39's incurred loss calculations with SLFRS 9's expected credit losses.

6.1 A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 1st April 2018 is,as follows.

	LKAS 39 Measurement		Reclassi-fication	Remeasurement		SLFRS 9	
	Category	Amount Rs.	Rs.	ECL Rs.	Other Rs.	Amount Rs.	Category
Assets							
Cash and bank balances		945,103,676	-	-	-	945,103,676	
Placements with banks	L&R	235,195,816	-	(450,692)	-	234,745,123	Amortised cost
Securities purchased under repurchase agreements	L&R	1,607,399,352	-	-	-	1,607,399,352	Amortised cost
Gold loan receivables	L&R	1,256,365,855	-	(2,001,206)	-	1,254,364,649	Amortised cost
Loan receivables	L&R	14,554,890,479	-	(592,062,447)	-	13,962,828,033	Amortised cost
Lease and hire purchase receivables	L&R	1,566,536,595	-	1,863,815	-	1,568,400,410	Amortised cost
Other assets	L&R	645,870,594	-	46,131,092	-	692,001,685	Amortised cost
Financial instruments- available for sale	AFS	268,148,316	-		-	268,148,316	FVOCI
Property, plant & equipment		522,564,163	-	-	-	522,564,163	
Intangible assets		78,044,789	-	-	-	78,044,789	
Deferred Tax		96,961	-	-	-	96,961	
Total Assets		**21,680,216,595**	**-**	**(546,519,438)**	**-**	**21,133,697,157**	
Liabilities							
Bank overdraft	Amortised cost	442,609,799	-	-	-	442,609,799	Amortised cost
Due to other customers	Amortised cost	16,391,947,289	-	-	-	16,391,947,289	Amortised cost
Other borrowed funds	Amortised cost	2,474,295,434	-	-	-	2,474,295,434	Amortised cost
Other payables		62,080,903	-	-	-	62,080,903	
Retirement benefit obligations		28,833,306	-	-	-	28,833,306	
Total Liabilities		**19,399,766,731**	**-**	**-**	**-**	**19,399,766,731**	
Equity							
Stated capital		2,002,269,999	-	-	-	2,002,269,999	
Statutory reserve fund		219,654,894	-	-	-	219,654,894	
Revaluation reserve		103,249,682	-	-	-	103,249,682	
AFS Reserve		(62,476,571)	-	-	-	(62,476,571)	
Retained earnings		17,751,860	-	(546,519,438)	-	(528,767,579)	
Total Equity		**2,280,449,864**	**-**	**(546,519,438)**	**-**	**1,733,930,426**	
Total Liabilities and Equity		**21,680,216,595**	**-**	**(546,519,438)**	**-**	**21,133,697,157**	

L&R : Loans & receivables

AFS : Available-for-sale

HTM : Held-to-maturity

FVOCI: Fair value through other comprehensive income

C. The impact of adopting SLFRS 9 on deffered tax is set out under Note 6.2 to the Financial Statements.

6. TRANSITION DISCLOSURES (CONTD.)

6.2 The impact of transition to SLFRS 9 on retained earnings, is as follows.

	Retained earnings Rs.
Closing balance under LKAS 39 as at 31st March 2018	**17,751,860**
Remeasurement adjustments on adoption of SLFRS 9	
Impact of expected credit losses under SLFRS 9	546,519,438
Opening balance under SLFRS 9 as at 1st April 2018	**(528,767,578)**

6.3 The following table reconciles the aggregate opening loan loss provision allowances under LKAS 39 to the ECL allowances under SLFRS 9.

	Note	Loan loss provision under LKAS 39 as at 31 March 2018 Rs.	Re-measurement Rs.	ECLs under SLFRS 9 as at 1 April 2018 Rs.
Placements with Banks		-	450,692	450,692
Gold loan receivables	22.3	726,810	2,001,206	2,728,016
Loan receivables	23.4	623,240,502	592,062,447	1,215,302,949
Lease and hire purchase receivables	24.5	211,827,525	(1,863,815)	209,963,710
Other Assets		104,819,136	(46,131,092)	58,688,044
		940,613,973	**546,519,438**	**1,487,133,411**

7. NET INTEREST INCOME

7.1 Interest income

	2019 Rs.	2018 Rs.
Interest income		
Interest income on lease receivables	397,647,755	117,758,265
Interest income on hire purchase receivables	4,880,537	17,026,813
Interest income on factoring receivables	20,346,431	-
Interest income on SME and other loan receivables	2,295,473,039	2,306,582,533
Interest income on personal loan receivables	161,574,708	320,828,261
Interest income on gold loan receivables	407,957,907	239,388,641
Interest income on revolving loan receivables	192,750,000	218,111,987
Interest income on government securities	159,972,870	206,534,644
Interest income on placements with banks	33,846,312	97,324,790
Total interest income	**3,674,449,559**	**3,523,555,934**

7. NET INTEREST INCOME (CONTD.)

7.2 Interest expenses

	2019 Rs.	2018 Rs.
Due to customers		
Interest expenses on time deposits	2,075,291,731	2,169,951,431
Interest expenses on savings deposits	2,826,236	3,380,675
Due to banks		
Interest expenses on bank borrowings	212,708,924	142,138,147
Other borrowed funds		
Interest expenses on securitised borrowings	51,117,868	45,625,290
Interest expenses on debentures	148,612,552	200,034,022
Total interest expenses	**2,490,557,311**	**2,561,129,565**
Net interest income	**1,183,892,248**	**962,426,369**

8. NET FEE AND COMMISSION INCOME

	2019 Rs.	2018 Rs.
Documentation and processing fees	79,922,999	94,636,431
SME fee income	140,286,192	373,411,140
Sundry Income	5,470,442	2,287,921
Total fee and commission income	**225,679,633**	**470,335,492**

9. OTHER OPERATING INCOME

	2019 Rs.	2018 Rs.
Profit on disposal of property, plant and equipment	427,716	5,460,830
Profit from sale of real estates	-	3,040,564
Recovery of bad debts written off	80,129,694	102,333,252
Income from hiring vehicles	35,377,180	36,876,343
Dividend income	2,828,289	4,791,000
Total other operating income	**118,762,879**	**152,501,989**

10. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS AND OTHER LOSSES

10.1 The table below shows the expected credit loss (ECL) charges for financial instruments for the year ended 31.03.2019 recorded in the income statement.

	2019 Rs. Stage 1	2019 Rs. Stage 2	2019 Rs. Stage 3	2019 Rs. Total
Lease & hire purchase receivables	6,034,415	13,807,081	57,474,324	77,315,820
Gold Loans	480,939	40,952	1,597,095	2,118,986
Loan receivables	(153,004,537)	27,214,410	249,085,405	123,295,278
Other receivables	(210,454)	(256,649)	(12,581,112)	(13,048,215)
Write offs	-	-	-	-
	(146,699,637)	**40,805,794**	**295,575,712**	**189,681,869**

10.2 The following shows the impairment charges recorded in the income statement under LKAS 39 during the financial year 2017/18.

	Individual 2018 Rs.	Collective 2018 Rs.	Total 2018 Rs.
Lease receivables	3,407,255	(42,810,055)	(39,402,800)
Hire purchase receivables	357,735	20,954,647	21,312,382
Loan receivables	8,517,372	117,998,195	126,515,567
	12,282,362	**96,142,787**	**108,425,149**

11. PERSONNEL EXPENSES

	2019 Rs.	2018 Rs.
Salaries and bonus	378,634,086	404,554,844
Contribution to defined contribution plan	51,423,641	46,644,837
Gratuity charge for the year	9,145,053	6,962,283
Others	8,368,954	7,608,437
	447,571,734	**465,770,401**

12. OTHER OPEARATING EXPENSES

	2019 Rs.	2018 Rs.
Directors' emoluments	5,470,500	4,912,192
Auditors' remuneration	5,275,000	3,567,760
Professional & legal expenses	71,370,589	47,093,018
Depreciation on property, plant & equipment	65,458,955	71,778,785
Amortization of intangible assets	6,764,438	17,021,264
Deposit insurance premium	22,498,000	26,152,039
Secretarial Fee	2,312,277	1,430,691
Office administration & establishment expenses	561,700,315	453,607,629
Advertising expenses	63,725,414	67,966,684
Other expenses	22,032,606	25,129,850
	826,608,094	**718,659,912**

13. TAXES ON FINANCIAL SERVICES

	2019 Rs.	2018 Rs.
Value added tax on financial services	(7,159,552)	87,643,242
Nation building tax on financial services	(954,607)	11,685,766
Debt repayment levy on financial services	9,472,224	-
	1,358,065	**99,329,008**

14. INCOME TAX EXPENSE

14.1 The major components of income tax expense for the year ended 31st March are as follows.

Income statement	2019 Rs.	2018 Rs.
Current tax expense		
Income tax for the year	-	39,444,521
Under/ (Over) provision of current taxes in respect of previous years	-	-
	-	**39,444,521**
Deferred tax expense		
Deferred taxation charge (refer note 32)	(140,854,189)	(65,130,805)
	(140,854,189)	**(25,686,284)**

14. INCOME TAX EXPENSE (CONTD.)

14.2 A reconciliation of the accounting profit to current tax expense is as follows.

	2019 Rs.	2018 Rs.
Accounting profit before income taxation	**63,114,999**	**193,079,381**
At the statutory income tax rate of 28%	17,672,200	54,062,227
Tax effect of non deductible expenses	33,978,780	75,168,688
Tax effect of other allowable credits	(77,078,602)	(63,682,705)
Tax effect of lease capital generation	32,315,811	(26,103,689)
Tax effect of losses claimed	(24,205,077)	-
Under/ (Over) provision of current taxes in respect of previous years	-	-
Deferred tax expense	(140,854,189)	(65,130,805)
	(158,171,077)	**(25,686,284)**

The Company's income is taxed at the rate of 28% during the years 2019 and 2018.

15. EARNINGS PER ORDINARY SHARE - BASIC/DILUTED (Rs.)

	2019	2018
Profit attributable to ordinary shareholders (Rs. 000)	203,969,188	218,765,665
Weighted average number of ordinary shares during the year (15.1)	67,928,384	59,143,789
Basic/Diluted earnings per ordinary share- (Rs.)	3.00	3.70

15.1 Weighted average number of ordinary shares (basic)

	Outstanding No: of Shares		Weighted Average No: of Shares	
	2019	2018	2019	2018
Number of shares in issue as at 1 April	67,928,384	59,070,988	-	-
Add: New shares		8,857,396	-	-
Number of shares in issue/weighted average number of ordinary shares at 31st March	67,928,384	67,928,384	67,928,384	59,143,789

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements, which would require the restatement of EPS.

16. DIVIDEND PAID

	2019	2018
Paid during the year	-	97,467,130
Number of Ordinary Shares	67,928,384	59,070,988
Dividends per Ordinary Share (Rs.)	-	1.65

17. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial Instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised.The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

17. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

17.1 Analysis of Financial Instruments by Measurement Basis

As at 31 March 2019	Amortised Cost	Equity instruments- FVOCI	Total
Financial Assets			
Cash and bank balances	933,439,266	-	933,439,266
Securities purchased under repurchase agreements	1,523,032,534	-	1,523,032,534
Factoring receivables	309,225,914		309,225,914
Gold loan receivables	2,009,717,061	-	2,009,717,061
Loan Receivables	13,893,841,388	-	13,893,841,388
Lease & hire purchase receivables	1,970,566,792	-	1,970,566,792
Other assets	1,690,376,240	-	1,690,376,240
Equity instruments at fair value through OCI	-	224,854,875	224,854,875
Total Financial Assets	**22,330,199,195**	**224,854,875**	**22,555,054,069**
Financial Liabilities			
Bank overdraft	818,689,936	-	818,689,936
Due to other customers	17,115,400,246	-	17,115,400,246
Debt issued and other borrowed funds	2,524,015,987	-	2,524,015,987
Other payables	189,797,627	-	189,797,627
Total Financial Liabilities	**20,647,903,796**	**-**	**20,647,903,796**

As at 31 March 2019	Amortised Cost Rs.	Held to Maturity Rs.	Available for Sale Rs.	Total Rs.
Financial Assets				
Cash and bank balances	945,103,676	-	-	945,103,676
Placements with banks	235,195,816	-	-	235,195,816
Securities purchased under repurchase agreements	1,607,399,352	-	-	1,607,399,352
Loan Receivables	15,811,256,334	-	-	15,811,256,334
Lease & hire purchase receivables	1,566,536,595	-	-	1,566,536,595
Other assets	1,246,576,506	-	-	1,246,576,506
Financial instruments- Available for sale	-	-	268,148,316	268,148,316
Financial investments- Held to maturity	-	-	-	-
Total Financial Assets	**21,412,068,279**	**-**	**268,148,316**	**21,680,216,595**
Financial Liabilities				
Due to Banks	1,342,694,516	-	-	1,342,694,516
Due to other customers	16,391,947,289	-	-	16,391,947,289
Debt issued and other borrowed funds	1,574,210,717	-	-	1,574,210,717
Other payables	90,914,209	-	-	90,914,209
Total Financial Liabilities	**19,399,766,731**	**-**	**-**	**19,399,766,731**

18. CASH AND BANK BALANCES

	2019 Rs.	2018 Rs.
Cash in hand	425,238,474	643,032,443
Balances with local banks	284,656,330	302,071,233
	709,894,804	**945,103,676**

19. PLACEMENTS WITH BANKS

	2019 Rs.	2018 Rs.
Placements with banks	223,544,462	235,195,816

20. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

	2019 Rs.	2018 Rs.
Securities purchased under repurchase agreements	1,523,032,534	1,607,399,352
	1,523,032,534	**1,607,399,352**

21. FACTORING RECEIVABLES

	2019 Rs.	2018 Rs.
Gross factoring receivable	309,225,914	-
Less : Allowance for expected credit losses	-	-
	309,225,914	**-**

22. GOLD LOAN RECEIVABLES

	2019 Rs.	2018 Rs.
Gold loan receivables	2,014,921,293	1,257,449,895
Less : Allowance for expected credit losses/ collective impairment(Note 22.2)	(5,204,232)	(1,084,040)
	2,009,717,061	**1,256,365,855**

22.1 Analysis of gold loan receivables on maximum exposure to credit risk

As at 31 March 2019	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Gross Gold loan receivable subject to collective impairment	1,272,996,467	597,382,066	144,542,760	2,014,921,293
Allowance for expected credit losses(ECL)	(1,047,888)	(1,120,946)	(3,035,398)	(5,204,232)
	1,271,948,579	**596,261,120**	**141,507,362**	**2,009,717,061**

22. GOLD LOAN RECEIVABLES (CONTD.)

22.2 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2019 Rs.	2018 Rs.
Balance as at 01st April	1,084,040	726,810
Impact of adoption of SLFRS 09 as at 01st April 2018 (Note 6)	2,001,206	-
	3,085,246	**726,810**
Charge/ (Reversal) to income statement	2,118,986	357,230
Balance as at 31st March	**5,204,232**	**1,084,040**

22.3 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2018	566,949	1,079,994	1,438,303	3,085,246
Charge/ (Reversal) to income statement (Note 10.1)	480,939	40,952	1,597,095	2,118,986
Balance as at 31st March 2019	**1,047,888**	**1,120,946**	**3,035,398**	**5,204,232**

23. LOAN RECEIVABLES

	2019 Rs.	2018 Rs.
Revolving loan receivables	1,605,647,175	1,053,913,463
Vehicle loan receivables	1,400,125,033	42,449,166
Personal/Business loan receivables	11,878,915,220	14,209,073,995
Gross loan receivables	14,884,687,428	15,305,436,624
Less : Allowance for expected credit losses/ individual impairment (Note 23.2)	(44,042,576)	(190,052,269)
Less : Allowance for expected credit losses/ collective impairment (Note 23.3)	(946,803,464)	(560,493,876)
	13,893,841,388	**14,554,890,479**

23.1 Analysis of loan receivables on maximum exposure to credit risk

As at 31 March 2019	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Gross loan receivables- subject to collective impairment	8,062,092,159	3,495,978,533	3,326,616,736	14,884,687,428
Allowance for expected credit losses(ECL)	(120,576,817)	(141,368,387)	(728,900,836)	(990,846,040)
	7,941,515,342	**3,354,610,146**	**2,597,715,900**	**13,893,841,388**

23.2 Allowance for expected credit losses/Impairment

Individually impaired loans	2019 Rs.	2018 Rs.
Balance as at 01st April	190,052,269	202,187,292
Charge/ (Reversal) to income statement	(146,009,693)	(12,135,023)
Balance as at 31st March	**44,042,576**	**190,052,269**

23. LOAN RECEIVABLES (CONTD.)

23.3 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2019 Rs.	2018 Rs.
Balance as at 01st April	560,493,876	433,188,233
Impact of adoption of SLFRS 09 as at 01st April 2018 (Note 6)	592,062,447	-
	1,152,556,323	433,188,233
Charge/ (Reversal) to income statement	(205,752,859)	128,389,683
Balance as at 31st March	**946,803,464**	**560,493,876**

23.4 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2018	283,080,266	115,233,972	944,294,354	1,342,608,592
Charge/ (Reversal) to income statement (Note 10.1)	(162,503,449)	26,134,415	(215,393,518)	(351,762,552)
Balance as at 31st March 2019	**120,576,817**	**141,368,387**	**728,900,836**	**990,846,040**

24. LEASE & HIRE PURCHASE RECEIVABLES

At Amortized cost	2019 Rs.	2018 Rs.
Total lease & hire purchase rentals receivable	2,823,580,057	2,146,946,850
Less: Unearned interest income	(748,022,514)	(454,834,035)
Gross lease & hire purchase receivable	2,075,557,543	1,693,935,382
Less: Allowance for expected credit losses/ collective impairment (Note 24.4)	(104,990,751)	(127,398,787)
Net lease receivable (Note 24.1 & 24.2)	1,970,566,792	1,566,536,595

24.1 Maturity analysis of net lease & hire purchase

Receivable as at 31 March 2019	1 Year Rs.	1- 5 Year Rs.	Over 5 Years Rs.	Total Rs.
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	1,331,498,953	1,492,081,104	-	2,823,580,057
Less: Unearned lease interest income	(391,457,933)	(356,564,582)	-	(748,022,514)
Gross lease receivable	**940,041,020**	**1,135,516,523**	**-**	**2,075,557,543**
Less: Provision for collective impairment				(104,990,751)
Net lease receivable				**1,970,566,792**

24. LEASE & HIRE PURCHASE RECEIVABLES (CONTD.)

24.2 Maturity analysis of net lease & hire purchase receivable

As at 31 March 2018	1 Year Rs.	1- 5 Year Rs.	Over 5 Years Rs.	Total Rs.
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	1,261,096,207	887,673,210	-	2,148,769,417
Less: Unearned lease interest income	(31,045,422)	(423,788,613)	-	(454,834,035)
Gross lease receivable	**1,230,050,785**	**463,884,597**	**-**	**1,693,935,382**
Less: Provision for collective impairment				(127,398,787)
Net lease receivable				**1,566,536,595**

24.3 Analysis of lease & hire purchase receivables on maximum exposure to credit risk

As at 31 March 2019	1 Year Rs.	1- 5 Year Rs.	Over 5 Years Rs.	Total Rs.
Gross receivables- subject to collective impairment	1,112,696,150	620,054,212	342,807,181	2,075,557,543
Allowance for expected credit losses (ECL)	(9,155,933)	(20,739,004)	(75,095,814)	(104,990,751)
	1,103,540,217	**599,315,208**	**267,711,367**	**1,970,566,792**

24.4 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2019 Rs.	2018 Rs.
Collective Impairment		
Balance as at 01st April	121,881,556	170,118,088
Impact of adoption of SLFRS 09 as at 01st April 2018 (Note 6)	(1,863,815)	-
	120,017,741	**170,118,088**
Charge/ (Reversal) to income statement	(24,490,281)	(48,236,532)
Balance as at 31st March	**95,527,460**	**121,881,556**
Individual Impairment		
Balance as at 01st April	5,517,231	41,709,437
Charge/ (Reversal) to income statement	3,946,060	(36,192,206)
Balance as at 31st March	**9,463,291**	**5,517,231**

24.5 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 31st March 2018	870,442	3,606,303	122,922,042	127,398,787
Impact of adoption of SLFRS 09 as at 01st April 2018	22,013,460	3,325,620	(27,202,895)	(1,863,815)
Charge/ (Reversal) to income statement (Note 10.1)	(13,727,969)	13,807,081	(20,623,333)	(20,544,221)
Balance as at 31st March 2019	**9,155,933**	**20,739,004**	**75,095,814**	**104,990,751**

25. OTHER ASSETS

	2019 Rs.	2018 Rs.
Financial Assets		
Trading Vehicles	2,160,344	3,700,000
Repossessed vehicle stock	29,444,566	37,230,652
Less: Provision for repossessed stock (Note 26.1)	(18,920,228)	(21,946,420)
Real state stock	153,491,749	105,141,402
Insurance premium receivable	24,111,951	20,239,525
Other receivables	191,316,058	116,525,303
Less: Provision for insurance premium receivable and other receivables	(22,712,931)	(82,872,716)
	358,891,509	**178,017,746**
Non Financial Assets		
Deposits & Prepayments	222,765,363	130,998,720
Inventories	817,355	1,397,052
Income tax receivable	239,671,653	157,009,146
Taxes receivable	160,952,938	178,447,930
	624,207,309	**467,852,848**
	983,098,818	**645,870,594**

26. FINANCIAL INSTRUMENTS -AVAILABLE FOR SALE

	2019 Rs.	2018 Rs.
Equity instruments at fair value through OCI - Quoted (Notes 26.1)	125,524,275	168,817,716
Equity instruments at fair value through OCI - Unquoted (Notes 26.2)	99,330,600	99,330,600
	224,854,875	**268,148,316**

26.1 Financial Instruments -Quoted

	2019 Rs.		
	No of Shares	Cost	Market Value
National Development Bank	1,017,771	191,275,997	95,874,028
Asiri Hospitals Plc	1,467,834	40,018,290	29,650,247

	2018 Rs.		
	No of Shares	Cost	Market Value
National Development Bank	965,081	191,275,997	128,452,281
Asiri Hospitals Plc	1,467,834	40,018,290	40,365,435

26. FINANCIAL INSTRUMENTS -AVAILABLE FOR SALE (CONTD.)

26.2 Financial Instruments -Un.quoted

	2019 Rs.		
	No of Shares	Cost	Market Value
Cargills Bank Ltd	7,400,000	99,300,000	99,300,000
Credit Information Bureau of Sri Lanka	100	30,600	30,600

	2018 Rs.		
	No of Shares	Cost	Market Value
Cargills Bank Ltd	7,400,000	99,300,000	99,300,000
Credit Information Bureau of Sri Lanka	100	30,600	30,600

In 2018, the Company received dividends of Rs.2,621,889/-(2017-Rs.4,791,000/-) from these unquoted equity investments, recorded as other operating income.Furthermore, the company has received a script divend of 52,690 in 2019.

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Cost/Valuation

	Balance as at 31.03.2018 Rs.	Additions Re-clasifications Rs.	Revaluation surplus Rs.	Disposals Rs.	Balance as at 31.03.2019 Rs.
Owned Assets					
Freehold Land	193,000,000	-	17,000,000	-	210,000,000
Freehold Building	85,000,000	-	-	-	85,000,000
Officer Partitioning	136,503,671	9,907,245	-	-	146,410,916
Furniture & Fittings	80,627,358	1,839,692	-	-	82,467,050
Office equipment	247,089,598	27,551,072	-	(260,531)	274,380,139
Motor vehicles	12,165,356	-	-		12,165,356
Motor Vehicles (Hiring)	125,706,993	-	-	(1,776,183)	123,930,810
Sub Total	**880,092,976**	**39,298,009**	**17,000,000**	**(2,036,714)**	**934,354,271**
Leased Assets					
Furniture & Fittings	3,590,487	-	-	-	3,590,487
Office equipment	707,000	-	-	-	707,000
Motor vehicles	3,631,213	-	-	-	3,631,213
Motor Vehicles (Hiring)	8,888,788	-	-	-	8,888,788
Sub Total	**16,817,488**	**-**	**-**	**-**	**16,817,488**
Total Assets	896,910,464	39,298,009	17,000,000	(2,036,714)	951,171,759

27. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

27.2 Accumulated Depreciation

	Balance as at 31.03.2018 Rs.	Charge for the year Rs.	Disposals Rs.	Balance as at 31.03.2019 Rs.
Owned Assets				
Freehold Land	-	-	-	-
Freehold Building	-	4,250,000	-	4,250,000
Officer Partitioning	81,056,971	15,751,676	-	96,808,647
Furniture & Fittings	65,996,208	4,790,621	-	70,786,829
Office equipment	189,004,844	32,434,624	(96,906)	221,342,562
Motor vehicles	12,165,356	-	-	12,165,356
Motor Vehicles (Hiring)	13,194,248	7,602,412	(555,045)	20,241,615
Total Cost/ Valuation	**361,417,627**	**64,829,331**	**(651,951)**	**425,595,007**
Leased Assets				
Furniture & Fittings	3,590,487	-	-	3,590,487
Office equipment	707,000	-	-	707,000
Motor vehicles	3,631,213	-	-	3,631,213
Motor Vehicles (Hiring)	4,999,974	629,625	-	5,629,599
Sub Total	**12,928,674**	**629,625**	**-**	**13,558,299**
Total Depreciation	**374,346,301**	**65,458,956**	**(651,951)**	**439,153,306**

The Company has obtained a valuation for its freehold land located at 13, De Fonseka Place, Colombo 04 from a professionally qualified independent valuer on 31.03.2019.

27.3 Net book values

	2019 Rs.	2018 Rs.
Freehold Land	210,000,000	193,000,000
Freehold Building	80,750,000	85,000,000
Officer Partitioning	49,602,269	55,446,700
Furniture & Fittings	11,680,221	14,631,150
Office equipment	53,037,577	58,084,754
Motor vehicles	-	-
Motor Vehicles (Hiring)	103,689,196	112,512,745
Total carrying amount of Owned Assets	**508,759,264**	**518,675,349**
Leased Assets		
Furniture & Fittings	-	-
Office equipment	-	-
Motor vehicles	-	-
Motor Vehicles (Hiring)	3,259,189	3,888,814
Total carrying amount of Leased Assets	**3,259,189**	**3,888,814**
Total carrying amount of Assets	**512,018,453**	**522,564,163**

NOTES TO THE FINANCIAL STATEMENTS

28. INTANGIBLE ASSETS

	2019 Rs.	2018 Rs.
Cost as at 01April	135,800,700	135,800,700
Additions, improvements & Transfers	(12,094,270)	-
Cost as at 31 March	**123,706,430**	**135,800,700**
Amortisation as at 01 April	57,755,911	40,734,647
Amortisation for the year	6,764,438	17,021,264
Accumulated amortisation as at 31 March	**64,520,349**	**57,755,911**
Net book value as at 31 March	**59,186,081**	**78,044,789**

29. DUE TO OTHER CUSTOMERS

	2019 Rs.	2018 Rs.
Fixed deposits	17,058,139,092	16,338,127,823
Saving deposits	57,261,154	53,819,466
	17,115,400,246	**16,391,947,289**

30. OTHER BORROWED FUNDS

	2019 Rs.	2018 Rs.
Bank Loans	1,373,425,197	895,487,500
Securitizations	381,190,488	214,842,984
Finance Lease	2,740,844	4,597,217
Debentures	766,659,458	1,359,367,733
	2,524,015,987	**2,474,295,434**

The company has not had any default of principal, interest or other breaches with regard to any liability during 2018 & 2019.

30.1 Movement in other borrowed funds

	2018 Rs.	Grantings/ Accrual Rs.	Repayments Rs.	2019 Rs.
Long-term borrowings	345,487,500	250,000,000	279,105,330	316,382,170
Short-term borrowings	550,000,000	2,850,000,000	2,350,000,000	1,050,000,000
Finance Lease	4,597,217	-	1,856,373	2,740,844
Debentures	1,324,970,000	-	565,880,000	759,090,000
Securitizations	172,575,004	394,858,898	215,386,515	352,047,387
Capital outstanding of debt issued and other borrowed funds	**2,397,629,721**	**3,494,858,898**	**3,412,228,218**	**2,480,260,401**
Interest Payable	76,665,713			43,755,586
Total Borrowings	**2,474,295,434**			**2,524,015,987**

30. OTHER BORROWED FUNDS (CONTD.)

30.2 Term Loans

	Tenor	Amortised cost 2019 Rs.	Amortised cost 2018 Rs.
Short term loans	-	**1,373,425,197**	-
Commercial Bank	6 months	250,000,000	250,000,000
Hatton National Bank	12 months	300,000,000	300,000,000
Seylan Bank PLC	3 months	300,000,000	-
Union Bank PLC	3 months	200,000,000	-
		1,050,000,000	**550,000,000**
Long term loans			
Seylan Bank PLC	48 Months	57,285,500	119,787,500
Commercial Bank PLC	48 Months	31,180,000	93,700,000
People's Bank	48 months	30,000,000	132,000,000
Union Bank PLC	48 Months	197,916,670	-
		316,382,170	**213,487,500**
		1,366,382,170	**763,487,500**

The above short term loans and long lerm loans were institution wise aggregated value.

30.2.1 Loans - on maturity

	Payable within 1 year Rs.	Payable after 1 year Rs.	Total Rs.
Short term loans and long term loans payable	1,050,000,000	316,382,170	1,366,382,170
	1,050,000,000	**316,382,170**	**1,366,382,170**

30.2.1 Details of debentures issued

	No of Debentures	Issue Date	Maturity Date	Rate of interest	Amortised cost Face value Rs.	Amortised cost 2019 Rs.
Unsecured, unlisted, subordinated, redeemable debentures						
Listed debentures						
Type A	4,089,600	29-Aug-14	28-Aug-19	10.00%	408,960,000	413,038,048
Type B	3,501,300	29-Aug-14	28-Aug-19	3 months treasury bill rate plus 1.50%	350,130,000	353,621,410
					759,090,000	**766,659,458**

30. OTHER BORROWED FUNDS (CONTD.)

	No of Debentures	Issue Date	Maturity Date	Rate of interest	Amortised cost Face value Rs.	2018 Rs.
Unsecured, unlisted, subordinated, redeemable debentures						
	650,000	29-Nov-13	28-Nov-18	15.50%	65,000,000	67,484,247
Listed debentures						
Type A	8,598,400	29-Aug-14	28-Aug-19	10.00%	859,840,000	881,943,677
Type B	4,001,300	29-Aug-14	28-Aug-19	3 months treasury bill rate plus 1.50%	400,130,000	409,939,809
					1,324,970,000	**1,359,367,733**

The Company has fully utilised the funds raised through debenture issues for the purposes specified in relevant prospectus.

31. OTHER PAYABLES

	2019 Rs.	2018 Rs.
Non Financial Liabilities		
Accrued expenses	24,244,743	9,424,010
Related Party Payables (Note 33.1)	9,014,307	1,390,029
Deposit insurance premium	1,868,962	-
Dividend Payable	4,275,645	-
Other payables	117,918,986	51,266,864
	157,322,643	**62,080,903**

31.1 Related Party Payables

	2019 Rs.	2018 Rs.
Softlogic BPO Services (Pvt) Ltd	6,720,177	353,800
Softlogic Corporate Services (Pvt) Ltd	544,322	2,300
Softlogic Information Technologies (Pvt) Ltd	728,648	418,429
Softlogic Automobiles Pvt Ltd	1,020,212	-
Softlogic Capital Ltd	-	397,500
Central Hospitals Ltd	-	218,000
Softlogic Holdings Plc	947	-
	9,014,307	**1,390,029**

32. DEFERRED TAX LIABILITIES/(ASSETS)

Deferred Tax (Assets), Liabilities and Income Tax relates to the following

	Accelerated depreciation for tax purposes		Provision for loan losses	Revaluation on land	Retirement benefit obligation	Tax losses on leasing operation	Total
	Property, plant & equipment Rs.	Leased assets Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1 April 2017	161,744,266	82,106,896		-	(16,938,596)	(117,151,743)	109,760,823
Income statement (Note 14.1)	(8,471,723)	136,715,678			(20,210,625)	(357,275,178)	(249,241,848)
Other comprehensive income				130,818,822	8,315,915		139,134,737
Balance as at 31 March 2018	**153,272,543**	**218,822,574**	**-**	**130,818,822**	**(28,833,306)**	**(474,426,921)**	**(346,288)**
Deffered Tax Asset as at 31 March 2018							**96,961**
Balance as at 31 March 2018	153,272,543	218,822,574	-	130,818,822	(28,833,306)	(474,426,921)	(346,288)
Impact of adoption of SLFRS 9 (Note 6)			(546,519,438)				(546,519,438)
Balance as at 1 April 2018	153,272,543	218,822,574	(546,519,438)	130,818,822	(28,833,306)	(474,426,921)	(546,865,726)
Income statement (Note 14.1)	5,818,156	(39,770,829)			(4,064,042)	81,485,478	43,468,763
Other comprehensive income				17,000,000	422,364		17,422,364
Balance as at 31 March 2019	**159,090,699**	**179,051,745**	**(546,519,438)**	**147,818,822**	**(32,474,984)**	**(392,941,443)**	**(485,974,599)**
Deffered Tax Asset as at 31 March 2019							**136,072,888**

33. RETIREMENT BENEFIT OBLIGATIONS

An actuarial valuation of the gratuity fund of the Company was carried out as at 31 March 2019 by Messrs. Piyal S Goonethilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Actuarial Cost Method", recommended by Sri Lanka Accounting Standard-LKAS 19 (Employee Benefits).

33.1 Defined benefit obligation reconciliation

	2019 Rs.	2018 Rs.
Balance as at 01st April	28,833,306	16,938,596
Current service cost for the year	6,517,366	4,778,898
Interest on the defined benefit liability	2,981,363	2,183,385
Acturial losses / (gains)	1,698,979	3,253,626
(Gains) / losses due to changes in assumptions	(2,121,343)	5,062,289
Benefits paid by the plan	(5,434,687)	(3,383,488)
Balance as at 31st March	**32,474,984**	**28,833,306**

33.2 Amounts recognised in Other Comprehensive Income (OCI)

	2019 Rs.	2018 Rs.
Liability (gains)/losses due to changes in assumptions	1,698,979	3,644,848
Liability experience (gains)/losses arising during the year	(2,121,343)	2,342,611
Total amount recognized in OCI	**(422,364)**	**5,987,459**

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33. RETIREMENT BENEFIT OBLIGATIONS (CONTD.)

33.3 Assumptions

	2019	2018
Discount rate	11.19%	10.30%
Future salary increment rate	8.00%	8.00%
Mortality	GA 1983	GA 1983
	Mortality Table	Mortality Table
Retirement age	55	55

Expected average future working life of the active participants is 7.1 years. (2018: 7.26 years)

33.4 Sensitivity assumptions employed in actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Gratuity liability is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

Variable	Rate Change	2019		2018	
		Sensitivity Effect on gratuity liability-Increase/ (Decrease) in the Liability (Rs. Mn.)	Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)	Sensitivity Effect on gratuity liability-Increase/ (Decrease) in the Liability (Rs. Mn.)	Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)
Discount rate	1.00%	(2.22 Million)	2.22 Million	(2.18 Million)	2.18 Million
Discount rate	-1.00%	2.52 Million	(2.52 Million)	2.49 Million	(2.49 Million)
Salary Increment rate	1.00%	2.52 Million	(2.52 Million)	2.47 Million	(2.47 Million)
Salary Increment rate	-1.00%	(2.26 Million)	2.26 Million	(2.20 Million)	2.20 Million

34. STATED CAPITAL

Issued and Fully Paid-Ordinary shares	2019		2018	
	No. of shares	Rs.	No. of shares	Rs.
Ordinary shares as at 01st April	67,928,384	2,002,269,999	59,070,988	1,692,615,435
Shared Issued during the year for convertible debts	-	-	8,857,396	309,654,564
Ordinary shares as at 31st March	**67,928,384**	**2,002,269,999**	**67,928,384**	**2,002,269,999**

The holders of ordinary shares are entitled to receive a dividend as declared from time to time and are entitled to one vote per share at the Annual General Meeting of the Company.

35. STATUTORY RESERVE FUND

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 as Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 20% of the net profit for the year transferred to Reserve Fund as long as the capital funds are not less than 10% of total deposit liabilities.

As at 31 March	2019 Rs.	2018 Rs.
Balance as at 01st April	219,654,894	175,901,761
Transfer during the year	40,793,838	43,753,133
Balance as at 31st March	**260,448,732**	**219,654,894**

36. REVALUATION RESERVE

Revaluation Reserve represents the fair value changes of freehold land as at the date of revaluation.

As at 31 March	2019 Rs.	2018 Rs.
Balance as at 01st April	103,249,682	88,265,408
Revaluation surplus (net of tax)	12,240,000	14,984,274
Balance as at 31st March	**115,489,682**	**103,249,682**

37. AFS RESERVE

As at 31 March	2019 Rs.	2018 Rs.
Balance as at 01st April	(62,476,571)	(61,434,499)
Change during the year (net of tax)	(43,293,441)	(1,042,072)
Balance as at 31st March	**(105,770,012)**	**(62,476,571)**

38. RETAINED EARNINGS

This represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

As at 31 March	2019 Rs.	2018 Rs.
Balance as at 01st April	17,751,860	(53,806,083)
Dividends Paid	-	(97,467,130)
Net change in other comprehensive income	304,102	(5,987,459)
Transferred from current years' profit	163,175,350	175,012,532
Opening balance impact on SLFRS9	(546,519,438)	-
Balance as at 31st March	**(365,288,126)**	**17,751,860**

39 . FAIR VALUE OF ASSET AND LIABILITIES

The following describes the methodologies and assumptions used to determine fair value of those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value.

Equity instruments at fair value through OCI/Financial Assets-Available for Sale

Equity instruments at fair value through OCI/Available for sale financial assets primarily consist of unquoted equity securities.Unquoted equity securities are carried at cost since it is the most reasonable value available to represent the price of such securities.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using market interest rates for debts with similar credit risk and maturity.For quoted debt issued,the fair values are determined based on quoted market prices.

Variable rate Financial Instruments

Variable rate is a fair measure which reflects market movements.Hence the carrying value represents the fair value of the variable rate instruments.

Set out below is the comparison, by class, of the carrying amounts of fair values of the Company's financial instruments that are not carried at fair value and non financial assets carried at fair value in the financial statements.

	2019 Rs. Fair value measurement using				
	Carrying value	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Fair Value
Financial Assets					
Cash and bank balances	709,894,804		284,656,330	-	284,656,330
Placements with banks	223,544,462	-	223,544,462	-	223,544,462
Securities purchased under repurchase agreements	1,523,032,534	-	1,523,032,534	-	1,523,032,534
Factoring receivables	309,225,914	-	309,225,914	-	309,225,914
Gold loan receivables	2,009,717,061	-	2,009,717,061.00	-	2,009,717,061
Loan receivables	13,893,841,388	-	13,893,841,388	-	13,893,841,388
Lease and hire purchase receivables	1,970,566,792	-	1,970,566,792	-	1,970,566,792
Other Financial assets	358,891,509	-	358,891,509		358,891,509
Financial instruments- available for sale	224,854,875	125,524,275		99,330,600	224,854,875
Total Financial Assets	**21,223,569,339**	**125,524,275**	**20,573,475,990**	**99,330,600**	**20,798,330,865**
Financial Liabilities					
Due to customers	17,115,400,246	-	17,115,400,246	-	17,115,400,246
Other borrowed funds	3,342,705,923	-	3,342,705,923	-	3,342,705,923
Total Financial Liabilities	**20,458,106,169**	**-**	**20,458,106,169**	**-**	**20,458,106,169**

39 . FAIR VALUE OF ASSET AND LIABILITIES (CONTD.)

	2018 Rs. Fair value measurement using				
	Carrying value	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial Assets					
Cash and bank balances	945,103,676	-	302,071,233	-	302,071,233
Placements with banks	235,195,816	-	235,195,816	-	235,195,816
Securities purchased under repurchase agreements	1,607,399,352	-	1,607,399,352	-	1,607,399,352
Factoring receivables	-	-	-	-	-
Gold loan receivables	1,256,365,855	-	1,256,365,855	-	1,256,365,855
Loan receivables	14,554,890,479	-	14,554,890,479	-	14,554,890,479
Lease and hire purchase receivables	1,566,536,595	-	1,566,536,595	-	1,566,536,595
Other Financial assets	178,017,746	-	178,017,746	-	178,017,746
Financial instruments- available for sale	268,148,316	168,817,716		99,330,600	268,148,316
Total Financial Assets	**20,611,657,835**	**168,817,716**	**19,700,477,076**	**99,330,600**	**19,968,625,392**
Financial Liabilities					
Due to customers	16,391,947,289	-	16,391,947,289	-	16,391,947,289
Other borrowed funds	2,916,905,233	-	2,916,905,233	-	16,281,390
Total Financial Liabilities	**19,308,852,522**	**-**	**19,308,852,522**	**-**	**16,408,228,679**

There were no transfers between levels of fair value hierachy during 2019 and 2018.

40. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

01) Market Risk

02) Credit Risk

03) Liquidity Risk

04) Operational Risk

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

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.

40. FINANCIAL RISK MANAGEMENT (CONTD.)

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, while optimising return.

Financial assets subject to market risk	2019 Carrying amount Rs.	2018 Carrying amount Rs.
Financial investments - Available for sale	224,854,875	268,148,316
	224,854,875	**268,148,316**

Financial liabilities subject to market risk	2019 Carrying amount Rs.	2018 Carrying amount Rs.
Due to banks	319,123,014	900,084,717
Other borrowed funds	1,111,137,387	1,497,545,004
	1,430,260,401	**2,397,629,721**

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.

40. FINANCIAL RISK MANAGEMENT (CONTD.)

	Change in equity price	Effect on equity Rs.
31 March 2019.	+ 10%	12,552,428
Quoted shares – (Colombo Stock Exchange)	-10%	(12,552,428)
31 March 2018.	+ 10%	16,881,772
Quoted shares – (Colombo Stock Exchange)	-10%	(16,881,772)

Market risk - Interest rate risk

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

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

	31 March 2019 Rs.	31 March 2018 Rs.
Fixed interest rate instruments:		
Financial assets	20,003,398,897	21,126,987,346
Financial liabilities	18,362,425,583	18,186,569,309
Floating interest rate instruments:		
Financial assets	Nil	Nil
Financial liabilities	2,051,925,000	1,045,617,500

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

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

	Changes in basis points	Effect on profit Rs.
2019	+25 b.p	5,129,813
Floating interest rate instruments	-25 b.p	(5,129,813)
2018	+25 b.p	2,614,044
Floating interest rate instruments	-25 b.p	(2,614,044)

NOTES TO THE FINANCIAL STATEMENTS

40. FINANCIAL RISK MANAGEMENT (CONTD.)

Interest Rate Risk exposure on fianncials assets and Liabilities

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

As at 31 March 2019	Less than 3 months Rs.	More than 3 and less than 12 months Rs.	More than 1 year and less than 3 years Rs.	> 3 years Rs.	Non-interest bearing Rs.	Total Rs.
Financial Assets						
Cash and cash equivalents	284,656,330	-	-	-	425,238,474	709,894,804
Financial investments - Available for sale	-	-	-	-	224,854,875	224,854,875
Financial Investments - Loans and Receivables	1,523,032,534	223,544,462			-	1,746,576,996
Lease and hire purchase receivables	330,509,119	504,541,150	964,172,975	171,343,548	-	1,970,566,792
Loans and receivables	7,158,172,997	5,330,406,694	2,343,740,404	1,380,464,268	-	16,212,784,363
Other Financial Assets	-	-	358,891,509	-	-	358,891,509
	9,296,370,979	**6,058,492,307**	**3,666,804,888**	**1,551,807,816**	**650,093,349**	**21,223,569,339**
Financial Liabilities						
Due to customers	4,464,361,456	8,184,629,966	3,388,108,483	1,078,300,341	-	17,115,400,246
Other borrowed funds	1,282,007,759	1,833,566,127	216,715,355	10,416,682	-	3,342,705,923
	5,746,369,215	**10,018,196,093**	**3,604,823,838**	**1,088,717,023**	**-**	**20,458,106,169**
Interest Rate sensitivity gap	**3,550,001,764**	**(3,959,703,786)**	**61,981,050**	**463,090,793**	**650,093,349**	**765,463,170**

As at 31 March 2018	Less than 3 months Rs.	More than 3 and less than 12 months Rs.	More than 1 year and less than 3 years Rs.	> 3 years Rs.	Non-interest bearing Rs.	Total Rs.
Financial Assets						
Cash and cash equivalents	812,549,356	-	-	-	132,554,320	945,103,676
Financial investments - Available for sale	-	-	-	-	268,148,316	268,148,316
Financial Investments - Loans and Receivables	492,639,679	1,349,955,489	-	-	-	1,842,595,168
Lease and hire purchase receivables	530,718,007	314,852,656	517,816,767	203,149,165	-	1,566,536,595
Loans and receivables	6,842,528,339	6,130,734,646	2,257,101,989	580,891,360	-	15,811,256,334
Other Financial Assets			178,017,746			
	8,678,435,381	**7,795,542,791**	**2,952,936,502**	**784,040,525**	**400,702,636**	**20,433,640,089**
Financial Liabilities						
Due to customers	5,538,926,703	7,611,927,843	2,758,984,882	482,107,860	-	16,391,947,289
Other borrowed funds	624,385,090	899,965,247	1,392,554,896	-	-	2,916,905,233
	6,163,311,793	**8,511,893,091**	**4,151,539,778**	**482,107,860**	**-**	**19,308,852,522**
Interest Rate sensitivity gap	**2,515,123,588**	**(716,350,299)**	**(1,198,603,276)**	**301,932,665**	**400,702,636**	**1,124,787,568**

40. 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.

40. FINANCIAL RISK MANAGEMENT (CONTD.)

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

	31 March 2019		31 March 2018	
	Maximum exposure to credit risk Rs.	Net exposure Rs.	Maximum exposure to credit risk Rs.	Net exposure Rs.
Cash and cash equivalents	709,894,804	-	945,103,676	-
Financial investments - Available for sale	224,854,875	224,854,875	268,148,316	268,148,316
Financial Investments - Loans and Receivables	1,746,576,996	223,544,462	1,842,595,168	235,195,816
Lease and hire purchase receivables	2,075,557,543	-	1,693,935,382	-
Loans and receivables	17,208,834,635	11,306,175,842	16,562,886,519	10,283,418,334
Other Financial Assets	358,891,509	192,715,078	178,017,746	53,892,112
Total Fianncial Assets	**22,324,610,362**	**11,947,290,257**	**21,490,686,808**	**10,840,654,578**

Concentration of credit risk

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

Concentration by sector (Gross)	2019 Rs.	2018 Rs.
Agriculture	1,025,028,051	710,450,815
Manufacturing	1,336,778,254	1,254,168,396
Tourism	267,965,903	1,370,097,675
Transport	692,791,678	570,275,746
Construction	860,343,913	1,123,007,350
Trading	7,666,106,173	8,034,546,752
Services	1,728,522,275	859,695,961
Other	5,636,855,884	4,334,579,206
	19,214,392,130	**18,256,821,901**

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.

40. FINANCIAL RISK MANAGEMENT (CONTD.)

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 31 March 2019	Less than 3 months Rs.	More than 3 and less than 12 months Rs.	More than 1 year and less than 3 years Rs.	> 3 years Rs.	Total Rs.
Financial Assets					
Cash and cash equivalents	709,894,804	-	-	-	709,894,804
Financial investments - Available for sale	-	-	-	-	-
Financial Investments - Loans and Receivables	1,523,032,534	223,544,462	-	-	1,746,576,996
Lease and hire purchase receivables	330,509,119	504,541,150	964,172,975	171,343,548	1,970,566,792
Loans and receivables	7,158,172,997	5,330,406,694	2,343,740,404	1,380,464,268	16,212,784,363
Other Financial Assets			358,891,509		358,891,509
Total financial assets	**9,721,609,453**	**6,058,492,307**	**3,666,804,888**	**1,551,807,816**	**20,998,714,464**
Financial Liabilities					
Due to customers	4,464,361,456	8,184,629,966	3,388,108,483	1,078,300,341	17,115,400,246
Other borrowed funds	1,282,007,759	1,833,566,127	216,715,355	10,416,682	3,342,705,923
Total financial liabilities	**5,746,369,215**	**10,018,196,093**	**3,604,823,838**	**1,088,717,023**	**20,458,106,169**

As at 31 March 2018	Less than 3 months Rs.	More than 3 and less than 12 months Rs.	More than 1 year and less than 3 years Rs.	> 3 years Rs.	Total Rs.
Financial Assets					
Cash and cash equivalents	945,103,676	-	-	-	945,103,676
Financial investments - Available for sale	-	-	-	-	-
Financial Investments - Loans and Receivables	492,639,679	1,349,955,489	-	-	1,842,595,168
Lease and hire purchase receivables	530,718,007	314,852,656	517,816,767	203,149,165	1,566,536,595
Loans and receivables	6,842,528,339	6,130,734,646	2,257,101,989	580,891,360	15,811,256,334
Other Financial Assets	-	-	178,017,746	-	178,017,746
Total financial assets	**8,810,989,701**	**7,795,542,791**	**2,952,936,502**	**784,040,525**	**20,343,509,520**
Financial Liabilities					
Due to customers	5,538,926,703	7,611,927,843	2,758,984,882	482,107,860	16,391,947,289
Other borrowed funds	624,385,090	899,965,247	1,392,554,896	-	2,916,905,233
Total financial liabilities	**6,163,311,793**	**8,511,893,091**	**4,151,539,778**	**482,107,860**	**19,308,852,522**

NOTES TO THE FINANCIAL STATEMENTS

40. 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 31 March	2019 Rs.	2018 Rs.
Average for the year	13.53%	15.73%
Maximum for the year	15.65%	18.69%
Minimum for the year	12.02%	13.44%

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

As at 31 March	2019 Rs.	2018 Rs.
Cash in Hand & Bank Balances	709,894,804	945,103,676
Deposits in Commercial Banks free from lien	223,544,462	537,267,049
Sri Lanka Government Treasury Bills and Treasury Bonds, maturing within one year, free from any lien or charge	1,523,032,534	1,607,399,352
Total Liquid Assets as at end of March	**2,456,471,800**	**3,089,770,077**

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

	2019		2018	
	Encumbered Rs.	Unencumbered Rs.	Encumbered Rs.	Unencumbered Rs.
Cash and cash equivalents	-	709,894,804	-	945,103,676
Financial investments - Available for sale		224,854,875	-	268,148,316
Financial Investments - Loans and Receivables	-	1,746,576,996	-	1,842,595,168
Lease and hire purchase receivables	1,031,509,922	939,056,870	381,448,013	1,185,088,582
Loans and receivables	1,266,772,480	14,946,011,883	2,029,189,102	13,782,067,232
Other non financial assets	-	582,474,227	-	488,861,448
Intangible assets	-	59,186,081	-	78,044,789
Property, plant & equipment	-	512,018,453	-	522,564,162

* Encumbered- Pledged as collateral in borrowings

40. FINANCIAL RISK MANAGEMENT (CONTD.)

Capital management

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

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

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ending 31 March 2019 and 31 March 2018.

Soft logic Finance PLC is yet to comply with the minimum Capital Adequacy Requirement set out in the Direction No.03 of 2018 of Finance Business Act as of 31 March 2019. As a result, the Central Bank of Sri Lanka had issued a letter dated 23 January 2019 imposing a temperary cap on loans and advances base untill required minimum Capital Adequacy Requirement is met.

	2019 Rs.	2018 Rs.
SLFRS 9 based impairment provisions recorded in the Financial Statements	1,101,041,023	879,028,972
Regulatory provisions reported to Central Bank without Interest in Suspense	1,623,847,597	1,372,368,375
Interest in Suspense reported to Central Bank	431,515,470	386,912,448
Total Regulatory provisions	2,055,363,067	1,759,280,823
Impairment Provision Gap	954,322,044	880,251,851
Profit / (Loss) as reported in accordance with the Central Bank provisioning method	(240,525,000)	(290,580,000)
Capital Adequacy Ratios (as per Central Bank Direction)		
Tier 1 Ratio - (Minimum Requirement - 5% for 2018 & 6% for 2019)	2.2%	12.7%
Total Capital ratio - (Minimum Requirement - 10% for 2018 & 2019)	1.8%	11.4%

41. 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.

NOTES TO THE FINANCIAL STATEMENTS

41. FAIR VALUE ESTIMATION (CONTD.)

	2019 Fair Value Measurement				
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Fair Value Rs.	Carrying Value Rs.
Financial Assets					
Cash and cash equivalents	709,894,804	-	-	709,894,804	709,894,804
Financial investments - Available for sale	224,854,875	-	-	224,854,875	224,854,875
Financial Investments - Loans and Receivables	1,746,576,996	-	-	1,746,576,996	1,746,576,996
Lease and hire purchase receivables	-	2,242,343,531	-	2,242,343,531	1,970,566,792
Loans and receivables	-	17,066,582,632	-	17,066,582,632	16,212,784,363
Other Financial Assets	-	358,891,509	-	358,891,509	358,891,509
Financial Liabilities					
Bank Overdrafts	-	818,689,936	-	818,689,936	818,689,936
Due to customers	-	17,095,082,699	-	17,095,082,699	17,115,400,246
Other borrowed funds	-	2,524,015,987	-	2,524,015,987	2,524,015,987

	2018 Fair Value Measurement				
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Fair Value Rs.	Carrying Value Rs.
Financial Assets					
Cash and cash equivalents	945,103,676	-	-	945,103,676	945,103,676
Financial investments - Available for sale	168,817,716	-	99,330,600	268,148,316	268,148,316
Financial Investments - Loans and Receivables	-	1,842,595,168	-	1,842,595,168	1,842,595,168
Lease and hire purchase receivables	-	1,531,375,379	-	1,531,375,379	1,566,536,595
Loans and receivables	-	16,143,949,832	-	16,143,949,832	15,811,256,334
Other Financial Assets	-	178,017,746	-	178,017,746	178,017,746
Financial Liabilities					
Bank Overdrafts	-	442,609,799	-	442,609,799	442,609,799
Due to customers	-	16,160,535,372	-	16,160,535,372	16,391,947,289
Other borrowed funds	-	2,474,295,434	-	2,474,295,434	2,474,295,434

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

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

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

42. COMMITMENTS AND CONTINGENCIES

As at 31 March	2019 Rs.	2018 Rs.
Contingent Liabilities		
Guarantees issued to banks and other institutions	8,014,250	1,500,000
Commitments		
Commitment for unutilised facilities	161,016,478	13,637,300
Capital Commitment for Software	8,420,960	-

Analysis of commitment and contingencies by remaining contractual maturities

As at 31 March 2019	Less than 3 months Rs.	More than 3 and less than 12 months Rs.	More than 1 year and less than 3 years Rs.	More than 3 years Rs.	Total Rs.
Contingent Liabilities					
Guarantees issued to banks and other institutions	8,014,250	-	-	-	8,014,250
	8,014,250	**-**	**-**	**-**	**8,014,250**
Commitments					
Commitment for unutilised facilities	161,016,478	-	-	-	161,016,478
Software Project commitment	-	8,420,960	-	-	8,420,960
	161,016,478	**8,420,960**	**-**	**-**	**169,437,438**

43. 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.

44. TRANSFER OF FINANCIAL ASSETS (Lease and HP receivable)

Under the securitization 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 securitization will lead to a transfer of lease receivables to investors. However, will not qualified for a derecognition. Risks of defaults of the lease receivable and the right to receive the cash flows from the lease receivables are vested with the Company.

Carrying Value of assets and associated liabilities

	2019	2018
Lease and hire purchase receivables	1,031,509,922	381,448,013
Securtization payable	1,266,772,480	2,029,189,102

45. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

45.1 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.

	2019 Rs.	2018 Rs.
Short-term employee benefits	55,644,375	43,375,750
	55,644,375	43,375,750

45.1.1 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.

Statement of financial position	Reported under	2019 Rs.	2018 Rs.
Liabilities			
Time Deposits	Due to customers	47,285,169	44,255,370
Savings Deposits	Due to customers	331,709	597,175
Statement of comprehensive income			
Interest expense on customer deposits	Interest expenses	7,868,312	3,579,172
Other Transactions			
Dividend Paid on shareholding		-	241,118

45.1.2 Transactions with Group Companies

The Company enters into transactions with group companies and the following tables shows the outstanding balances and corresponding transactions during the period ended March 31, 2019.

Company	Relationship	(Receivables) /Payables Rs.	Loans, Advances & Investments Rs.	Borrowings / Deposits Rs.	Income Earned Rs.	Cost Incurred Rs.	Plant & Equip. Purchased / (sold) Rs.
Softlogic Corporate Services (Pvt) Ltd	Affiliated Company	354,720	-	-	-	2,075,223	-
Softlogic Stock Brokers (Pvt) Ltd	Group Company	-	-	104,365,417	-	12,358,644	-
Softlogic Holdings PLC	Ultimate Parent Company	947				-	-
Softlogic Retail (Pvt) Ltd	Affiliated Company	(1,582,858)	275,000,000	15,492,962	-	1,753,352	1,370,655
Softlogic Communications (Pvt) Ltd	Affiliated Company	(1,129,959)				-	
Softlogic Brands (Pvt) Ltd	Affiliated Company	-	175,000,000	-	-	-	-
Softlogic Information Technologies (Pvt) Ltd	Affiliated Company	728,648	-	-	-	2,678,960	792,750
Softlogic Automobiles (Pvt) Ltd	Affiliated Company	(508,870)	-	-	1,493,200	-	-
Softlogic BPO Services (Pvt) Ltd	Affiliated Company	6,720,177	-	-	-	19,321,563	-
Softlogic City Hotels(Pvt.) Ltd	Affiliated Company	-				44,615	-
Central Hospital Ltd	Affiliated Company	-				307,518	-
Nextage (Pvt) Ltd	Affiliated Company	-	-	-	-	780,419	-
BPM One (Pvt) Ltd	Affiliated Company	-	-	-	-	918,000	-
Future Automobiles (Pvt) Ltd	Affiliated Company	-	-	-	-	5,235,705	-
Suzuki Motors Lanka (Pvt)Ltd	Affiliated Company	-	-	1,251,056	-	145,849	-

46. 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.

	2019			2018		
	Within 12 Months Rs.	After 12 Months Rs.	Total as at 31 March 2019 Rs.	Within 12 Months Rs.	After 12 Months Rs.	Total as at 31 March 2018 Rs.
Assets						
Cash and cash equivalents	709,894,804	-	709,894,804	945,103,676	-	945,103,676
Financial investments - Available for sale	-	224,854,875	224,854,875	-	268,148,316	268,148,316
Financial Investments - Loans and Receivables	1,746,576,996	-	1,746,576,996	1,842,595,168	-	1,842,595,168
Lease and hire purchase receivables	835,050,269	1,135,516,523	1,970,566,792	845,570,663	720,965,932	1,566,536,595
Loans and receivables	12,488,579,691	3,724,204,672	16,212,784,363	12,973,262,986	2,837,993,349	15,811,256,334
Other assets	582,474,227	400,624,591	983,098,818	645,870,590	-	645,870,590
Deferred tax asset	-	136,072,888	136,072,888	-	96,961	96,961
Intangible assets	-	59,186,081	59,186,081	-	78,044,789	78,044,789
Property, plant & equipment	-	512,018,453	512,018,453	-	522,564,162	522,564,162
Total Assets	**16,362,575,987**	**6,192,478,083**	**22,555,054,069**	**17,252,403,083**	**4,427,813,509**	**21,680,216,591**
Liabilities						
Bank Overdrafts	818,689,936	-	818,689,936	1,221,488,172	121,206,344	1,342,694,516
Due to customers	12,648,991,422	4,466,408,824	17,115,400,246	13,150,854,546	3,241,092,743	16,391,947,289
Other borrowed funds	2,296,883,950	227,132,037	2,524,015,987	302,862,165	1,271,348,552	1,574,210,717
Other non financial liabilities	157,322,643	-	157,322,643	62,080,903	-	62,080,903
Retirement benefit obligations	-	32,474,984	32,474,984	-	28,833,306	28,833,306
Deferred tax liabilities	-	-	-	-	-	-
Total liabilities	**15,921,887,951**	**4,726,015,845**	**20,647,903,796**	**14,737,285,786**	**4,662,480,945**	**19,399,766,731**

47. BUSINESS SEGMENT INFOMRATION

The company's segmental reporting is based on the following operating segments: Leasing, Hire purchase, SME, Term and Mortgage Loans, Personal Loans, Other Loans and Receivables.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss, and in certain respects, are measured differently from operating profits or losses in the financial statements. However, income taxes are managed on a group basis and are not allocated to operating segments.

	Leasing & Hire Purchases		SME, Term and Mortgage Loans		Personal Loans		Other Loans and Receivables		Unallocated		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Interest income	402,528,292	168,921,245	2,295,473,039	2,272,446,366	161,574,708	320,828,261	621,054,338	457,500,628	193,819,182	303,859,434	3,674,449,559	3,523,555,934
Interest expenses	-	-	-	-	-	-	-	-	(2,490,557,311)	(2,561,129,565)	(2,490,557,311)	(2,561,129,565)
Net interest income	402,528,292	168,921,245	2,295,473,039	2,272,446,366	161,574,708	320,828,261	621,054,338	457,500,628	(2,296,738,129)	(2,257,270,131)	1,183,892,248	962,426,369
Fee and commission income	24,722,734	22,548,147	140,984,794	303,333,394	9,923,696	42,825,180	38,144,302	61,068,644	11,904,107	40,560,127	225,679,633	470,335,492
Net trading income/(loss)	-	-	-	-	-	-	-	-	2,828,289	4,791,000	2,828,289	4,791,000
Other operating inocme	-	-	-	-	-	-	-	-	115,934,590	147,710,989	115,934,590	147,710,989
Total operating income	**427,251,026**	**191,469,392**	**2,436,457,833**	**2,575,779,760**	**171,498,404**	**363,653,441**	**659,198,640**	**518,569,272**	**(2,166,071,143)**	**(2,064,208,015)**	**1,528,334,760**	**1,585,263,850**
Impairment charges for loan and advances	(61,725,516)	18,090,418	(235,135,326)	(225,062,313)	77,659,543	86,362,327	29,519,429	12,184,419	-	-	(189,681,869)	(108,425,149)
Net operating income	365,525,510	209,559,810	2,201,322,507	2,350,717,447	249,157,947	450,015,768	688,718,070	530,753,691	(2,166,071,143)	(2,064,208,015)	1,338,652,891	1,476,838,701
Depreciation for property, plant and equipment	(5,718,951)	(5,186,483)	(35,089,080)	(40,170,331)	(2,469,865)	(4,573,669)	(9,493,566)	(7,603,852)	(12,687,494)	(14,244,449)	(65,458,955)	(71,778,784)
Amortisation of intangible assets	(590,988)	(1,229,897)	(3,626,057)	(9,525,793)	(255,232)	(1,084,577)	(981,052)	(1,803,140)	(1,311,108)	(3,377,858)	(6,764,438)	(17,021,265)
Personal cost	-	-	-	-	-	-	-	-	(447,571,734)	(465,936,874)	(447,571,734)	(465,936,874)
Other operating expenses	(82,641,272)	(30,187,853)	(471,273,238)	(406,108,058)	(33,172,176)	(57,335,101)	(127,505,871)	(81,759,770)	(39,792,144)	(54,302,608)	(754,384,701)	(629,693,390)
Segment profit before VAT on financial services	276,574,299	172,955,577	1,691,334,132	1,894,913,265	213,260,674	387,022,421	550,737,581	439,586,929	(2,667,433,622)	(2,602,069,804)	64,473,063	292,408,388
VAT and NBT on financial services	-	-	-	-	-	-	-	-	(1,358,065)	(99,329,008)	(1,358,065)	(99,329,008)
Segment profit before tax	**276,574,299**	**172,955,577**	**1,691,334,132**	**1,894,913,265**	**213,260,674**	**387,022,421**	**550,737,581**	**439,586,929**	**(2,668,791,687)**	**(2,701,398,812)**	**63,114,998**	**193,079,380**
Income tax reversal/ (expenses)	-	-	-	-	-	-	-	-	140,854,189	25,686,284	140,854,189	25,686,284
Profit for the year	**276,574,299**	**172,955,577**	**1,691,334,132**	**1,894,913,265**	**213,260,674**	**387,022,421**	**550,737,581**	**439,586,929**	**(2,527,937,498)**	**(2,675,712,528)**	**203,969,188**	**218,765,664**
Total assets	**1,970,566,792**	**1,566,536,596**	**12,090,570,217**	**12,133,132,141**	**851,036,069**	**1,381,440,715**	**3,271,178,077**	**2,296,683,478**	**4,371,702,915**	**4,302,423,663**	**22,555,054,070**	**21,680,216,595**
Total Liabilities	**1,803,944,846**	**1,401,759,267**	**11,068,247,937**	**10,856,899,525**	**779,076,425**	**1,236,132,836**	**2,994,582,501**	**2,055,105,102**	**4,002,052,087**	**3,849,869,999**	**20,647,903,796**	**19,399,766,731**

SUPPLEMENTARY INFORMATION

INVESTOR INFORMATION

1. General

Stated Capital as of 31/03/2019 was Rs. 2,002,269,999.12

2. Stock Exchange Listing

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

3. Shares held by the Public

Shares held by the public was 25.82 % as at 31st March 2019. The number of public shareholders as at 31st March 2019 was 1,353.

Float Adjusted Market Capitalization as at 31st March 2019 is Rs. 378,844,749

The Company is Compliant with Option 2 of the Listing Rules 7.13.1 (b), where the Float Adjusted Market Capitalization is less than Rs. 1 Bn and requires a minimum 10% public holding.

4. Distribution of Shareholding as at 31st March 2019

There were 1,359 Registered shareholders as at 31st March 2019

No. of Shares held From	To	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
1	1,000	962	70.79%	278,811	0.41%
1,001	10,000	304	22.37%	1,088,150	1.60%
10,001	100,000	77	5.67%	2,328,718	3.43%
100,001	1,000,000	9	0.66%	3,111,830	4.58%
Over 1,000,000		7	0.52%	61,120,875	89.98%
	Total	**1,359**	**100.00%**	**67,928,384**	**100.00%**

5. Analysis Report of Shareholders as at 31st March 2019

Category	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
Individual	1,266	93.16%	7,617,100	11.21%
Institutional	93	6.84%	60,311,284	88.79%
Total	**1,359**	**100.00%**	**67,928,384**	**100.00%**
Resident	1,353	99.56%	67,511,080	99.39%
Non-resident	6	0.44%	417,304	0.61%
Total	**1,359**	**100.00%**	**67,928,384**	**100.00%**

INVESTOR INFORMATION

6. Twenty Major Shareholders as at 31st March 2019

Shareholder	No. of Shares as at 31/03/2019	%
SOFTLOGIC CAPITAL PLC	27,886,130	41.05
PAN ASIA BANKING CORPORATION PLC/SOFTLOGIC CAPITAL PLC	17,515,240	25.78
VANIK INCORPORATION LTD	5,376,068	7.91
SOFTLOGIC LIFE INSURANCE PLC-A/C NO. 04 (PARTICIPATING FUND)	3,965,107	5.84
MR. KULAPPUARACHCHIGE DON DAMMIKA PERERA	3,276,253	4.82
L.B. FINANCE LIMITED.	2,090,000	3.08
MR. MURUGESU MAHIBALAN	1,012,077	1.49
SOFTLOGIC HOLDINGS PLC	779,969	1.15
PEOPLE'S LEASING & FINANCE PLC/L.P.HAPANGAMA	587,912	0.87
PEOPLE'S LEASING & FINANCE PLC/HI LINE TRADING (PVT) LTD	529,783	0.78
SSBT-DEUSTCHE BANK AG SINGAPORE A/C 01	389,604	0.57
MR. PASQUAL HANDI DAYANANDA WAIDYATILAKA	248,093	0.37
MR. ASOKA KARIYAWASAM PATHIRAGE	228,000	0.34
MRS. PAMELA CHRISTINE COORAY	132,444	0.19
ASHA FINANCIAL SERVICES LTD/MS.H.C.KALANSOORIYA	111,025	0.16
MR. SITHAMPALAM ABISHEK	105,000	0.15
MR. ADDARA PATHIRANAGE SOMASIRI	100,000	0.15
ASSETLINE LEASING CO. LTD/R.K.R. PATHIRANAGE	100,000	0.15
MR. PERIYASAMI PILLAI ANANDARAJA	98,185	0.14
AHUGODA SANASA SOCIETY LTD	93,139	0.14
UNIMO ENTERPRISES LTD	89,709	0.13
	64,713,738	**95.27**
Others	3,214,646	4.73
	67,928,384	**100.00**

7. Share Trading Information

Shareholder	2018/19
Highest (Rs.)	37.00
Lowest (Rs.)	18.00
Closing (Rs.)	21.60
Turnover (Rs.)	372,663,291.70
No. of Shares Traded	10,189,644
No. of Trades	1,174

8. 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

INVESTOR INFORMATION

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%	27-Feb-19
B - CRL-BC-29/08/19 B-7.69	3 Month Net Treasury Bill Rate + 1.5%	9.67%	6-Jun-18

Ratios

	2018/19
Debt to Equity Ratio (Times)	10.83
Interest Cover (Times)	1.03
Liquid Assets Ratio (%) - Statutory Minimum 10%	13.65%

Interest rate of comparable government securities

(Below rates are excluding 10% withholding tax)	2018/19
3 Year Treasury Bond	10.71%
5 Year Treasury Bond	10.96%

TEN YEAR SUMMARY

	2018/19*	2017/18*	2016/17* Restated	2015/16* Restated
(Rs.'000)				
OPERATING RESULTS				
Gross Income	4,018,892	4,146,393	4,178,708	4,080,598
Profit Before Tax	64,473	292,408	324,336	157,709
Taxation	139,496	73,643	80,002	84,567
Profit After Tax	203,969	218,766	244,335	73,142
As at 31 March				
ASSETS				
Investments	1,971,432	2,110,743	1,962,016	2,165,798
Loans & Advances	16,212,784	15,811,256	17,040,493	14,462,118
Lease/HP Rentals Receivables	1,970,567	1,566,537	949,317	1,444,231
Vehicle Stocks	12,685	18,984	25,644	58,695
Real Estate Stocks	153,492	105,141	82,799	423,763
Property & Equipment	512,018	522,564	373,818	373,352
Other Assets	1,722,076	1,544,990	1,271,897	1,014,427
	22,555,054	**21,680,217**	**21,705,982**	**19,942,383**
LIABILITIES				
Public Deposits	17,115,400	16,391,947	16,048,474	14,055,203
Borrowings	3,342,706	2,916,905	3,671,392	4,076,520
Other Liabilities	189,798	90,914	144,575	154,810
	20,647,904	**19,399,767**	**19,864,440**	**18,286,533**
SHAREHOLDERS' FUNDS				
Share Capital/Stated Capital	2,002,270	2,002,270	1,692,615	1,692,615
Reserves & Retained Earnings	(95,120)	278,180	148,927	(36,765)
	1,907,150	**2,280,450**	**1,841,542**	**1,655,850**
SHARE INFORMATION				
Earnings Per Share (Rs.)	3.00	3.70	4.14	1.40
Net Assets Per Share (Rs.)	28.08	33.57	31.18	28.03
Debt to Equity Ratio (times)	10.83	8.51	10.79	11.04
OTHER INFORMATION				
No. of Employees	528	551	490	491
Supporting Branch Network	35	35	31	30

*Financial Years 2018/19, 2017/18, 2016/17, 2015/16, 2014/15, 2013/14, 2012/13 and 2011/12 have been prepared based on SLFRSs.

TEN YEAR SUMMARY

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

BRANCH NETWORK

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Gampaha
No: 57/A, Bauddhaloka Mawatha, Gampaha
T : 011-2281285 **F :** 033-2227726
E : gampaha@softlogicfinance.lk

Kadawatha
No: 139/7/D, Kandy Road, Kadawatha
T : 011-2923011 **F :** 011-2923013
E : kadawatha@softlogicfinance.lk

Wattala
No: 180, Negombo Road, Wattala
T : 011-2051660 **F :** 011-2051676
E : wattala@softlogicfinance.lk

Negombo
No: 406/1, Udayar Thoppuwa Road, Negombo
T : 031-2224714 **F :** 031-2224716
E : negombo@softlogicfinance.lk

MATARA DISTRICT

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

Matara Metro
No: 382A, Galle Rd, Pamburana, Matara
T : 041-2238690 **F :** 041-2238691
E : matarametro@softlogicfinance.lk

Weligama
No: 325/A, Old Matara Road, Weligama
T : 041-2252888 **F :** 041-2260523
E : weligama@softlogicfinance.lk

ANURADHAPURA DISTRICT

Anuradhapura
No: 561/11, Maithreepala Senanayake Mw, New Town, Anuradhapura
T : 025-2226279 **F :** 025-2234743
E : anuradhapura@softlogicfinance.lk

POLONNARUWA DISTRICT

Polonnaruwa
No: 125, Batticaloa Road, Polonnaruwa
T : 027-2226727 **F :** 027-2225909
E : polonnaruwa@softlogicfinance.lk

BRANCH NETWORK

RATNAPURA DISTRICT

Ratnapura
No: 1/200, Ground Floor, Main Street, Ratnapura
T : 045-2230677 **F :** 045-2223574
E : rathnapura@softlogicfinance.lk

Embilipitiya
No: 176, Ratnapura Road, Pallegama, Embilipitiya
T : 047-2230590 **F :** 047-2230592
E : embilipitiya@softlogicfinance.lk

NUWARA ELIYA DISTRICT

Nuwara Eliya
No: 72, Kandy Road, Nuwara Eliya
T : 052-2223382 **F :** 052-2223383
nuwaraeliya@softlogicfinance.lk

Hatton
No: 115, Main Street, Hatton
T : 051-2222108 **F :** 051-2225739
E : hatton@softlogicfinance.lk

KANDY DISTRICT

Kandy
No: 165, Katugodella Street, Kandy
T : 081-2224912 **F :** 081-2224916
kandy@softlogicfinance.lk

Senkadagala
No: 288, Katugastota Road, Kandy
T : 081-2232601 **F :** 081-2232603
E : senkadagala@softlogicfinance.lk

BADULLA DISTRICT

Badulla
No: 38, Anagarika Dharmapala Mw, Badulla
T : 055-2224205 **F :** 055-2223905
E : badulla@softlogicfinance.lk

HAMBANTOTA DISTRICT

Thissamaharama
No: 28, Main Street, Thissamaharama
T : 047-2239933 **F :** 047-2239504
E : tissamaharama@softlogicfinance.lk

KEGALLE DISTRICT

Mawanella
No: 131, 132 Kandy Road, Mawanella
T : 035-2247304
E : mawanella@softlogicfinance.lk

PUTTALAM DISTRICT

Chilaw
No: 28B, Kurunegala Road, Chilaw
T : 032-2221415 **F :** 032-2223754
E : chilaw@softlogicfinance.lk

Kochchikade
No: 42, Chilaw Road, Kochchikade
T : 031-2274233 **F :** 031-2272672
E : kochchikade@softlogicfinance.lk

MATALE DISTRICT

Matale
No: 253, Main Street, Matale
T : 066-2226461 **F :** 066-2228863
matale@softlogicfinance.lk

Dambulla
No: 719, Anuradhapura Road, Dambulla
T : 066-2284737 **F :** 066-2284717
E : dambulla@softlogicfinance.lk

JAFFNA DISTRICT

Jaffna
No: 62/64, Stanley Road, Jaffna
T : 021-2219444 **F :** 021-2219666
E : jaffna@softlogicfinance.lk

Chunnakam
No: 101 & 105, K.K.S Road, Chunnakam
T : 021-2242770 **F :** 021-2242772
E : chunnakam@softlogicfinance.lk

KURUNEGALA DISTRICT

Kurunegala
No: 13, Rajapihilla Mawatha, Kurunegala
T : 037-2232875 **F :** 037-2232565
E : kurunegala@softlogicfinance.lk

GALLE DISTRICT

Galle
No: 64, Colombo Road, Kaluwella, Galle
T : 091-2248920 **F :** 091-2248095
E : galle@softlogicfinance.lk

CORPORATE INFORMATION

Name of the Company
Softlogic Finance PLC

Holding Company
Softlogic Capital PLC

Legal Form
Incorporated under the Companies Act No 17 of 1982

Date of Incorporation
24th August 1999.

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

Registered under the Finance Business Act No. 42 of 2011.

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

Approved Credit Agency under the Mortgage Act No. 06 of 1949 and Inland Trust Receipts Act No. 14 of 1990.

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

Registered under the Securities & Exchange Commission of Sri Lanka Act No. 36 of 1987 as a Margin Provider

Company Registration Number
PB641 PQ

Tax Payer Identification Number (TIN)
134008350

Accounting Year End
31st March

Registered Office
No.13, De Fonseka Place, Colombo 4.

Principal Place of Business
No.13, De Fonseka Place, Colombo 4
Tel : 94-11- 2359600, 94-11-2359700
Facsimile : 94-11-2359799
E-mail : info@softlogicfinance.lk
Website : www.softlogicfinance.lk

Board of Directors
- Mr. Ashok Pathirage (Chairman)
- Mr. Aaron Russell-Davison (Deputy Chairman)
- Mr. Nalin Wijekoon (CEO)
- Mr. Chris Corea
- Mr. Dushan Soza
- Mr. Haresh Kaimal
- Mr. Nilantha Bastian

Executive Committee
- Mr. Aaron Russell-Davison (Deputy Chairman)
- Mr. Nalin Wijekoon (CEO)
- Mr. Lohika Fonseka (COO)
- Mr. Sanjeewa Premawardena (CFO)
- Mr. Asanka De Silva (Head of Recoveries)
- Ms. Nadeeka Wimalathunga (Head of Legal)
- 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 **Wednesday the 28th day of August 2019 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 2019 together with the Report of the Auditors thereon.
2) To re-elect Mr. D. T.C. Soza who retires by rotation in terms of Articles 91 and 92 of the Articles of Association, as a Director of the Company.
3) To re-elect Mr. C. J.E. Corea who retires by rotation in terms of Articles 91 and 92 of the Articles of Association, as a Director of the Company.
4) 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.
5) To authorize the Directors to determine and make donations for the year ending 31st March 2020 and up to the date of the next Annual General Meeting.

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

(Sgd.)
SECRETARIES
01st August 2019
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 Monday the 26th day of August 2019, being forty eight (48) hours before the time appointed for the holding of the meeting.

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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 A Russell-Davison	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 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 Wednesday the 28th day of August 2019 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 2019 together with the Report of the Auditors thereon.		
2) To re-elect Mr. D.T.C Soza who retires by rotation in terms of Articles 91 & 92 of the Articles of Association, as a Director of the Company		
3) To re-elect Mr. C.J.E Corea who retires by rotation in terms of Articles 91 & 92 of the Articles of Association, as a Director of the Company.		
4) To reappoint Messrs. Ernst & Young, as Auditors and to authorize the Directors to determine their remuneration.		
5) 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/her discretion will vote as he/she thinks fit.
3) If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4) In the case of a Corporate Member, the Form of Proxy must be executed in the manner prescribed by the Articles of Association/Statute.
5) The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 13, De Fonseka Place, Colombo 04 by 10.00 a.m. on Monday the 26th day of August 2019, 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)

Designed & Produced by :

SKILLS

SOFTLOGIC FINANCE PLC
No.13, De Fonseka Place, Colombo 4.
Tel : 94-11- 2359600, 94-11-2359700
Facsimile : 94-11-2359799
E-mail : info@softlogicfinance.lk
Website : www.softlogicfinance.lk