SECURING EXPECTATIONS

Softlogic Finance

ANNUAL REPORT 2020/21

SECURING
EXPECTATIONS

For 22 years, Softlogic Finance has been committed to securing the financial aspirations and expectations of our clientele. And now more than ever, we are redrawing our operational landscape, bringing in much needed transformations to better serve customer expectations.

As we secure financial interests and growth prospects for all our stakeholders, the key for fulfilling expectations is now set in place with digital transformations and prudent business strategies devised to breakthrough to the next phase of growth in our corporate journey.

contents

About Us

Our Approach to Value Creation

Management Discussion & Analysis

Accountability & Transparency

Financial Statements

Supplementary Information

ABOUT US

About us

Endure to conquer

In a world disrupted by Covid-19 pandemic, the financial services industry has been at the forefront of leveraging the challenges and opportunities to restore normalcy. In 2020, Softlogic Finance had a very clear mandate to provide stability in a highly unstable environment for our diverse stakeholder groups.

We remained sensitive and strong to the ebb and flow of the Covid-19 virus, while laying firm foundations for future growth and development. The strategic priorities that we focused during the year, were a natural progression of our transformation journey mapped out in the previous year. The actions outlined for the year, were largely on track or ahead of where we intended them to be, despite the complications of the pandemic.

Ability to react and adapt is now core to our corporate DNA. Thus we remained persistent in our journey towards a dynamic, efficient and an agile institute with a digital-first mindset, capable of providing a best-in-class service to our customers and strong returns to our investors.

Vision

To be the preferred Non-Banking financial institution in Sri Lanka.

Mission

To strive to delight our customers through accessible tailor-made financial solutions, served through our well versatile accomplished 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 and bring simplicity and accessibility for customers.

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

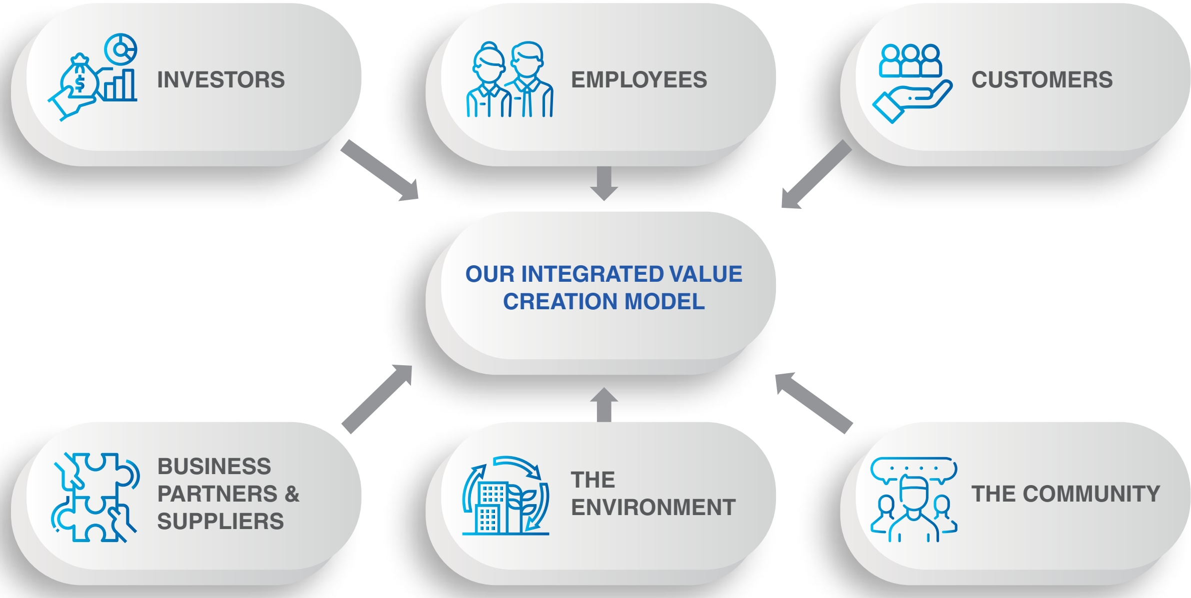
We always strive to be the best in our business and possess a will to win.

CORPORATE RESPONSIBILITY

We care for the community and the environment, taking responsibility to protect them. We are a good corporate citizen and support worthy causes and CSR projects.

Our Sustainability Philosophy

Our corporate ethos is to build a sustainable business that can withstand the unpredictability of the industrial and economic environment that we operate in. This aggressive drive to achieve sustained business excellence has been deliberately designed to give primacy to the interests of all our stakeholders. In fact, in this quest, the integrated value creation process that we have cultivated 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 and introducing new platforms to conduct business in order 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 resilient bond with the communities around us.

Our Reporting Philosophy

REPORTING CONTEXT

Welcome to our sixth 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 the context of our operations 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 recognise the responsibility that we have during this value creation process to our diverse set of stakeholders. In this context, we have comprehensively discussed the corporate governance and integrated risk management processes that provide adequate checks, balances and safeguards with regard to the myriad interests of our stakeholders.

REPORTING SCOPE

Driven by our responsibility to our stakeholders and the need to address their needs, we have adopted the Integrated Reporting methodology to shed focus on 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 2020/2021 ending on 31st March 2021. 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 2021 have been prepared in compliance with the applicable Sri Lanka Accounting Standards. All relevant disclosures have been made as per the 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 pages 123 to 126.

Financial Highlights

	2020/21	2019/20	% Charge
FINANCIAL RESULTS FOR THE YEAR ENDED 31ST MARCH (RS. MN)			
Total Gross Income	**2,587**	3,817	-32%
Interest Income	**2,443**	3,597	-32%
Interest Expenses	**1,895**	2,517	-25%
Net Interest Income	**549**	1,080	-49%
Other Income	**144**	220	-35%
Total Operating Income	**693**	1,300	-47%
Total Operating Expenses	**1,213**	1,396	-13%
Impairment Charges	**492**	390	26%
Profit / (Loss) Before Tax (PBT)	**(1,012)**	(486)	108%
Taxation (Income Tax & VAT & NBT on Financial Services)	**109**	151	-28%
Profit / (Loss) After Tax (PAT)	**(903)**	(334)	170%
FINANCIAL POSITION AS AT 31ST MARCH (RS. MN)			
Total Assets	**20,870**	21,747	-4%
Loans and receivables	**11,270**	14,552	-23%
Lease and hire purchase receivables	**5,263**	2,160	144%
Customer Deposits	**14,598**	17,063	-14%
Total Borrowed Funds	**2,593**	2,114	23%
Shareholders' Funds	**3,028**	2,041	48%
FINANCIAL RATIOS & INDICATORS			
Cost to Income Ratio (%)	**175.12**	107.34	63%
Return / (Loss) on Average Assets (ROA) - before tax (%)	**(4.75)**	(2.20)	116%
Return / (Loss) on Average Equity (ROE) - after tax (%)	**(35.62)**	(17.59)	103%
Earnings / (Loss) Per Share (EPS) (Rs.)	**(5.95)**	(4.29)	39%
Earnings Yield (%)	**(59.50)**	(37.28)	60%
Net Assets Value Per Share (Rs.)	**11.27**	19.74	-43%
Market Price Per Share (Closing) (Rs.)	**10.00**	11.50	-13%
Market Capitalisation (Rs. Mn.)	**2,688**	1,189	126%
Price to Earnings (Times)	**(1.68)**	(2.68)	-37%
Dividends per Ordinary Share (Rs.)	**-**	-	-
Dividend payout ratio (%)	**-**	-	-
Total Available Liquid Assets	**1,874**	2,303	-19%
Required Minimum Amount of Liquid Assets	**905**	1,735	-48%
Debt to Equity Ratio (Times)	**5.89**	9.65	-3.76
Interest Cover (Times)	**0.51**	0.79	-0.28

Chairman's Message

2020 was a year of extraordinary events, which tested us in ways few could have anticipated.

2020 was a year of extraordinary events which tested us in ways few could have anticipated. Even before the year began, the external environment was being reshaped by a range of factors such as impact of the Easter attack, low interest rates and weak consumer demand. The spread of the Covid-19 virus made that environment more complex and challenging and had a profound impact on our customers, our colleagues, our shareholders and the community we serve.

The first priority was, and remains, dealing with the public health crisis, but the economic crisis that unfolded simultaneously has also been unprecedented in recent times. The financial services industry has been at the forefront of helping businesses and individuals through the difficulties they have faced, working with the government and regulator towards a future recovery and sustained growth. In reflection of this, repayment holidays, fee waivers and loan extensions were offered to individual and small business customers to stimulate economic recovery which had a significant impact on operating companies within the Non-Bank Financial Institutes (NBFI) sector.

EXTERNAL ENVIRONMENT

After the significant deterioration in macro-economic conditions in the first half of the year, due to the Covid-19 pandemic, there were signs of improvement in the second half. Still the Covid-19 infection levels remain very high across the island and new variants of the virus have spread quickly. This has necessitated new lockdown measures and movement restrictions in the country. While the deployment of multiple vaccines means we are more optimistic about the future, there is clearly still some way to go before life can return to normality. The border closures have effectively muted the tourism industry which has directly weakened Sri Lanka's foreign exchange reserve position. Hence the pressure on rupee and import restrictions will continue to prevail.

PERFORMANCE

During the year, our returns suffered due to a combination of lower interest rates that affected income and higher impairments driven by the reserves that we built to absorb possible income loss from the legacy portfolio. As a consequence, the company made a net loss of Rs.903 Mn for the year. Yet, there remain plenty of reasons to be confident in this evolving environment. During the year, we have shown that we are getting much better at converting the undoubted dynamism of NBFI sector into sustainable growth. Our secured lending portfolio grew by 26% during the year whilst the asset base and income of our flagship product leasing, grew by 144% and 29% respectively.

Success of the equity and debt raising initiatives in a way of rights issue and debt securitisation signaled the shareholder and investor confidence in the growth trajectory mapped out by the management. Total shareholder funds grew by 48% during 2020. The capital raised enhanced our liquidity position and enabled to improve Tier 1 capital and Total Capital Adequacy Ratio of the company. The business and financial performance is discussed in greater detail in the Management Discussion and Analysis Section of this Annual Report.

GOVERNANCE

The confirmation of Priyantha Wijesekera as Chief Executive Officer underlined the Board's belief that he is the best person to lead the delivery of the strategic plan. We look forward to working closely with Priyantha and the management team as they focus on executing our strategic priorities in 2021.

Chairman's Message

I am delighted to welcome Aruni Goonetilleke to our Board as an Independent, Non-Executive Director and Aashiq Lafir as a Non-Independent, Non-Executive Director. Both of them bring wealth of experience across a wide range of areas, in enterprise risk management, credit, audit, finance and operations. As reported in the Annual Report 2020, Nilantha Bastian retired from the Board last year. I would like to thank Nilantha for the contributions he made to Softlogic Finance during his years of service. We also announced several changes to our Board Sub-Committee compositions, details of which can be found in the Accountability and Transparency section of this report.

Success of the equity and debt raising initiatives in a way of rights issue and debt securitisation signaled the shareholder and investor confidence in the growth trajectory mapped out by the management.

LOOKING AHEAD

Given the external environment, it is vital we stay focused on what we can control. The Board is confident there are many opportunities ahead for an entity with our competitive strengths. This makes it all the more important that we position ourselves to capture them. While we prioritised supporting our customers and our people during the pandemic, we made good progress against strategic priorities such as reallocating capital to areas with high growth potential, reducing costs in our operations and simplifying the organisation. In particular, the Board worked closely with the management team over the course of the year on plans to accelerate progress in areas of strategic importance, which include expansion in secured lending, re-engineering of our collections and recoveries processes and speed up the digital transformation across the company.

So, what does 2021 hold? Even if uncertainties continue, I expect economic recovery will strengthen as the year progresses and it will be a better year overall for the country and for us. Instability and rapid change are becoming the new normal, and our ability to react and adapt to these changes is now core to our corporate DNA. The pace of change required by these new times means things are accelerating faster, not just in the digital space, but also many other parts of the business ecosystem. I expect that this will ultimately result in advances in productivity growth.

The Board will continue to oversee the execution of the company's strategy. Our goal is to provide a best-in-class experience for our clients, be that through our branch network, through key strategic partnerships or attractive digital offerings with a formidable workforce and an agile and innovative organisation that ultimately delivers better returns to our shareholders.

APPRECIATIONS

Finally, 2020 underlined once again that our people are the driving force behind our business. The Board joins me in commending the steadfast commitment of Softlogic Finance Team, led by Chief Executive Officer Priyantha Wijesekera and colleagues in the management team, who have focused on protecting the interests of shareholders, while ensuring the wellbeing of colleagues, supporting our customers, and showing solidarity with the community.

My sincere gratitude goes out to our valuable customers and our business partners for their loyal patronage and unwavering support during 2020 and look to a journey of shared prosperity in 2021. I am particularly grateful to our shareholders, who continued to uphold their trust and confidence in us to provide the strength in our journey towards reaching a prominent market position in the NBFI sector.

In closing, my sincere appreciation goes out to the Central Bank of Sri Lanka, the Colombo Stock Exchange, the Securities and Exchange Commission, the External Auditors, Ernst & Young and other agencies for the significant contributions that they make towards the maintenance of prudent, forward focused best practices and regulatory measures which ensure a strong NBFI sector that benefits all stakeholders.

(Sgd.)
Aaron Russell-Davison
Chairman

29th June 2021

Chief Executive Officer's Review

> I strongly believe that effective implementation of our growth plans will unlock greater value for our shareholders in the years to come.

2020 - RESILIENCE AT OUR CORE

In 2020, Softlogic Finance had a very clear mandate to provide stability in a highly unstable environment for our diverse stakeholder groups. I believe we achieved that in spite of many challenges presented by the Covid-19 pandemic. Our staff delivered an exceptional level of support to our customers in very tough circumstances, whilst reinforced commitment from shareholders enhanced our liquidity position to give reassurance to those who rely on us. Pandemic-related lockdowns led to a rapid acceleration in the shift from physical to digital. Like many businesses, we learned that our staff could be just as productive working remotely as in the office. Although we were clearly impacted by the legacy portfolio, we successfully disbursed more than Rs.14 Bn of new credit during 2020, thereby laying firm foundation for future growth.

The negative impacts of Covid-19 should be largely transitory, and indeed have provided powerful lessons that will help us to accelerate our productivity. The pace of economic growth has fluctuated, but Sri Lanka has a proven history of resilience to economic shocks and challenges. Hence we do not believe trade expansion has permanently gone into reverse. While import restrictions on vehicles will continue in the medium term, the registered vehicle market is active, particularly in 4W and 3W segments, which perfectly fit in with our growth priorities. Our overall strategic transformation plan continued to progress well during the year, and our outlook is bright.

FINANCIAL PERFORMANCE

We accelerated the transformation journey of the company, further reducing our operating costs by 13% through a combination of initiatives such as cuts in personal costs and lowering discretionary spending. Asset base of our prime growth enabler, leasing in particular grew by 144% whilst income from the segment grew by 29%. The overall secured lending base which includes gold loan and leasing recorded a year-on-year growth of 26%. Our new loan book records zero NPLs which is a reflection of our credit quality and the right emphasis put on Collections. This enabled us to win the investor confidence to successfully raise debt finance in a way of lease securitisation during the year. Despite the above achievements, the pandemic and the legacy book inevitably affected our 2020 financial performance. Whilst the legacy book increased the impairment provisions required, the debt moratorium had an impact of Rs.380 Mn in our interest income. The recurrent shutdown of the economy caused a slower credit growth which resulted in contraction of our net receivables by 1.5%. As a consequence Softlogic Finance made a net loss of Rs.903 Mn.

During the year, we raised equity capital through two successful rights issues. The total shareholder funds grew by 48% which further strengthened company's Tier 1 and Capital Adequacy Ratio. It was indeed a difficult year for our shareholders, but I am highly focused on turning our performance around in 2021 and beyond. I strongly believe that effective implementation of our growth plans will unlock greater value for our shareholders in the years to come.

2021 OUTLOOK - JOURNEY CONTINUES

The growth plans that we have developed are a natural progression of our last year plans. The actions we outlined in last year are largely on track or ahead of where we intended them to be, despite the complications of the pandemic. We renewed and re-energised the management team, with every member of the Corporate Management in post for just over a year or less. Our business is more streamlined than it was a year ago, with four main lending verticals and with increased back-office consolidation. We restructured the Collections Department with specific focus on NPL, NPL Threats and Special Projects where dedicated teams were placed to improve collections from the old portfolio. This was followed by the introduction of a new collections system and an MIS Dashboard to rigorously monitor performance.

We have delivered our growth in Finance Leasing businesses, optimised operations and invested in what we expect to be digital transformational initiatives that will win business across our footprint. With our re-entry to 3W category, aggressive penetration in to 4W segment with improved processing capabilities, we are better able to capture and create opportunities in the leasing market that is likely to remain vital for the foreseeable future. This will take us beyond what we currently do, and extend our existing scale and impact.

We will build our digital capabilities, enhance data analytics to develop opportunities on our own and with our business partners and remodel our risk framework to substantially scale up our market presence. This underpins everything that we want to achieve. It is how we intend to win new customers and retain them, to create richer, seamless customer journeys, and to build strong and innovative partnerships that deliver excellent benefits for our customers.

Simultaneously, we will continue to unlock the power of our physical footprint by delivering a personalised service while we will reinforce strong credentials of "Softlogic" brand to strengthen loyalty and trust among our clients.

Hence, everything that we plan to do over the next few years is designed to open growth opportunities for our stakeholders, whether customers, colleagues, or shareholders. We intend to do this by building a dynamic, efficient and agile institute with a digital-first mindset, capable of providing a best-in-class service to our customers and strong returns to our investors.

INVEST IN PEOPLE TO BUILD A WINNING CULTURE

I passionately believe in building an organisation in which everyone has the opportunity to fulfil their potential. Providing equal opportunity is the foundation of an organisation that has capacity to be a great place to work. Currently, more than 30% of our senior management comprise of females. There is much still to do, but we are moving in the right direction. We want to energise the company for growth through a strong culture, simple ways of working, and invest in Training and Development to upskill and reskill our people to provide them the skills they need to succeed. This also includes bringing expertise in critical areas to evolve to a more innovative and agile operating model. We will focus intently on the areas where we excel, and to foster a commercial and entrepreneurial culture with a conviction to get things done.

IN CONCLUSION

I am optimistic for the year ahead; despite the spike in Covid-19 infection rates have led to renewed lockdown measures. The development of multiple vaccines gives us hope that the world will return to some form of normality before long. We remain sensitive to the ebb and flow of the Covid-19 virus and prepared to take further steps to manage the financial impact where necessary. One thing remains clear that we can win through a relentless focus on improving the experience of our customers while working hard to attract new ones, and while keeping a tight grip on costs to become a larger, leaner and more profitable entity.

I salute the remarkable efforts of our Softlogic Finance team across the country, who frequently served in difficult personal circumstances. I am proud of everything our colleagues accomplished and grateful for the loyalty of our customers and business partners during a very turbulent year.

I also thank Board of Directors for their stewardship and guidance, which has allowed this transformation journey a reality. My sincere appreciation goes to our shareholders who truly showcased their steadfast commitment towards Softlogic Finance during this transitional phase.

And last but certainly not least, I take this opportunity to thank the officials of the Central Bank of Sri Lanka, the Colombo Stock Exchange and the other agencies for their efforts to foster a strong and sustainable NBFI sector that benefits all.

(Sgd.)
M.H. Priyantha Wijesekera
Executive Director / Chief Executive Officer

29th June 2021

Board of Directors' Profiles

Mr. Aaron Russell-Davison

Non-Executive Chairman

(Appointed as the Non-Executive Chairman w.e.f. 24th October 2019)

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

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

Mr. Priyantha Wijesekera

Executive Director/ Chief Executive Officer

With over 20 years of exposure to the Banking and Financial Services industry, Mr. Wijesekera has extensive experience in the leasing, factoring, insurance, collections, recoveries and litigation spheres. An Attorney-at-law and a Solicitor by profession with extensive exposure to commercial arbitration and shipping law, Mr. Wijesekera entered the industry through the Merchant Bank Group and later joined City National Investment Bank as its Head of Legal and Compliance. He later moved to Mercantile Leasing in 2001, as its Head of Legal and Human Resources and as a result of a series of mergers and acquisitions, became a part of Nations Trust Bank PLC (NTB) and the John Keells Group.

Prior to his appointment as the Chief Executive Officer of Softlogic Finance PLC, Mr. Wijesekera held the position of Executive Vice President – Leasing at NTB. A proven trailblaser in the leasing industry, Mr. Wijesekera has been instrumental in introducing several game changing leasing products at NTB. Whilst holding a number of key management positions during his tenure at NTB, he was at the forefront of driving technological innovations and introducing digital financial tools to the leasing industry.

Mr. Manilka Fernando

Senior Independent - Non-Executive Director

Mr. Manilka Fernando is a banking and finance professional who has over 35 years of experience, working in financial institutions and other organisations in Sri Lanka and overseas. Since starting his career at KPMG, he has held senior management positions in the financial services sector at Citibank, Mashreq Bank (Dubai, UAE), NDB Bank and Al Rajhi Bank (Riyadh, Saudi Arabia).

In addition, he has carried out consulting/advisory projects in financial management, strategic planning, restructuring, performance management, investment appraisal, acquisitions and organisational development at a range of organisations, including Commercial Banks and Non-Bank Financial Institutions. He has also served on the board of directors of several organisations.

He has an MBA degree from the University of Georgia, USA. He is also a Fellow member of the Institute of Chartered Accountants. His specialised training includes programmes at Harvard University and INSEAD.

Board of Directors' Profiles

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. Aashiq Lafir

Non-Independent Non-Executive Director

(Appointed to the Board w.e.f. 14th December 2020)

Mr. Aashiq Lafir counts over 30 years of senior managerial experience in companies with diverse interests. And is a proven Finance and Operations specialist. He is the Group Finance Director of Softlogic Holdings PLC.

Mr. Lafir is a Fellow of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Chartered Institute of Management Accountants (CIMA), UK and is a Chartered Global Management Accountant (CGMA), US. He also holds a Master's Degree in Business Administration from the University of Sri Jayewardenepura. Mr. Lafir is also the Chairman of Skills International (Pvt) Ltd., and is the former Executive Director - Finance of United Motors Lanka PLC. He is a past President of Sri Lanka-Malaysia Business Council.

Mr. Dinesh Renganathan

Independent Non-Executive Director

Mr. Dinesh Renganathan is a senior, career Banker with over 40 years of experience in Corporate Banking and Risk Management – with 8 years at ANZ Grindlays Bank in Sri Lanka and in the UAE with two National banks viz., the National Bank of Umm Al Qaiwain (5 years) and the National Bank of Abu Dhabi – NBAD (30 years)

He has been in a number of senior management positions culminating as SVP and Assistant General Manager – Global Head of International Advances and Credit Risk and as Locum for General Manager – Chief Risk Officer overseeing a portfolio of international/domestic assets of over USD25B, encompassing 14 overseas jurisdictions, the International and Financial Institutional Groups and overseas companies in the U.A.E.

He has been chairman of the Credit Risk Committee and various Regional Credit Committees and a key member of Basel II, Country Risk and other committees.

Currently he serves in a consultative capacity to various institutions in the Singapore, India, United Arab Emirates and Sri Lanka.

Ms. Aruni Goonetilleke

Independent Non-Executive Director

(Appointed to the Board w.e.f. 31st August 2020)

Ms. Aruni Goonetilleke is a financial services expert with over 25 years of experience in the local and international banking domains. She brings with her, a wealth of experience in the financial services arena, especially in the spheres of corporate banking, enterprise risk management, credit, audit and business origination.

She has held leadership positions in both local and international banks, with her last role being the Head of Corporate Banking at People's Bank, where she was responsible for a large portfolio of both public and private sector clients. Prior to that, she had an extensive tenure at Standard Chartered Bank, where she last held the position of Head of Credit for Commercial Banking in Singapore. She has also held other senior positions at Standard Chartered Bank, including that of Head of Credit SME in Singapore and Chief Risk Officer in Sri Lanka. She has also held global internal audit roles in Wholesale and Retail Banking and distressed asset management based in Singapore.

She holds a Master of Laws from Harvard Law School, Harvard University, USA and a Bachelor of Laws (Honors) from the Faculty of Law, University of Colombo. She is a founding member of the Association of Banking Risk Professionals of Sri Lanka and has served as a visiting lecturer in law at the University of Colombo.

She serves on the Boards of Hatton National Bank PLC, Sunshine Holdings PLC and Tea Smallholder Factories PLC. She is also a member of the Board of Trustees of the Overseas School of Colombo.

Corporate Management Profiles

Priyantha Wijesekera
Chief Executive Officer

Appointed to the Board of Softlogic Finance PLC on 01 March 2020, Priyantha is a very well-experienced and thorough professional in the financial services arena, with over 20 years' experience in banking and financial services products. He has held key management positions with a prominent Sri Lankan bank, and has crafted and executed strategy towards achieving a market leading position in leasing whilst specialising in factoring, insurance broking, collections, recoveries and litigation. He is also an Attorney-at-Law/Solicitor with extensive knowledge in shipping law and commercial arbitration in the field of banking and finance. He is an accomplished sportsman who has represented the country in numerous prestigious events, both as an athlete as well as an official.

Roger Rozairo
Chief Operating Officer

With extensive exposure to consumer credit, risk score cards, collections and portfolio management, Roger plays a key role in helping the company execute its growth strategies effectively and efficiently. With a career spanning over 16 years, his exposure to the implementation of digital platforms in financial services and data analytics brings an immense value addition to the company. Having kicked off his career at Standard Chartered Bank, Roger moved on to Nations Trust Bank PLC in 2004, where he held the position of Vice President - Collections Strategy, Analytics and Compliance before his arrival at Softlogic Finance PLC. Roger is a member of the Association of Business Executives (ABE) UK and holds a MBA from the Postgraduate Institute of Management.

Ivon Brohier
Chief Financial Officer

Ivon brings with her over 14 years of leadership experience to Softlogic Finance PLC. Her extensive knowledge in business strategy, financial reporting, strategic financial management, process improvements, information systems and the handling of statutory audits will play a pivotal role, as Softlogic Finance PLC embarks on a journey of transformation. Having commenced her career at KPMG Ford Rhodes Thornton & Co. where she last served as a Tax Analyst, Ivon went on to join AMW Capital Leasing and Finance PLC (AMWCL) as its Senior Finance Manager. She served at AMWCL for 11 years before joining Nations Trust Bank PLC as its Senior Manager Financial Reporting and Control. Thereafter, she joined Abans Finance PLC in the capacity of its Chief Financial Officer and served for more than two years prior to her appointment as its Acting Chief Executive Officer, which was her last appointment before her move to Softlogic Finance PLC. A Fellow member of both, the Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka, Ivon holds an MBA from the University of Colombo and a BSc. in Management from the University of Sri Jayewardenepura.

Dayan Ranasinghe
Head of Delivery Channels

Dayan joined Softlogic Finance as the Head of Delivery Channels with an eight year career in the Softlogic Group covering corporate finance, treasury and asset management services. He oversees all distribution channels in addition to the treasury and fund mobilisation vertical. Dayan served as the Head of Treasury of Softlogic Life Insurance PLC and the Sector Head of Treasury of the Financial Services arm of the Softlogic Group prior to his new appointment. He is an alumnus of the University of Colombo, and is an Associate Member of the Chartered Institute of Management Accountants (UK).

OUR APPROACH
TO VALUE CREATION

Stakeholder Identification & 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 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 series of activities that we have adopted ensures that we avoid taking a myopic and purely shareholder oriented view on value creation. The mechanisms in place help us monitor whether the expected outcomes of the stakeholder engagement process are met, whether we have taken any corrective actions and whether our actions have been sufficient. Overall, this helps us become a responsible corporate citizen.

STAKEHOLDER IDENTIFICATION MECHANISM

We have internally developed a stakeholder identification and filtration system that helps us identify our key stakeholders, assess the interest and power that they hold over our value creation process and decide upon the level of impact that they can have on our activities.

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

Two tiered Identification and Filtration System

Step 1 - Initial Identification

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

Step 2 - Identification of Key Stakeholders

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

The Identified Key Stakeholders
Shareholders & Investors
Customers
Employees
Suppliers & Value Added Service Providers
Regulators
Society and the Environment

METHODOLOGY FOR STAKEHOLDER ISSUE IDENTIFICATION

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

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

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

These two broad questions are always asked when deciding upon the significance of stakeholder issues and the level of priority that the company should assign to them. In this light, the company regularly monitors and takes action on certain identified issues that qualify as per the laid out criteria.

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. This process involves the creation of broad stakeholder groupings based on the results of the identification process done before. Moreover, this process also involves the development of specific expected outcomes, in addition to the specific engagement approaches, in order to ensure that the whole engagement process is goal oriented and measurable.

Stakeholder Type	Engagement Approach	Expected Outcomes
Shareholders & Investors	• Annual Financial Statements • Quarterly Financial Statements • Annual General Meeting • Extraordinary General Meetings as and when statutorily necessary • Media Releases • CSE Website • Company Website	From company perspective • Increased Shareholder confidence in the Board From stakeholder perspective • Increase in Share Price • Regulatory Compliance • Declaration of Dividends • Adoption and maintenance of best practices in corporate governance • Adoption of industry best practices
Customers	• Personalised interactions • Customer complaint handling process • Customer Satisfaction Surveys • Market Surveys • Communication through multiple media platforms	From company perspective • Customer Loyalty • Enhanced Brand Value and Brand Penetration • Increased Customer Satisfaction • Increased Cross Selling From stakeholder perspective • Ethical business practices and full disclosure of product information • Competitive Interest Rates on Lending & Deposits • Innovative products and services

Stakeholder Identification & Engagement

Stakeholder Type	Engagement Approach	Expected Outcomes
Employees	• One to one interactions based on our open-door policy • Confidential employee satisfaction survey • Individual 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 • Prioritised engagement with local suppliers • Mutually beneficial, long term relationships being the focus during contractual negotiations	From company perspective • Favourable funding facilities • Seamless execution of outsourced services From stakeholder perspective • Strategic partnerships to obtain competitive advantages • Long term service contracts
Regulators	• Dedicated personnel for continuous, personalised interaction • Uncompromised level of priority for regulatory compliance • On-time statutory reporting • Ad-hoc information provided as and when requested	From company perspective • Compliance with regulatory requirements • Adoption of industry best practices to improve internal core and supporting processes From stakeholder perspective • Development of the industry to maintain public confidence • Dissemination of industry best practices • Collection of state revenue
Society and the Environment	• Establishment of a CSR Committee • Implementing projects to benefit the society and the environment • Company website • Media releases	From company perspective • Contribution to community development and environmental conservation • Ensuring the long term sustainability of the business From stakeholder perspective • Maintenance of ethical business practices • Employment generation • Avoidance of any negative impacts on the environment

Economic Review

One year into the COVID-19 pandemic, the accumulating human toll continues to raise concerns, even as growing vaccine coverage lifts sentiment. High uncertainty surrounds the global economic outlook, primarily related to the path of the pandemic. After a contraction in 2020, in its latest Global Outlook Report, IMF predicts that the global economy and Emerging and Developing Asia will grow in 2021 reflecting vaccine-powered recovery, fiscal stimulation in a few large economies supported by adoption of new ways of working. Even though Sri Lanka broadly follows the same trend, IMF projects a lower growth rate for Sri Lanka with a notable medium-term impact.

							IMF Projections		
Real GDP Growth (%)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2026**
World	3.5	3.3	3.8	3.6	2.8	**(3.3)**	6.0	4.4	3.3
Emerging and Developing Asia	6.8	6.8	6.6	6.4	5.3	**(1.0)**	8.6	6.0	5.4
Sri Lanka	5.0	4.5	3.6	3.3	2.3	**(3.6)**	4.0	4.1	4.2

Source: IMF World Economic Outlook April 2021

This overall decline in 2020 was driven by the year-on-year contraction of 16.4% experienced in Q2 due to the nationwide lockdown measures imposed to contain the C-19 outbreak. Nevertheless, the economy rebounded during the second half of the year, registering a real growth of 1.3%, year-on-year, in spite of the disruptions caused during October-November with the second wave of the pandemic. This, along with the depreciation of the Sri Lankan rupee, caused the overall size of the economy and per capita GDP to respectively decline by USD 3.3 billion and USD 170 in 2020.

Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
GDP UDS billion	80.6	82.4	87.4	87.9	84.0	**80.7**
Per Capita GDP USD	3,841	3,886	4,077	4,057	3,852	**3,682**

Source: CBSL Annual Report 2020

ECONOMIC ACTIVITY

All sectors of the economy contracted during 2020 compared to the previous year. Services sector remained the prime contributor with 58.7% share to the country's GDP.

Sector	**Sector Contribution to GDP (%)**				**Sector GDP Growth %**			
	2017	**2018**	**2019**	**2020**	**2017**	**2018**	**2019**	**2020**
Agriculture	6.9	7.0	6.9	**7.0**	-0.4	5.8	1.0	**-2.4**
Industry	26.8	26.3	26.4	**25.5**	4.7	1.3	2.6	**-6.9**
Services	56.8	0.6	57.5	**58.7**	3.6	4.6	2.2	**-1.5**

Source: CBSL Annual Report 2020

Of the Agriculture sector, marine fishing and marine aquaculture, and forestry and logging sub-sectors declined notably due to the disruptions caused by the pandemic, while growing of oleaginous fruits also contracted owing to lagged effects of dry weather conditions that prevailed in 2019. On the other hand, the sub-sectors of growing of vegetables, rice, fruits and cereals other than rice, recorded a healthy performance during 2020, supported by the Government's policy initiatives to promote domestic agricultural production.

In the Industry sector, construction, manufacturing of textiles and leather related products, mining and quarrying sub-sectors primarily contributed to the contraction of Industrial sector during 2020, although manufacturing of food, beverages and tobacco products recorded a growth during the year. Services sector GDP growth recorded a marginal decline in 2020. Financial and auxiliary financial services, telecommunication, wholesale and retail trade activities grew during the year, thereby lessening the impact of the contraction of other sub-sectors including transportation of goods and passengers, warehousing, other personal services, accommodation, food and beverage service activities, which were affected by mobility restrictions.

INFLATION

Headline inflation remained broadly within the desired range during 2020, while Core inflation, which excludes the subcategories of volatile food, energy, and transport from Headline inflation, remained low throughout the year. Subdued demand conditions, well-anchored inflation expectations, and downward revisions to administered prices helped maintain inflation at the targeted level, despite upward pressures from food inflation, particularly due to elevated prices of certain essential food items and supply disruptions due to the pandemic.

	Headline Inflation		Core Inflation	
	2019 Dec	2020 Dec	2019 Dec	2020 Dec
Colombo Consumer Price Index (CCPI, 2013=100)	4.80%	4.20%	4.80%	**3.50%**
National Consumer Price Index (NCPI, 2013=100)	6.20%	4.60%	5.20%	**4.70%**

Source: CBSL Annual Report 2020

National Consumer Price Index (NCPI, 2013=100), which attaches a relatively high weight to food items, broadly followed the trend in Colombo Consumer Price Index (CCPI, 2013=100) in both Headline and Core inflation indexes.

EXCHANGE RATE

The exchange rate displayed intermittent volatilities at the beginning of the pandemic and again towards the end of the year. The re-emergence of exchange rate volatility since late 2020 was mainly driven by low levels of liquidity in the domestic foreign exchange market and speculative market behaviour due to sovereign rating downgrades. Gross official reserves declined to USD 5.7 billion by end 2020, in comparison to USD 7.6 billion recorded at end 2019, amidst foreign debt service payments and limited foreign exchange inflows. The Central Bank continued to absorb foreign exchange from the domestic foreign exchange market, in early 2021, supported by the measures introduced to sell a share of conversions of workers' remittances and export proceeds to the Central Bank by licensed banks.

Year	2017	2017	2018	2019	2020
Exchange Rate - Annual average - Rs/US$	145.6	152.5	162.5	178.8	**185.6**
Balance of Payments USD Mn	-500	2,068	-1,103	377	**-2,328**

Source: CBSL Annual Report 2020

FISCAL POLICY

At the turn of the year, the Government took a decision to conduct fiscal policy with the intention of stimulating the economy, but the outcome was severely affected by the pandemic. Government revenue moderated in 2020, mainly due to weakened revenue streams owing to the contraction of economic activity as well as the fiscal stimulus measures implemented via tax revisions since late 2019. Government revenue as a percentage of GDP declined to 9.1% from 12.6% in 2019, reflecting the sharp decline in tax revenue collection.

Fiscal Performance	As a % of GDP			
	2017	2018	2019	2020
Budget Deficit	7.6	5.4	9.6	**11.1**
Government Debt - Total	77.9	84.2	86.8	**101**
Government Debt - Domestic	42.5	42.5	45.5	**60.6**
Government Debt - Foreign	35.4	41.7	41.3	**40.4**

Source: CBSL Annual Report 2020

The outstanding government debt increased to Rs.15,117.2 Bn by end 2020 which is over the GDP value, compared to Rs.13,031.5 Bn at end 2019, reflecting the combined impact of the increase in the outstanding debt stock as well as the contraction of GDP during the year. The Government financed the budget deficit through domestic sources during 2020, reflecting the expressed preference of the Government for domestic financing over foreign financing as well as the limited access to foreign financing amidst unfavourable global market conditions.

MONETARY SECTOR DEVELOPMENTS AND INTEREST RATES

CBSL continued to ease the monetary policy stance during 2020 with a view to support the economy to recover from the effects of the COVID-19 pandemic and to regain the growth momentum, given the subdued inflation conditions. The Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) were reduced by a total of 250 basis points on five occasions to their historically lowest levels of 4.5% and 5.5%, respectively, during 2020. The Statutory Reserve Ratio (SRR) applicable on rupee deposit liabilities of LCBs was reduced on two occasions by a total of 3% points to 2% during 2020, thereby increasing liquidity in the domestic money market amidst heightened uncertainty arising from cashflow disruptions and urgent funding requirements of financial institutions. CBSL also reduced the Bank Rate by a total of 650 basis points to 8.5% during 2020, while allowing it to be determined automatically with a margin of 300 basis points above the SLFR.

Market deposit rates decreased substantially in response to monetary policy easing measures. Accordingly, the Average Weighted New Deposit Rate (AWNDR) and the Average Weighted New Fixed Deposit Rate (AWNFDR) recorded their lowest levels of 4.93% in December 2020 and 5.07% in November 2020, respectively, since the beginning of their compilation in 2014.

Trends in Interest Rates	2017	2018	2019	2020
Treasury Bill Rate (364 days) (%)	8.90	11.20	8.45	**5.05**
Standing Deposit Facility Rate/ Repurchase Rate (%)	7.25	8.00	7.00	**4.50**
Average Weighted Deposit Rate (AWDR) (%)	9.07	8.81	8.20	**5.80**
Average Weighted Fixed Deposit Rate (AWFDR) (%)	11.48	10.85	10.05	**7.14**

Source: CBSL Annual Report 2020

At end of 2020, the Average Weighted Deposit Rate (AWDR) reached its lowest level after August 2005, and the Average Weighted Fixed Deposit Rate (AWFDR) reached its lowest level after May 2015. The pace of decline in deposit rates slowed in the latter part of the year. Despite low levels of inflation, the substantial decline in deposit rates resulted in some deposit products, such as savings deposits and new short term fixed deposits, earning negative real returns, thereby affecting the segment of the population that depends on interest income from deposits. This underscores the need for alternative investment avenues in a low interest rate regime, in order to minimise the negative impact of low returns on savings, particularly in the context of rapid population ageing.

Reflecting the impact of accommodative monetary policy and other measures taken to improve the monetary transmission mechanism, market lending rates declined to historic low levels. Accordingly, Average Weighted New Lending Rate (AWNLR) declined substantially to 8.38% by end 2020.

Trends in Interest Rates	2017	2018	2019	2020
Average Weighted Lending Rate (AWLR) (%)	13.88	14.40	13.59	**10.29**
Average Weighted Prime Lending Rate (AWPLR) (%)	11.33	11.94	10.00	**5.74**

Source: CBSL Annual Report 2020

The Average Weighted Lending Rate (AWLR) and the Average Weighted Prime Lending Rate (AWPLR) also declined notably by 330 bps and 426 bps in 2020. The Legal Rate and the Market Rate of interest, as determined by the Monetary Board and published in the Government Gazette at the end of each year, remains at 10.12% p.a. for 2021, compared to 11.64% p.a. for 2020. The share of new loans granted at single digit interest rates increased substantially to around 88% by end 2020 from around 23% at end 2019. Meanwhile, a reduction of average weighted lending rates was observed on loans granted against all types of securities by end 2020, compared to end 2019. CBSL also implemented regulatory measures to reduce interest rates charged on certain financial products, including pawning, thereby quickening the monetary policy transmission process. As a result, Credit to the private sector increased by Rs.374.1 Bn during 2020, recording a year-on-year growth of 6.5%. Meanwhile, credit to the public sector increased substantially during the year, primarily reflecting the notable increase in net credit to the government, resulting in a rapid expansion of broad money supply.

Industry Review

PERFORMANCE OF NON-BANK FINANCIAL INSTITUTIONS (NBFI) SECTOR

The NBFI sector performance deteriorated during the year, with negative credit growth and high NPLs. In addition to the COVID-19 pandemic related growth impediments, the reduction of consumer confidence due to issues observed in the sector contributed towards the static performance. At end-2020, the sector comprised 40 LFCs and 3 SLCs. There were 1,517 branches and 460 other outlets of the sector, of which 1,001 branches (66%) were concentrated outside the Western Province.

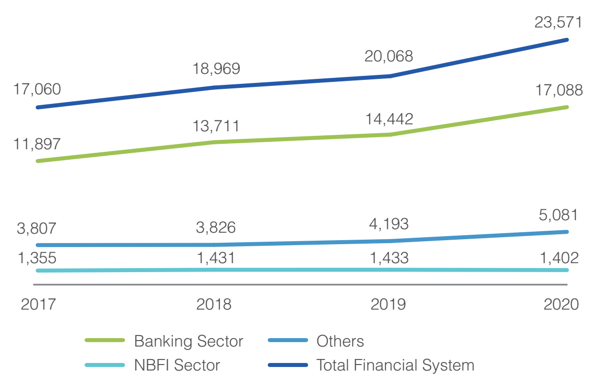
	Growth %			
	2017	2018	2019	2020
Banking Sector	12.5	15.2	5.3	**18.3**
NBFI Sector	11.8	5.6	0.1	**(2.2)**
Others	11.1	0.5	9.6	**21.2**
Total Financial System	12.1	11.2	5.8	**17.5**

Source: CBSL Annual Reports 2017-2020

Total assets of the NBFI sector and its growth contracted for the first time in 2020 which resulted NBFI share in the larger financial system to decline by 120 bps. The growth of the financial system was predominately driven by the banking sector which grew by Rs.2,646 Bn. Banking sector has gained and consolidated its share from 2017 onwards whilst the share of NBFI sector has declined over the same period.

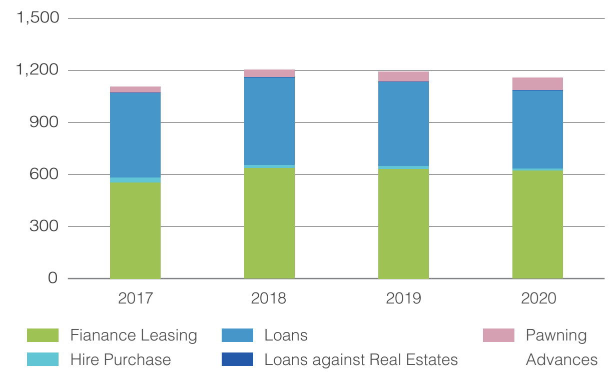
Sectorwise Asset Growth

(Rs. Bn.)



Sectorwise Asset Growth

(Rs. Bn.)



Source: CBSL Annual Report 2020

ANALYSIS OF SECTOR ASSETS AND LIABILITIES

Year	2017	2018	2019	2020
Loans and Advances (net) (Rs. Bn)	1,057.1	1,137.0	1,102.7	**1,039.9**
Investments (Rs. Bn)	118.1	109.7	132.2	**158.8**
Other (Rs. Bn)	179.8	184.6	197.8	**202.9**
Total (Rs. Bn)	1,355.0	1,431.3	1,432.7	**1,401.6**

Source: CBSL Annual Report 2020

LOANS AND ADVANCES

Over all net assets base Loans and Advances contracted by Rs.63 Bn and during the year, mainly attributable to the static growth in Finance Leasing as business activities decelerated amidst the COVID-19 lockdowns and curtailment of vehicle imports. Pawning records a year-on year growth over 20% resulting in a twofold increase its asset value during last four years.

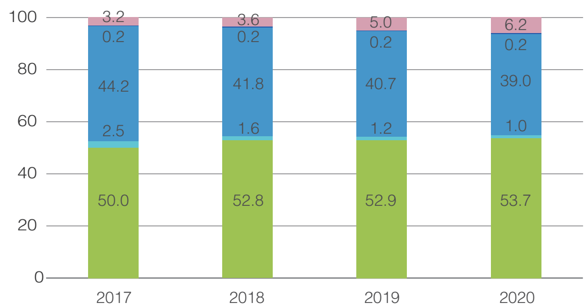
Year	Product Assets (Rs.Bn)				Growth %			
	2017	2018	2019	2020	2017	2018	2019	2020
Finance Leasing	554	636	632	**622**	13.0	14.7	(0.6)	**(1.6)**
Hire Purchase	27	19	15	**12**	(35.6)	(29.7)	(22.4)	**(20.6)**
Loans	490	503	486	**451**	10.2	2.8	(3.5)	**(7.1)**
Loans against Real Estates	2	3	3	**2**	13.0	17.7	(4.7)	**(14.9)**
Pawning Advances	35	44	59	**71**	28.9	25.2	35.3	**20.1**
Loans and Advances(Net)	1,057	1,137	1,103	**1,040**	9.8	7.6	(3.0)	**(5.7)**

Source: CBSL Annual Report 2020

Finance Leasing continued to dominate the category whilst Loans have declined its share over the years. Pawning share has notably increased over the years.

NBFI Sector - Productwise share

(%)



Source: CBSL Annual Report 2020

ASSETS HELD FOR INVESTMENTS

Among other assets, the investment portfolio recorded a growth of 20.2% to Rs.158.8 Bn, mainly due to increase in prices of shares, increased investments in unit trusts, debt securities held for trading and government securities maturing in less than 12 months free of lien. Other assets, mainly cash balances with banks and financial institutions and fixed assets, increased by 2.6% during the year.

LIABILITIES

The funding mix was dominated by customer deposits accounting for a share of 53.4% as at end 2020, while borrowings of the sector sharply declined by Rs.77.6 Bn compared to the previous year.

Year	2017	2018	2019	2020
Customer Deposits	686.7	716.8	756.7	**748.6**
Total Borrowings	396.0	463.8	405.6	**328.0**
Capital Base	169.7	183.7	203.2	**248.0**
Other	102.6	67.0	67.2	**77.0**
Total Liabilities	1,355.0	1,431.3	1,432.7	**1,401.6**

Source: CBSL Annual Reports 2017-2020

PROFITABILITY

The changes in the monetary policy and decline in economic activities with the C-19 outbreak resulted in a reduction in interest income, interest expenses and net interest income respectively by Rs.31.3 Bn, Rs.25 Bn and Rs.6.3 Bn. Non-interest income and non-interest expenses declined by Rs.7.4 Bn and Rs.15.4 Bn respectively during 2020 impacting the sector profitability. Non-interest expenses declined mainly due to decreased administrative expenses, loss on valuation/disposal of repossessed items, reduction in staff costs and other expenses. The loan loss provisions made against NPLs during the year records a significant increase of Rs.8 Bn whilst the Profit after Tax has declined marginally during 2020. Overall Profit after Tax has almost halved over the period of 2017-2020.

Performance Indicators	2017	2018	2019	2020
Interest Income (Rs. Bn)	231.5	241.5	259.8	**228.5**
Interest Expense (Rs. Bn)	128.9	132.7	142.4	**117.4**
Net Interest Income (Rs. Bn)	102.7	108.8	117.4	**111.1**
Non-Interest Income (Rs. Bn)	34	38.1	39.4	**32.0**
Non-Interest Expense (Rs. Bn)	80	81.2	93.8	**78.4**
Loan Loss Provisions (Net)	13.5	25.9	30.2	**38.2**
Profit After Tax (Rs. Bn)	25.8	21.4	14.5	**13.7**

Source: CBSL Annual Reports 2017-2020

Net interest margin of the sector marginally declined to in 2020 mainly due to a decline in the net interest income. Return on Assets and Return on Equity both further contracted during the year whilst both have halved over the for year period from 2017 to 2020.

Performance Indicators	2017	2018	2019	2020
Net Interest Margin (%)	7.7	7.4	7.5	**7.3**
Return on Assets (%)	3.2	2.7	2.2	**1.7**
Return on Equity (%)	16.1	12.1	7.7	**6.1**

Source: CBSL Annual Reports 2017-2020

CAPITAL

The sector as a whole remained resilient with capital maintained above the minimum required levels during the year. The total capital base improved by 22.1% end December 2020, with the infusion of new capital by LFCs to meet regulatory requirements and cancellation of license of a LFC with a large negative net worth. Upon reaching the deadline, an extension of 12 months was granted to LFCs to comply with minimum core capital requirements considering the economic impact of the COVID-19 outbreak. The new target is to reach Rs.2.5 Bn by 1st January 2022. The sector core capital and total risk weighted capital ratios recorded an increase compared to the reported levels at end December 2019.

	2017	2018	2019	2020
Tier I: Core Capital	137.4	141.3	160.8	**202.8**
Tier II: Capital	17.1	22.5	25.4	**21.2**
Total Capital Base	145.3	159.9	182.0	**218.9**
Total Risk Weighted Capital Adequacy Ratio	13.1	11.1	12.5	**15.7**
Core Capital Ratio	12.4	9.8	11.1	**14.5**

Source: CBSL Annual Report 2020

Further, CBSL introduced the Financial Sector Consolidation Master Plan (FSCMP) to address non-compliance with the minimum core capital requirement and/or the minimum capital adequacy ratios by several LFCs. Several regulatory actions were initiated in addition to introducing the FSCMP with a view to avoid further deterioration of the financial position, maintain the stability of such institutions and safeguard the interest of depositors. Despite certain institutions encountering difficulties to fulfill regulatory requirements at an individual level, the sector remained stable with capital and liquidity maintained at healthy levels above the minimum regulatory requirements.

RISKS IN NBFI SECTOR

Credit risk:

Total gross loans and advances reduced by 3.0% (Rs.35.9 Bn) by end December 2020 on year-on-year basis, compared to a reduction of 0.9% (Rs.10.3 Bn) recorded at end December 2019. The gross NPL ratio records an increase of 330 bps showing a severe deterioration in the asset quality of the sector. However it has slightly reduced when compared with the end June 2020 ratio of 14.1%. The net NPL ratio and the Provision coverage ratio both increased by 80 bps and 230 bps respectively, mainly due to the slowing down in the economic activities following the COVID-19 pandemic. NPLs of the sector could be underestimated due to debt moratorium together with other concessions and NPL levels may increase further after the end of the debt moratorium.

	2017	2018	2019	2020
Gross NPA Ratio	5.9	7.7	10.6	**13.9**
Net NPA Ratio	1.6	2.4	3.4	**4.2**
Provision Coverage Ratio	64.0	57.0	56.6	**58.9**

Source: CBSL Annual Report 2020

Market risk:

The sector continued to experience low market risk which comprise of interest rate risk and equity risk.

Interest rate risk:

With the objective of reducing interest rates on lending, maximum interest rates on deposits and debt instruments were further reduced since April 2020. Accordingly, interest rate risk of the sector decelerated with the prevailing negative mismatch in the maturity profile of the interest-bearing assets and liabilities.

Equity risk:

Equity risk of the sector remained low during the period under review as the exposure to equity market in the form of investment in listed shares is 1% of the sector assets at the end December 2020.

Liquidity risk:

The sector maintained adequate liquidity buffers well above the regulatory minimum levels by end December 2020. The overall regulatory liquid assets available in the sector indicated a surplus of Rs.89.0 Bn as against the stipulated minimum requirement of Rs.50.7 Bn.

Regulatory Liquidity Indicators	2017	2018	2019	2020
Regulatory Liquid Assets (Required)	91.0	88.2	89.8	**139.7**
Regulatory Liquid Assets (Available)	126.5	113.5	131.4	**50.7**
The liquidity ratio	11.7	9.6	11.3	**13.0**

Source: CBSL Annual Report 2020

The regulatory relaxations of the Central Bank by relaxing the liquid asset requirements also facilitated the sector to escalate the liquidity surplus. The liquidity ratio (liquid assets against deposits and borrowing) increased 170 bps by end December 2020, compared to end December 2019.

Value Creation Model

VISION · MISSION · VALUES

CORPORATE PLANNING

STRATEGY DEVELOPMENT

FINANCIAL CAPITAL
• Budgeted Profitability & Resource Allocation • 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 and Retention • People Development • Talent Management • Rewards and Retention • Disciplinary Monitoring

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

INFRASTRUCTURE CAPITAL
• Branch Network Management • IT Systems Development

FINANCE AND TREASURY	HUMAN CAPITAL	OPERATIONS
LEGAL	FACILITIES MANAGEMENT	ICT
INTEGRATED RISK MANAGEMENT	INTERNAL AUDIT	COMPLIANCE
MARKETING	CREDIT	COLLECTIONS AND RECOVERIES

FUND MOBILIZATION
• PERSONAL SAVINGS
• FUND RAISING THROUGH BORROWINGS AND ISSUING
• FINANCIAL INSTRUMENTS

FIXED DEPOSITS
• RETAIL • INSTITUTIONAL

LENDING
PERSONAL FINANCING
• CONSUMER LOANS • GOLD LOANS
• PERSONAL CASH LOANS
• LOANS AGAINST FIXED DEPOSITS

SPECIALIZED BUSINESS FINANCING
• FACTORING

VEHICLE FINANCING
• VEHICLE LOANS • FINANCE LEASES

VISION MISSION VALUES

CORPORATE PLANNING STRATEGY DEVELOPMENT

FINANCIAL

• Budgeted Profitability 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
• Retention of Profits
• Contribution to Rural Economic Development

SOCIAL

• Employment Generation
• Regulatory Compliance
• Maintenance of Business Ethics
• Engagement in Industry Development

ENVIRONMENTAL

• Management of Natural Resource Utilization
• Management & Proper Disposal of Wastage
• Non-Engagement with Environmentally Hazardous Businesses

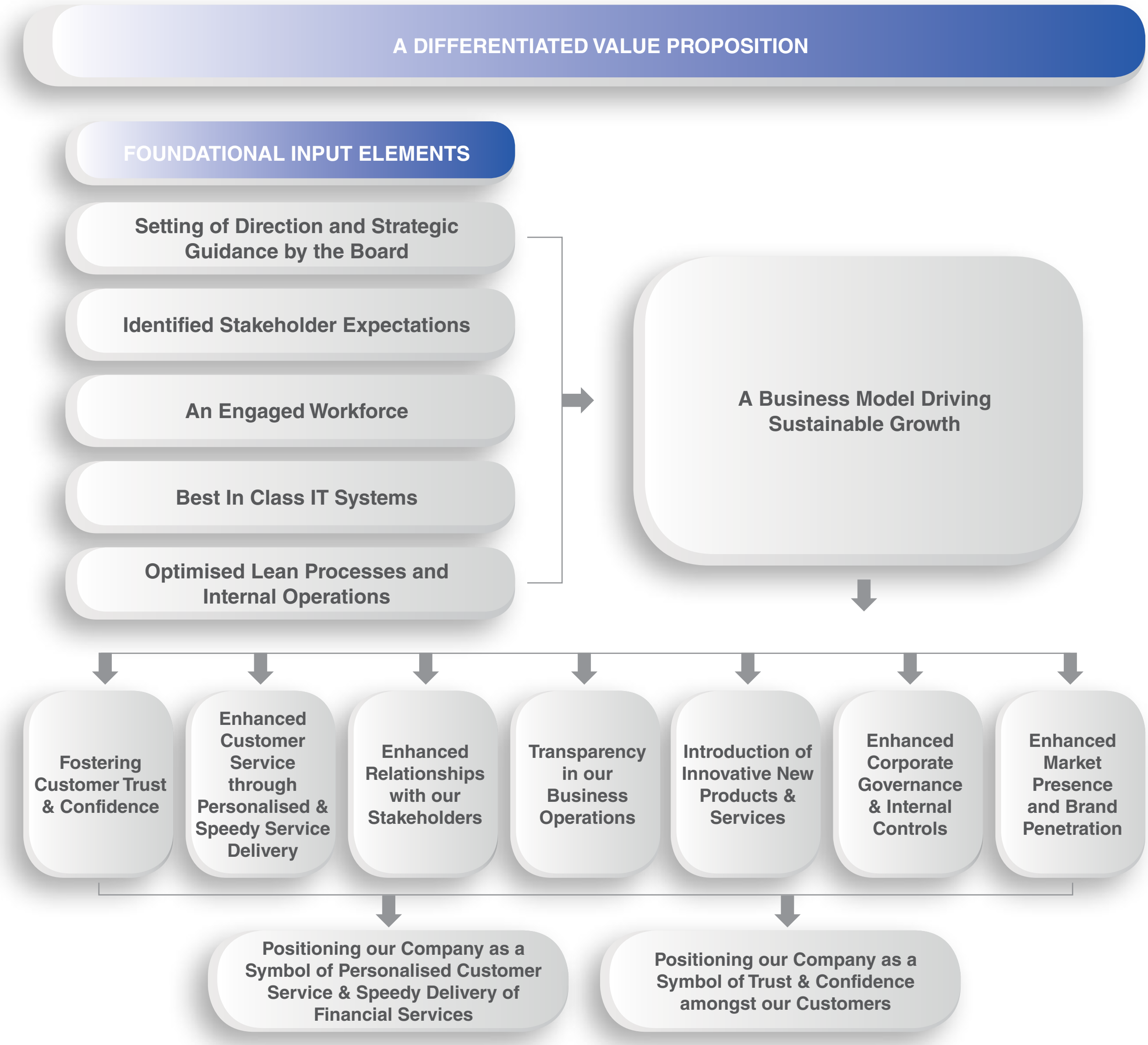
Corporate Strategy on Value Creation

OUR BUSINESS MODEL AND CORPORATE STRATEGY EXECUTION

We have been consistently committed to progressing from the traditional notion of a finance company and hence differentiating ourselves and setting ourselves apart from other financial service providers. Our re-engineered business model directs us towards focusing primarily on vehicle financing. Additionally, backed by refined processes and checks and balances, we will be expanding our footprint in the personal financing and factoring spheres in a controlled manner in order to avoid overexposure to those segments. Instrumental to this drive, is our ambition to also be the preferred retail investments partner of our customers in terms of fund mobilisation. Foundational to the achievement of these goals, is the ongoing rollout of the planned digitalisation of product related processes and the introduction of digital platforms for client interaction that would enhance the customer experience and also curtail wastage.

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

- Adopting best-in-class IT systems and driving digitalisation
- Building an engaged, innovative and productive workforce
- Constant refinement of our internal processes and controls
- Effective application and management of our monetary resources
- Partnering and maintaining relationships with strategic partners
- Expansion of our geographical footprint
- Continuous innovation and renovation of products and services



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, Human Capital, Customer Capital, Business Partner Capital, Intellectual Capital and Infrastructure Capital.

FINANCIAL CAPITAL

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

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.

CUSTOMER CAPITAL

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

BUSINESS PARTNER CAPITAL

Business Partner Capital involves the careful engagement and management of our business partners in order to deliver the desired value to our customers, whilst managing our deployed resources in the most effective manner.

INTELLECTUAL CAPITAL

Intellectual Capital revolves around the industry expertise that we bring into this value generation process. Through our organisational knowledge base, the best practices we have adopted and our continued commitment to process excellence, our intellectual capital brings in that intangible component that helps operationalise our other inputs.

INFRASTRUCTURE CAPITAL

Infrastructure Capital that is brought into the process is the continued management and enhancement of the customer experience offered through our branch network, the substantial investments made in implementing best in class IT systems and the process of digitalisation that is in the process of being implemented.

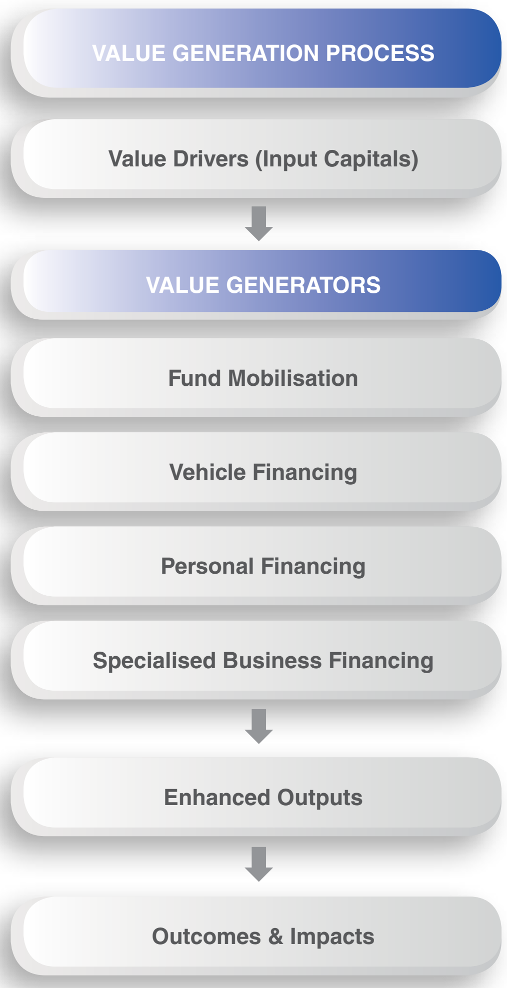
Corporate Strategy on Value Creation

THE VALUE GENERATION PROCESS

The onus on our value generation process is to manage and effectively utilise the input capitals in order to produce the desired outputs whilst ensuring that the economic, environmental and social impacts of our business are managed as planned. In order to generate the expected value from our fund mobilisation, vehicle financing, pawning, personal financing and factoring activities, our internal processes and support services have been strategically deployed and effectively geared to produce optimum returns to our value chain.

Our value creation process is a continuous, evolving process and these input capitals, the value generating activities, the immediate outputs and the impacts are all interdependent and incessantly influence each other. This is how we leverage our core competencies and the competitive advantage that we have in our business domains in order to maximise the value we create for our stakeholders.

In the long term, adherence to the value creation processes in our business model helps us to manage the expectations of all our stakeholders and create win-win situations for all of them.



THE IMMEDIATE OUTPUTS

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

1. Financial Domain
2. Human Capital Domain
3. Customer Domain
4. Business Partner Domain
5. Intellectual Domain

THE OUTCOMES & IMPACTS

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

1. Economic Impacts
2. Social Impacts
3. Environmental Impacts

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Capital

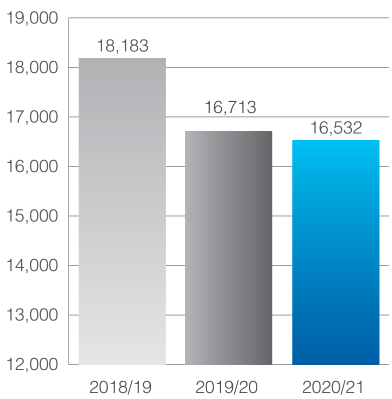
As an industry that predominately caters to the unorganised segment of the economy, Non-Banking Financial Institutions (NBFIs) sector experienced a direct impact from the Covid-19 pandemic which resulted in decline in credit growth, collection of dues and dilution in overall profitability during the year under review.

LENDING PORTFOLIO ANALYSIS

The company continued with its strategic focus to keep higher emphasis on secured lending such as Finance Leasing, Auto Loans, Gold Loans and Factoring and restricted Personal Loans to employees of Softlogic Group. Despite the recurrent lockdowns measures that restricted our ability to drive market penetration, the Company managed to retain the net lending portfolio (net of impairment) at Rs.16.5 Bn with a marginal decline of 1%.

Lending Portfolio

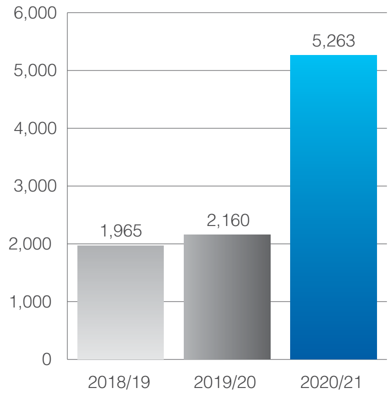
(Rs. Mn.)



Our Leasing and Hire Purchase portfolio grew by Rs.2.2 Bn from Rs.3.1 Bn to Rs.5.3 Bn which marked an increase of 144%. The policy rates decline in Gold Loans shifted customers from NBFI sector towards the Banking sector which reflected a sharp reduction in our Gold Loan portfolio by Rs.0.6 Bn from Rs.2.9 Bn to Rs.2.3 Bn. Relatively new entrant in the lending portfolio, Factoring receivables stood at Rs.565 Mn with a marginal decline of Rs.35 Mn as at 31st March 2021.

Lease and Hire Purchase Portfolio

(Rs. Mn.)



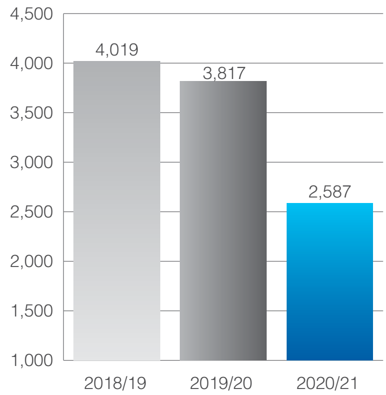
REVENUE AND PROFITABILITY

The company posted a net loss after tax of Rs.903 Mn for the financial year 2020/21. The interest income which is the main contributor for the revenue, recorded a sharp decline of 32% from Rs.3.6 Bn to Rs.2.4 Bn. This was mainly attributable to the interest concessions granted to customers who were affected by the C19 Pandemic, slower credit growth in the first quarter of the financial year and decline in policy rates. Similar trend was witnessed in fee and commission income and other operating income narrowing the total gross income by Rs.1.2 Bn from Rs.3.8 Bn to Rs.2.6 Bn. Additionally, there was a notable increase in impairment charges, mainly due to rising non-performing loans affecting the entire NBFI sector.

A noteworthy increase of 37% in interest income from Leasing Portfolio was recorded whilst interest income from lending to Small and Mid-size enterprises (SME) and other loans declined by 59% primarily as consequence of change in strategic focus towards secured lending from unsecured credit.

Total Gross Income

(Rs. Mn.)

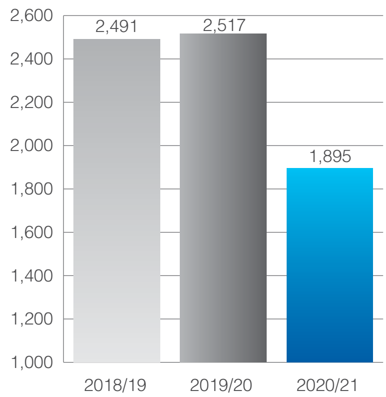


EXPENSES

Total interest costs of the company decreased by 25%, mainly as a result of continuous decline in policy rates. This was also influenced by our shift in focus towards mobilisation of time deposits with maturity period of one year and above among the retail investors.

Interest Expenses

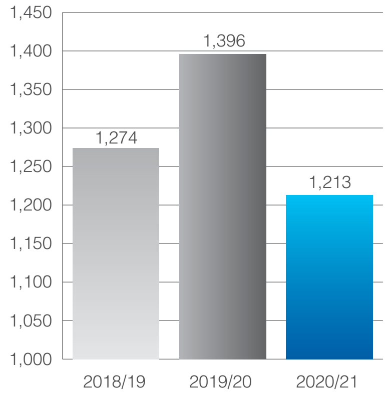
(Rs. Mn.)



During the financial year under review, the company was able to effectively manage its expenses through several efficient cost management initiatives recording a sharp decline in operational expenses by 13% to Rs.1,213 Mn. This includes re-engineering of our processes and workflows using lean management techniques that enabled the company to craft a formidable response to the challenges posed by the macro environmental conditions.

Total Operating Expenses

(Rs. Mn.)



Personnel costs which accounted for 33% of total operating expenses reduced by 9% to Rs.401 Mn as a result of continuous emphasis to redesign job roles to deliver a superior customer service with optimum staff. Our recruitment strategy has an internal first approach to provide opportunities for the existing staff with right competencies to grow whilst optimising the cost to the company.

Other operating expenses (including depreciation and amortisation expenses) accounted for 67% of total operating expenses, also declined by 15% to Rs.812 Mn which consist mainly of administrative, marketing, maintenance and professional expenses. This was achieved as a result of cost minimising efforts such as renegotiation of contractual terms with vendors that was carried during the year. Furthermore, a branch rationalisation plan was initiated to improvement the operational efficiency productivity.

LIQUIDITY MANAGEMENT

The Company was well prepared to absorb potential external shocks and maintained sufficient liquidity cover throughout the year. A shift towards banking sector from NBFI sector was noticed among the investors during early stages of the pandemic which didn't cause a material impact to the company. During the latter part of the year, there was excess liquidity as a result of low demand for credit.

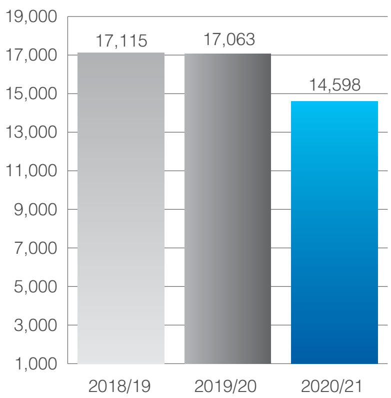
Possibility to reprice the larger gold loan portfolio with short term maturities enabled the company to manage the interest rate risk relating to the assets and liabilities. At the end of the financial year, the company's regulatory liquid assets were Rs.969 Mn in excess of the minimum level stipulated by the regulator. Further, the company maintained unutilised credit lines right throughout the year which stood at Rs.769 Mn as off 31st March 2021.

DEPOSIT PORTFOLIO ANALYSIS

During the 2020/21 financial year, the public deposit portfolio declined by 14% to Rs.14.6 Bn which was primarily due to the liquidation of few higher valued deposits. The company was able to maintain healthy levels of liquidity risk by capitalising long standing customer relationships and superior service despite the unfavourable macro environment to mobile deposits.

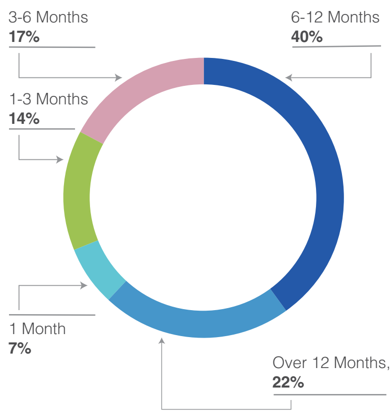
Customer Deposit Base

(Rs. Mn.)



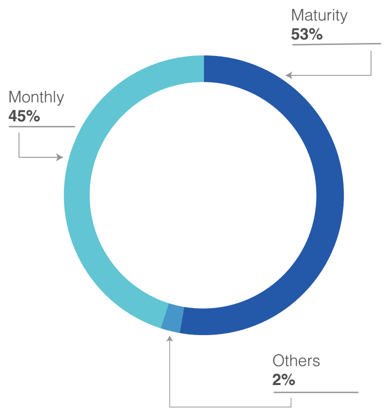
Period - Wise Analysis of FD Base

AS AT 31.03.2021 (Based on remaining maturity)



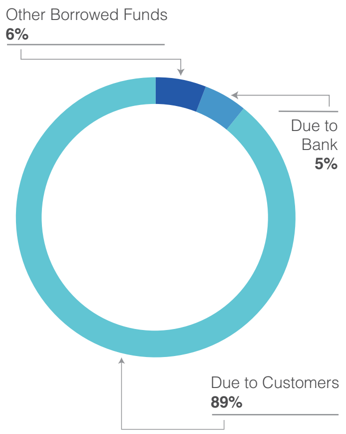
Payment Method Based Analysis of FD Base

AS AT 31.03.2021

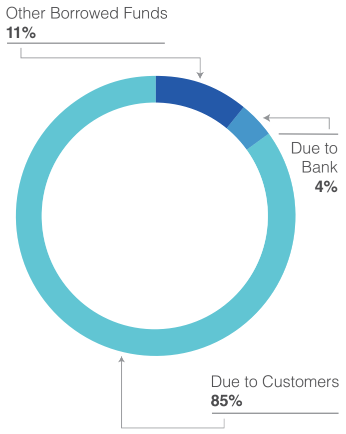


The company is largely dependent on public deposits in its funding mix which recoded a narrow decline of 4%. This reflects our ability to attract and retain deposits, despite the strong market competition reinforcing the trust customers have placed on the company. Even though we had a short term dependency on bank borrowings, our focus continued during the year to mobilise long term maturity based time deposits which were a less expensive source of debt capital. Dependency on other funding sources such as debentures decreased as we fully repaid our debentures issued during the year.

Funding Mix 2019-20



Funding Mix 2020-21



OUTLOOK FOR 2021 AND BEYOND

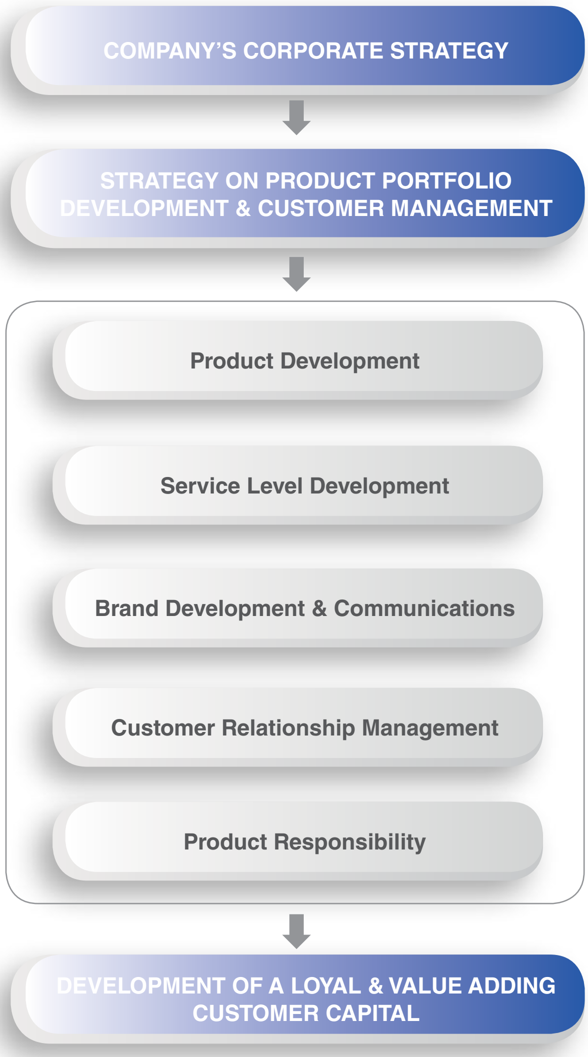
We are confident that diligent execution of strategic priorities outlined in the five-year plan will enable us to build an organisation that is geared to win in volatile and uncertain economic conditions. We believe in digitalisation and use of technology to improve operational efficiencies and enhance customer experience which will in turn drive the profitability enabling the company to move towards a prominent position in the market.

Customer Capital

MANAGEMENT APPROACH

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

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



PRODUCT DIVERSITY

In line with the customer centric approach that we have embraced, as well as the internal and external data driven product management techniques that we have adopted, we have been able to design and structure our product portfolio so as to cater to diverse customer segments requiring access to financial services and at the same time, sustain and enhance product profitability. From increasing access to formalised sources of financing to providing a stable and safe return on investments, our products are geared to meet the evolving financial needs of our customers.

Our lending and fund mobilisation product portfolios include the following product categories that target identified market segments:

Lending Products

- Finance Leasing
- Personal & Consumer Loans
- Gold Loans
- Factoring

Fund Mobilisation Products

- Fixed Deposits
- Savings

ACHIEVING SERVICE EXCELLENCE

The service culture that we have embodied has ensured that the organisation as a whole, collectively drives service quality and service delivery. We constantly look inwards and audit our operational discipline in order to ensure that the service delivery pipeline works seamlessly without any gaps. 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:

Customer Capital

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 using Lean Management techniques in the context of the digitalisation that we are driving in order to ensure that our operational workflows are customer centric and are geared to provide optimum service levels to our customers.
Improvements to our integrated IT system and the introduction of digitalisation across all our business verticals 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

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 gaps.

The company has implemented an organisation-wide integrated IT system specifically geared to support the financial services that we provide, in order to introduce new financial products, enhance the customer relationship management and related frontend functions of our operations and to provide the frontend staff and the management with a more efficient support services function. With the end-to-end digitalisation of processes that we are rolling out, we will be able to further refine our customer-centric processes, cut wastage and provide our customers with a state-of-the art service experience.

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.

Moreover, we believe that the personalised customer experience could be further enhanced by the manner in which we have designed our branches. Hence we have initiated a branch redesigning process and we are investing 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.

PRODUCT RESPONSIBILITY

As a responsible corporate entity, we uphold the "Customer Protection Framework" stipulated by the Central Bank of Sri Lanka. We ensure that all our business transactions with our customers are carried out in an ethical and transparent manner and we give primacy to educating the customer of the features of our products and the conditions that they entail. The personalised customer engagement process that we have adopted in dealing with our customers helps us to directly interact with the customer on a one-on-one basis and explain to them all the relevant financial and legal implications that their financial transactions with us entail.

Fairness and Transparency in Customer Interactions

Throughout the personalised interactions that we undertake with our customers, we ensure that we are fully transparent and forthcoming with our customers with regard to product features and information, financial and legal conditions and the credit evaluations processes that we undertake when granting loans.

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

Anti-Competition

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

Anti-Corruption

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

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 rollout of the digitalisation of processes, the regular review and reengineering of our processes and the introduction of our integrated IT system will help us to continue the fostering of a service culture that ensures customer centricity and product innovation in all aspects of our business.

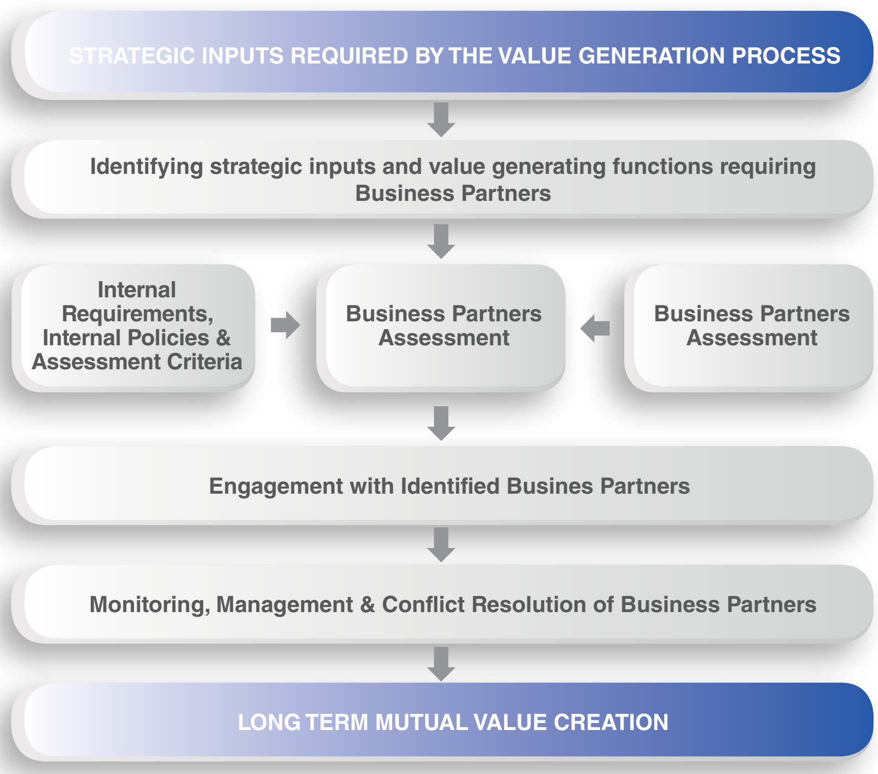
The development of this customer centric attitude across the organisation has been recognised by our management as the driving force behind future business expansion. With the continuing digitalisation process, the rollout of our refined business model and the enhancement of the capabilities of our integrated IT system, we are positioning ourselves to achieve customer loyalty and sustainable business growth in the future, across all product lines.

Business Partner Capital

MANAGEMENT APPROACH

The mutually beneficial relationships that we have developed with our Business Partners play a pivotal role in shaping the overall quality of service delivery to our customers. Further, these relationships that we have developed are critical to maintaining our competitiveness in the market and in the strategic 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. In line with our formalised procurement practices, there is constant monitoring and assessments of the procurement processes in place and the choice of business partners. The intra-group procurement channels that we maintain with other group companies help us achieve optimum cost and quality advantages. Further, in the context of the evaluation criteria present in our procurement policy, we strive to ensure that we give priority to localised regional suppliers as we strongly believe in adding value to the local economy and generating local employment and entrepreneurship.



BUSINESS PARTNER ENGAGEMENT

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

Thus, in order to ensure that long term relationships are maintained and mutual expectations are met, we constantly engage with all our business partners on an individual and personalised basis.

Value Generating Processes involving Business Partner Engagement
IT Services and Process Digitalisation
Market Research & Marketing Communications
Financial Planning & Investment Advisory
Insurance
Training and Talent Development
Collections & Recoveries
Legal Advisory
Lean Management
Outsourced Non-Core Operational Services
Compliance Management

BUSINESS PARTNER EVALUATION & ASSESSMENT

All major procurements are evaluated and managed centrally, as per our formalised procurement practices. 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 practices advocate supplier assessment broadly based on the following criteria:

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

BUSINESS PARTNER CLASSIFICATION AND MANAGEMENT

Based on the strategic priorities of our business, we have classified and set up processes to manage our business partners. Ultimately, our engagement approach is dictated by the need to ensure that the service levels and outcomes match our strategic requirements that change from time to time.

Classification of Business Partners	
General Approved Vendors	
Our engagement approach to General Approved 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 service levels in the long term.	• Advertising & Creative Partners • Corporate Communication Partners • Infrastructure related Suppliers & Contractors • Courier Services • Outsourced Operational Service Providers
Valued Consultants	
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.	• Investment Advisors • IT Consultants • Rating Agencies • Branding Consultants • Human Resource Consultants and Trainers • Legal Advisors • Lean Management Consultants • External Auditors
Strategic Partners	
Our focus is on forming long-term strategic partnerships to facilitate the realisation of competitive advantages that set us apart from the rest of the industry. These engagements go beyond short term cost considerations and instead are based on strategic value addition. Such partnerships are a necessity due to the industry related changes in the external environment that is ever present. Furthermore, certain strategic partners provide specialised services like IT infrastructure development. Moreover, other strategic partners assist in business development by acting as distribution-channel facilitating agents for our products.	• Financing Partners • Insurers • Advertising Agencies • IT Service Providers & Process Digitalisation Partners • Partnering Vehicle Agents and Vehicle Dealerships • Group Companies partnering for our Personal Loan product • Banking partners for payment services • ATM Network Service Provider • Credit Information Bureau of Sri Lanka • Specialised Recovery Service Providers

Classification of Business Partners	
Regulatory Partners	
Being a listed company and a registered Non-Bank Financial Institution entails considerable responsibilities in terms of regulatory compliance. As such, our regulatory partners help us operate efficiently and serve our stakeholders better. We consider regulatory compliance and regulatory reporting as a value adding process which allows us to maintain transparency, achieve operational excellence and provide customers with products that generate value to them. All our regulatory reporting and disclosures are performed in the context of partnership building and not merely limited to regulatory compliance.	• Central Bank of Sri Lanka • Department of Inland Revenue • Securities and Exchange Commission of Sri Lanka • Colombo Stock Exchange

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, business channel development or IT services and digitalisation, our business partners provide an invaluable service that helps us sustain both our current and future business growth.

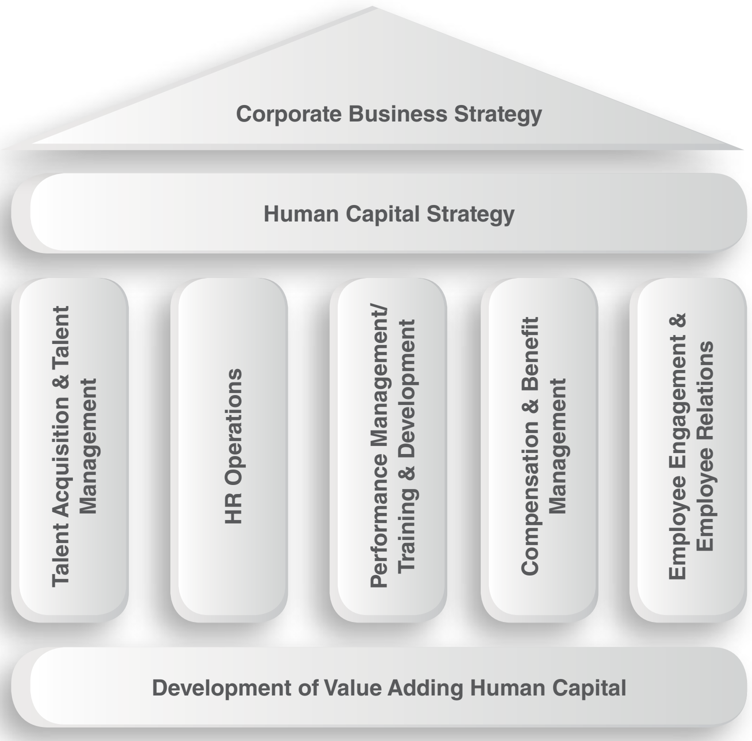
Therefore, in light of the undoubtedly influential role that our business partners play in our value generation process, we will continue to pay special attention to maintain and foster the mutually beneficial relationships we have with them, whilst continuing to form new partnerships that would generate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

Human Capital

MANAGEMENT APPROACH

The Human Capital strategy has been established in line with the corporate business strategy of the company. The strategy is developed while ensuring the value addition to human capital and sustainable growth of the company. It is also well aligned with the vision, mission and values of the company and best industry practices have been introduced to make sure strategic value addition to the business process.

As we are engaged with service industry, the business requirements also constantly varying with customer demand and regulatory changes. It is understood the importance of Human Capital in service industry as they energise the process by serving customers. We strongly believe that improving the quality of our human capital is important as this is an industry bounded with many regulatory requirements. The human capital strategy has been developed under five main pillars.



- Talent Acquisition & Talent Management
- HR Operations
- Performance Management/ Training & Development
- Compensation & Benefit Management
- Employee Engagement & Employee Relations

The Human Resource Department is responsible of executing the strategy under these five pillars and they ensure to follow the strategic guidelines. HR department also assists the Heads of the Departments and Branch People by developing necessary policies and procedures and implementing them in order to maximise the effectiveness and efficiency of workforce and to adopt with compliance requirements. Rolling out the employee advocacy role is the key function of HR department as their main role is to maintain the employee satisfaction and high level of motivation.

Ensuring the compliance requirements as per the guidelines of Labour Legislations is one key requirement of HR as it reflects the transparency of HR practices of the company. While introducing the best industry practices, they also must execute them in accordance with Softlogic Group HR practices. The HR department also in to a continuous process of reviewing and changing the policies and procedures with the business requirements.

HR HIGHLIGHTS OF THE YEAR

It was a challenging year for HR due to Covid – 19 pandemic and the work life of the employees has been disturbed due to the country situation. HR department was compelled to execute contingency plans to change the working patterns as the entire world was moving to the concept of "Work From Home". HR has introduced the "Work From Home Policy" which enables employees to work from anywhere and the required infrastructure has been arranged with the support of IT and facilities department. HR has also introduced a host of initiatives during the year:

Development of execution of Policies

HR department as developed and executed the following policies across the company with the approval of board of directors.

- Employee Movement Policy
- HR Signatory Policy
- Working from Home Policy
- Remuneration Policy
- Travelling Lodging and Meal Expenses Policy

Continuous Training & Development

Conducting 17 training programs during the year, which were designed to foster returns in the form of increased productivity, commitment and loyalty from our team members.

Comprehensive Network-Wide Fire Safety Mechanism

In order to enhance the safety measures of the company, Fire Prevention & Evacuation training sessions including Fire Drills were conducted internally with the assistance of the Colombo Fire Brigade. We re-appointed Fire Wardens & Evacuation Officers from each branch and department for year 2020/21.

Softlogic Life 'Group Life Assurance' Policy

We were able to increase the hospitalisation limit up to Rs. 200,000.00 to all employees while adding special benefits to the insurance policy which will help our people to enhance their work life quality.

Cash in A Flash Loan Facilities for Internal Staff

Cash in A Flash personal loan facility has been introduced to employees which will help them to fulfill their financial requirements.

Employee Engagement Activities

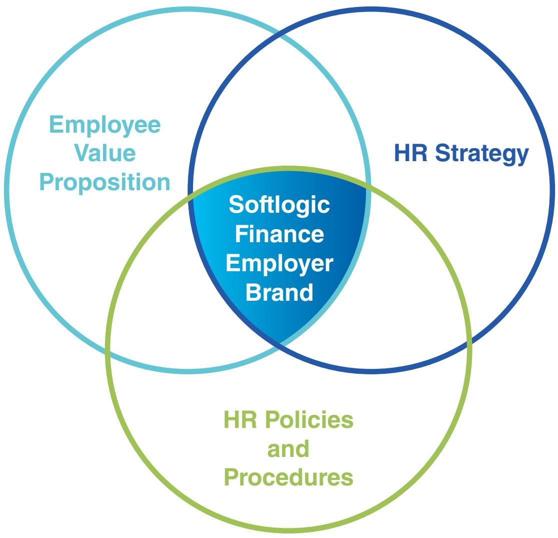
We have conducted 05 employee engagement activities during the year with the aim of improving the moral of employees and maintaining the employee satisfaction. With the in tension of adapting to safety measurements of the employees we are bounded to limit such activities.

KEY HR INDICATORS

Key HR Indicators	2020/21	2019/20
Employee Head Count	**463**	475
New Recruitments	**92**	82
Internal Transfers	**63**	81
Promotions	**11**	44
No. of Training Programs	**16**	68
No. of Training Hours	**2657**	5019
Total Income Per Employee	**Rs. 5.6 Mn**	Rs. 8.0 Mn
Staff Costs Per Employee	**Rs. 0.9 Mn**	Rs. 0.9 Mn

EMPLOYEE COMPOSITION ANALYSIS

Management Approach

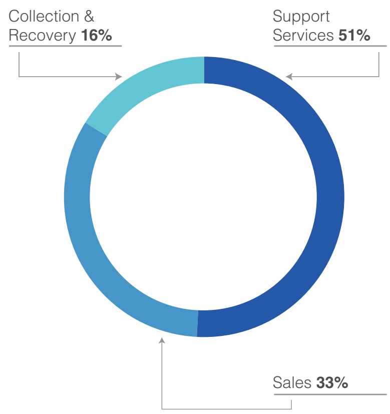


Diversified workforce is our main strength, and we understand the importance of that diversification to manage an island wide branch operation. The HR strategy is also developed to cater such expanded workforce while maintain the equity among each individual within the company. Employee Value Proposition (EVP) has been developed by meeting the employee touch points as the management is always trying to enhance their quality of life. All employees were treated equally and rewarded purely based on their level of performance as it maintains the transparency of HR Strategy of the company.

Softlogic Finance has created an Employer Brand among the industry as we have zero discrimination issues within the company and the best HR practices of treating people equally is helped to maintain such status.

Necessary actions have also been taken in maintaining such diversity among workforce which we do not discriminate age, gender, skill sets, geographical locations, cultural backgrounds and etc. at the point of recruitment or any other employee activities.

EMPLOYEE CATEGORY-WISE ANALYSIS 2020/21



SALES & DIRECT SALES SUPPORT

2020/21	2019/20	2018/19
152	**252**	**324**
33%	53%	61%

COLLECTIONS & RECOVERY

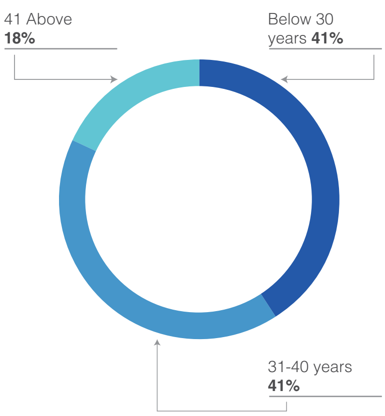
2020/21	2019/20	2018/19
76	**122**	**87**
16%	26%	16%

SUPPORT SERVICES

2020/21	2019/20	2018/19
235	**101**	**117**
51%	21%	22%

The workforce composition has been maintained to ensure their fullest contribution towards achieving the corporate goals and objectives. Our special attention has been drawn to sales, recovery, and collection staff as they are the key pillars of meeting key indicators of the success. Supporting staff have been strengthen with the aim of increasing the productivity of back-office functions and serving customers at their level of expectation. 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.

EMPLOYEE AGE-WISE ANALYSIS 2020/21



BELOW 30 YEARS

2020/21	2019/20	2018/19
190	**172**	**233**
41%	36%	44%

31-40 YEARS

2020/21	2019/20	2018/19
190	**206**	**201**
41%	43%	38%

41 ABOVE

2020/21	2019/20	2018/19
83	**97**	**94**
18%	20%	18%

At Softlogic Finance we believe that the young, energetic and multitasking talent is vital factor in grabbing new business opportunities and to compete new challenges in competitive business environment as we are engaged with service industry. Our young and energetic sales force has proven that their involvement has added value to the company. We also in contemplation of the great mix of young, experienced and matured to drive the strategic needs of our business. We are passionate about recruiting 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

WESTERN PROVINCE

New Employment Opportunities

2020/21	2019/20
57	**57**

Total Employees as at 31st March

2020/21	2019/20
277	**290**

REST OF THE COUNTRY

New Employment Opportunities

2020/21	2019/20
35	**25**

Total Employees as at 31st March

2020/21	2019/20
186	**185**

Our talent acquisition process has given more focus on recruiting people locally when filling the branch vacancies as it will give an opportunity to rural people. While creating such opportunities we are in the process of ensuring corporate responsibility by giving employment opportunities to local young talent. It will increase the level of customer service as they understand the customer behavior at a higher level. Their knowledge on the local areas and customer behavior patterns are much important in developing the business portfolio in respective areas.

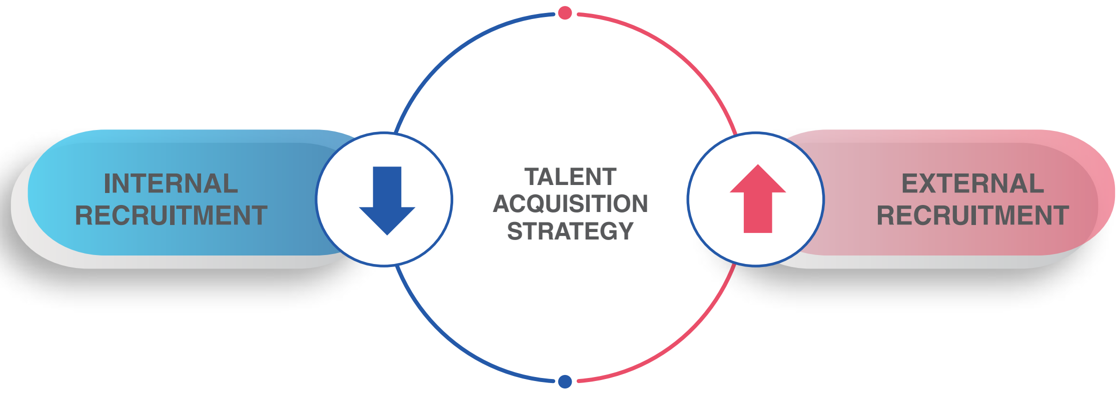
Talent Acquisition & Talent Management

TALENT ACQUISITION STRATEGY

Having an effective recruitment and selection procedure is the key of entering to the business competition as it ensures the people with right competencies who enters to the company. Most importantly the strategy makes sure the cultural fit of people as it directly impacts on driving a high-performance culture. We implement two different way of recruiting based on the business requirement and to ensure the best fit for the available vacancies.

INTERNAL RECRUITMENT

First preference is always given to our internal candidates within the process of recruitment as we always believe on the career development of our people. Internal recruitments have been done within a defined competency and talent framework which ensures



the transparency of the process. All vacancy advertisements were published internally in order to give an opportunity to internal candidate. 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.

INTERNAL RECRUITMENTS BY EMPLOYEE CATEGORY

Employee Category	2020/21	2019/20
Sales & Direct Sales Support	**28**	46
Recovery	**5**	27
Support Services	**30**	8
Total	**63**	81

EXTERNAL RECRUITMENT

Our external recruitment strategy has been developed to make sure that the industry best talent is attracted to the company. We believe that the service industry is operating based on the quality of the service that we provide to our customers and for that we need people with high competencies. Therefore, attracting external experienced talent is important in growing the business portfolio and keeping the high level of customer satisfaction. High priority has also been given for local/regional candidates in filling the branch vacancies.

Employee Category	2020/21	2019/20
Sales & Direct Sales Support	**37**	91
Recovery	**22**	12
Support Services	**33**	27
Total	**92**	130

E-RECRUITMENT

With the pandemic situation of the country recruitment process was a challenging task to HR as we had to minimise physical meetups with external people. However, despite all the challenges we conducted many interviews with IT platforms which enables everyone a safe way of operating the recruitment process. Recruitment and selection functions of the company were conducted successfully through online platforms. Orientation presentations have been uploaded to Softlogic Finance Intranet as we cannot conduct physical orientation programmes.

TALENT RETENTION

Management Approach

Sustaining the best talent within the company is the biggest challenge in a highly competitive business environment and high aspiration of the young employees make it further difficult as they are highly focused on their career enhancement. We always ensure that our HR strategy is well in line with retaining the best talent and developing their career within the company.

The company has taken several initiatives in retaining the best talent of the company.

- Attractive reward and recognition programmes for best performers
- Attractive Compensation and Benefit scheme in par with the industry rates by maintaining external equity in terms of monitory and non-monitory benefits
- Continuous structured training based on a well-designed training platform
- Well defined career development plan
- Transparent performance management process
- Attractive employee engagement initiatives

SERVICE PERIOD ANALYSIS AS AT 31ST MARCH 2021

No of Years	No of Staff in each category		
	Senior Management	Manager/ Executive Level	Others
15 & Above	1	15	0
10-15	3	23	0
5-10	8	119	1
1-5	9	189	4
Below 1 year	10	72	9
Total	31	418	14

Human Resource Operations

HR Operations as the second pillar of HR Department, is carrying out important functions as defined below.

- Managing Time & Attendance of people
- Managing Employee Movements – Transfers/Promotions
- Employee Exit Process
- Conducting HR Audits
- Human Resource Administration functions

We have taken many HR Operations initiatives during the respective financial year. Revamped the Employee Movement Policy of the company in order to ensure the compliance guidelines of CBSL. HR signatory policy has been introduced with the aim of streamlining documentation process and providing a speedy service to our employees.

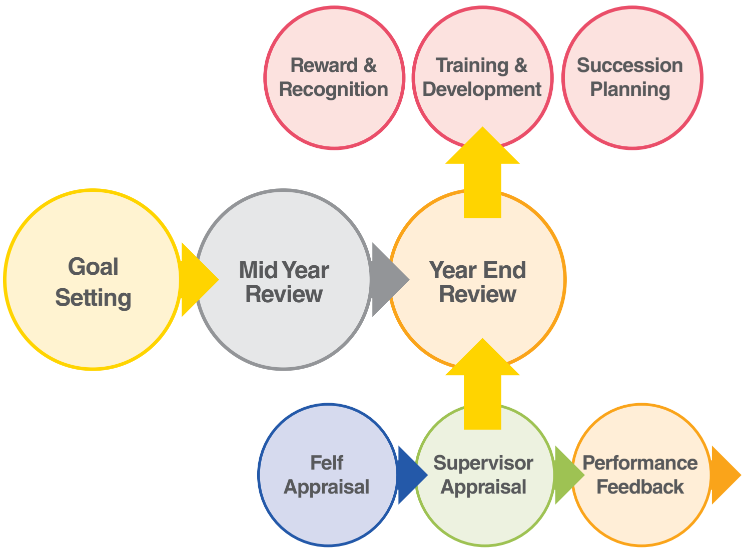
Off Boarding process has been changed by revisiting the relevant formats as it helps employees for a smooth exit process and most importantly, they carry the brand image of the company. Change Action Form has been introduced in strengthening the employee movement process and in keeping relevant approvals in line.

Performance Management/ Training & Development

PERFORMANCE MANAGEMENT

Management Approach

Managing talent effectively is critical to achieving organisational goals and objectives. Performance management is fundamentally about aligning individual effort to support organisational priorities. It includes setting individual expectations tied to organisational goals, providing coaching and feedback that helps employees improve, and measuring and evaluating employee performance to inform talent decisions. A sensible approach to performance management requires in order to achieve organisational targets as expected. The approach of Softlogic Finance towards managing performance of people is given below.



Performance Appraisal System

Performance appraisals across all employee categories are carried out annually and separate appraisal formats have been introduced based on the employee category. The Appraisal formats is consisting with two sections. First section is to evaluate the competencies of employees and different competencies have defined based on the category. 20% of the weightage has given to competency evaluation in rating the employees. Second section of the appraisal format is focused on evaluating the achievement of key performance indicators of employees and 80% of the weightage is given in final rating. The final rating is given based on 1-5 Likert scale rating. This system in place ensures and encourages active employee participation in the appraisal process. Keeping in line with the performance based rewards culture in place at our organisation, the ratings given at the point of performance evaluation are directly connected to and serve as the basis for rewards and recognition, promotions, identification of training gaps and career development.

Promotions by Employee Category

Employee Category	2020/21	2019/20
Sales & Direct Sales Support	2	20
Recovery	2	5
Support Services	7	19
Total	11	44

Reward & Recognition

We believe that employee reward and recognition strategy is the tool of judging employee contribution, in terms of the achieving company goals and objectives as well as dedication and motivation. We have also executed a process on monthly basis to recognise high performers of the company in different product verticals. Wall of Fame programme has been introduced in recognising such performers. Quarterly achievers have been financially rewarded at the Performance Review meeting.

Recognised high performers were given promotions accordingly with the year end performance evaluation process. Such promotions were announced through employee communication with the aim of motivating all employees.

Training & Development

While understanding the significant importance of developing people, we understand that it enables the Company to keep its competitive edge. The training needs of employees are identified as per the individual's performance evaluation.

However, the pandemic situation had slowdown our training process as we were unable to gather people for training programmes. Despite all challenges, we have conducted few training programmes using online platforms. "Sharing of knowledge" is yet another of our well thought of concepts. In alignment with this, we conduct many training programs with the support of our in house expertise.

We work very closely with many institutions 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.

Types of Training Programs Conducted No. of Programs

Type of Training Program	No. of Programs	
	2020/21	2019/20
External	6	35
Internal	8	28
Internal (With External Trainers)	3	5
Total	17	68

Gross No. of Employees Trained By Employee Category

Employee Category	No. of Programs	
	2020/21	2019/20
Sales & Direct Sales Support	351	310
Recovery	0	78
Support Services	54	83
Total	405	471

Succession Planning

Succession Planning identifies necessary competencies within key positions that have a significant impact on the organisation. Criteria for key positions may include: Positions that require specialised job skills or expertise, High-level leadership positions and Positions that are considered "mission-critical" to the organisation.

Selected employees once groomed and their potential gauged, are promoted to managerial positions within the company, in line with the company's strategic requirements. This has been accomplished through job assignments, training and job rotation.

Compensation & Benefit Management

Management Approach

The Remuneration practices of Softlogic Finance dictate the formulation of all remuneration based on the job profile, industry remuneration levels and practices and the country's cost of living situation. During this financial year we have developed a Remuneration Policy for the company along with a comprehensive compensation and benefit grid. The grid has been developed in par with the market rates in order to ensure competitive packages at the point of recruiting people to the company.

We ensured to pay monthly salaries by 25th of each month without any delay. Performance incentives were also paid along with the monthly payroll.

Attractive benefits has been introduced and we were able to increase the hospitalisation limit up to Rs. 200,000.00 to all employees while adding special benefits to the insurance policy which will help our people to enhance their work life quality.

Statutory Benefits for Employees

All statutory payments have been made in compliance with the labour legislations of the country. We strongly adhere to the ethos of providing our employees with benefits, both pecuniary and nonpecuniary, that are above and beyond the laid out statutory requirements. This includes the contributions under the EPF, ETF and the provision of Gratuity.

Employee Engagement & Employee Relations

EMPLOYEE ENGAGEMENT

Management Approach

Dedicated and meaningful work enables employees to realise how valuable they are within the organisation and makes them engaged. We trust that engaged employees are more likely to stay with the company, perform better and act as advocates of the business. We have experienced that employee engagement can affect employees' attitudes, absence and turnover levels.

Therefore, the HR department of Softlogic Finance has introduced an employee engagement model with the aim of improving employee motivation and satisfaction. It also enhanced the quality of work environment and work-life balance of employees. Following activities have been carried out as employee engagement activities during the financial year.

- Development of Work From Home Policy
- Introduction of month end dress down Policy
- Employee Selfie Competition
- Head Office Staff get-together
- Children's Day Video Competition
- Dress Down Day Competition
- Women's Day Competition

Employee Wellbeing/Health & Safety

The challenges of well-being at work are connected to continuous changes in working life. There were many challenges during this year as the entire country was facing Covid – 19 pandemic. There was one incident which one of our employee hit with the virus and necessary actions were taken in looking after the employee. However, all possible precautions were taken in order to prevent such situations. Continuous awareness have been done by using employee communication tools and introduced the roster basis working pattern with the aim of minimising physical interactions. 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.

In order to provide all our employees across our entire branch network with a safe and healthy work space, we expend a considerable amount of resources to ensure that the right infrastructure and operational processes are in place, in this regard. Based on constant assessments done by our Operational Risk department across our entire network, we take measures to anticipate identified occupational health and safety risks and take preventive measures to minimise the impacts of their occurrence. 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.

EMPLOYEE RELATIONS

Management Approach

Maintaining a strong employer and employee relationship can be the key to the ultimate success of an organisation, the results are advantageous. It is known that if a strong relationship is in place employees will be more productive, more efficient, create less conflict and will be more loyal.

Implementation of the grievance handling process is one of the key initiatives that we have taken in line with promoting healthy employee relation process within the company. This also ensures that employee grievances are addressed properly, and they are not neglected. An open-door policy is operating within the company as any employee can speak up at any time.

As we don't have any union in the company, we have not entered into any collective bargaining agreements, 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.

FUTURE OUTLOOK

Talent Acquisition & Talent Management

Strengthening the E – Recruitment Platforms

While understanding the current situation of the country we thought of strengthening the E-recruitment with the aim of conducting interviews with minimum physical interactions.

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 intern

HR Operations

Introduce Service Level Agreements for HR

With the aim of providing a high-quality service to our internal customers it is planned to develop service level agreement for all functions of HR department.

HR Audits

Identification of areas of concern by the relevant authorities (Internal auditors/CBSL) to address and streamline its processes.

Performance Management/Training & Development

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 ensure that employee performance is at acceptable levels.

We are also planning to activate the Performance Management Module of the HRIS which will enable us to have a digital platform for entire performance Management Process.

Training & Development

We will continue to 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.

Strengthening the E-Training opportunities is one of main area that we need to focus on as it is the modern approaches and cost-effective way of training.

Compensation & Benefit Management

Review of the Remuneration Policy and Compensation & Benefit Grid

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.

Activate Benefit Module of HRIS

We are also planning to activate the Benefit Management Module of HRIS as it will reduce the paper work and minimise the time constraints of the process.

Employee Engagement & Employee Relations

Employee Engagement

We will be executing employee engagement activities on monthly basis while referring to the work life quality of our people.

Employee Relations

We are planning to implement a structured initiative to retain value adding employees in our fold.

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 with and get mentored by our Senior and Corporate Management.

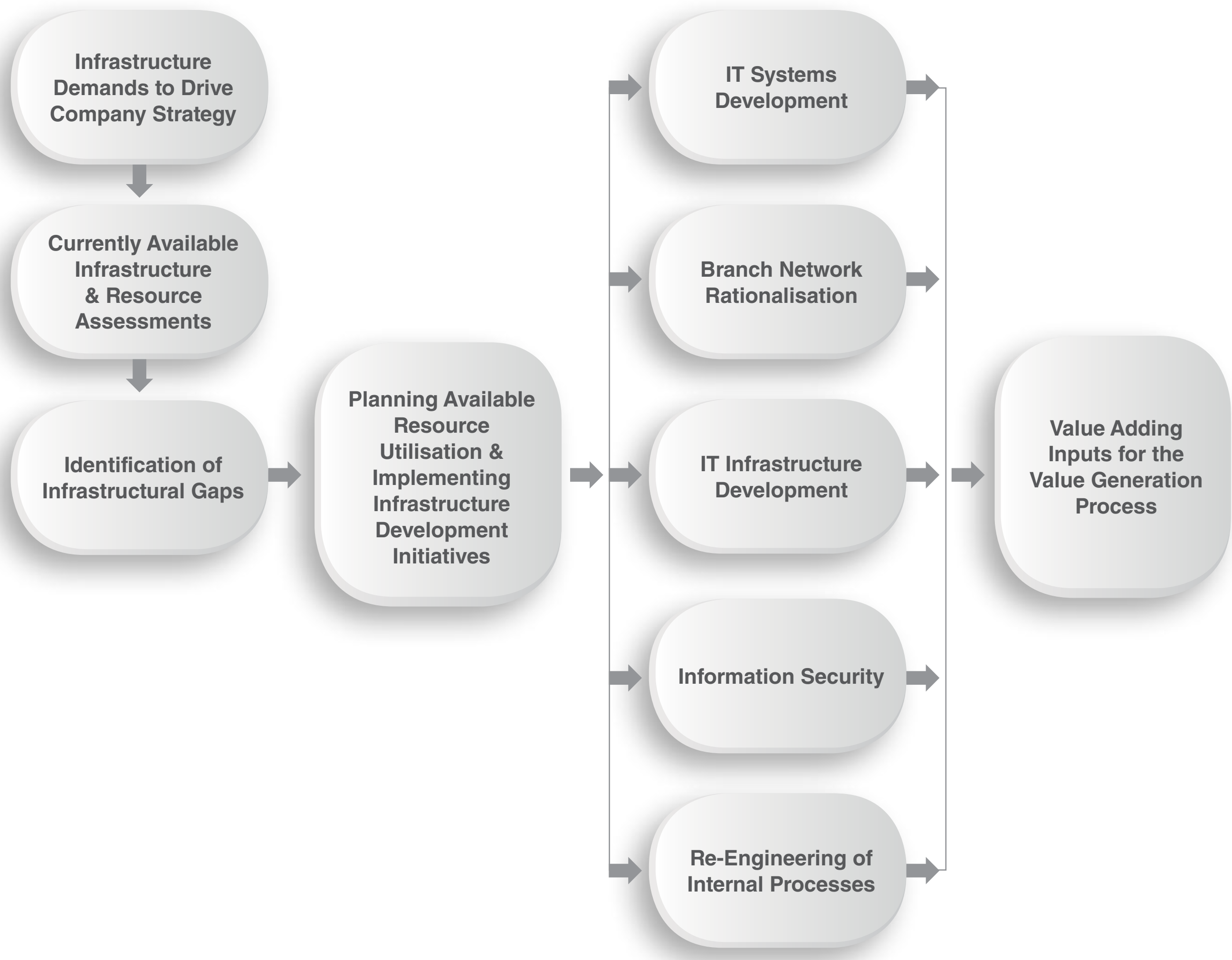
Grievance Handling – Online Platform

It is also planned to introduce an online platform for grievance handling as it is help employees to maintain confidentiality and minimise time limitations.

Infrastructure Capital

OUR STRATEGIC INTENT AND INFRASTRUCTURE CAPITAL

Infrastructure capital has long served as one of the foundational inputs to the operationalisation of our business model and has proven itself to be instrumental to the sustainability and growth of our business performance. As we drive business growth in our chosen operating spaces, a strategically located and designed physical geographical presence is bound to play a critical role in value generation. In this context, a pilot project "Leasing Hub" was initiated at Duplication Road, to facilitate the end to end process of a lease under one roof. During the year, we also launched a Cost Rescaling program across the organisation to improve our cost: income ratio. We rationalised our branch network by merging branches in geographical locations where optimum reach could be achieved. Currently, the company has presence in 35 locations which are leased premises except for the corporate office located at De Fonseka Place, Colombo 4. In spite of being a year that was financially difficult, we refurbished several departments to create a work place that our staff can be proud of and be rejuvenated to bring out the best in them. The design and appearance of Operations, HR, Credit and Legal departments were remarkably improved with optimum cost during the year. This enabled us to gain a greater return employed in the infrastructure capital.





Moreover, the growth in business performance cannot happen in isolation without adequate IT and digitalisation support services and customer convenience tools

Road Map

BUILDING DIGITAL CAPITAL - DIGITAL ROAD MAP

As we look to the future, we expect to enhance our services through digitalisation of our processes, where we believe that with the right application of technology and human creativity we can emerge stronger. The digital road map which was drafted at the beginning of the year is now operational with some of the solutions being developed by the internal IT team empowering them to reshape the company.

In the first phase, mobile based application will be developed to facilitate customer on-boarding and to enable quick, easy access to accounts even when they are on the move. We will also introduce Cardless ATMs which will allow customers to access their cash without a physical debit card, making it possible to travel light and not sweat the need for cash if they happen to have left the wallet at home. Along with these, we will inaugurate QR merchant acquiring that will enable contactless payments and direct business transaction between merchants and customers where payment will be performed by scanning a QR code from the mobile app. This will empower merchants to reduce dependencies and costs whilst enhancing their revenue.

In current context, cards have become part of the culture of day-to-day life within Sri Lanka. Even the most tech savvy still use card payments as their primary mechanism at the point of sale. There is also a lack of perceived benefit among critical masses to use virtual cards over a physical one. Hence, moving to a Cardlesss society requires a culture and behavioural change in customers which will be time consuming to inculcate. Therefore, we will introduce a physical debit card to our customers in the second phase of the digital journey. This will be followed by traditional merchant acquiring in the third phase which will connect us to Card Interchange Network.

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. 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 develop new products and services, proactively face industry developments, market movements and evolving customer preferences with ease.

IT GOVERNANCE & SECURITY MANAGEMENT

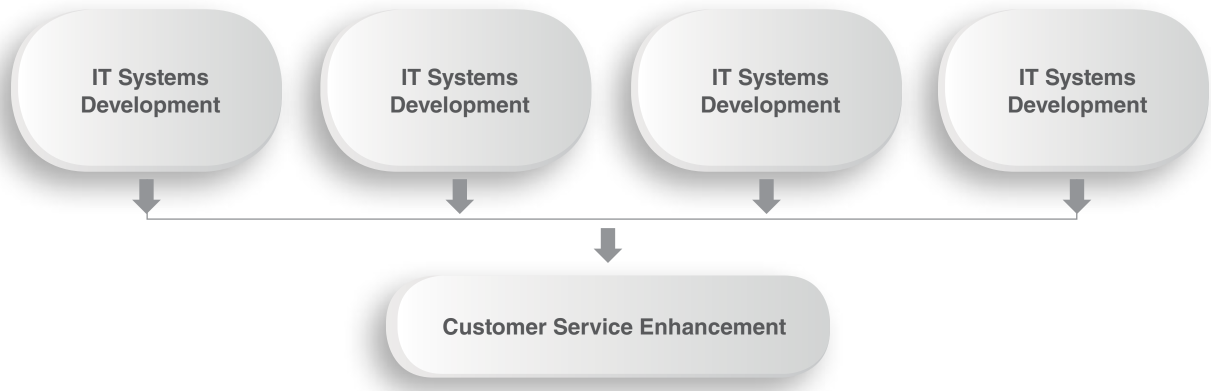
As a responsible financial institution committed to upholding stakeholder interests, we are responsible for ensuring that we have systems and controls in place to avoid, combat and manage IT security threats. This hinges on the fact that the failures of IT systems and cyber-attacks have the ability to cause disruptions to our routine operational processes, damage our reputation and cause financial loss.

Infrastructure Capital

With the direction from the company's IT Steering Committee, the Corporate Management Committee and in consultation with Softlogic Group IT, we have put in place an array of systems and controls to ensure that we can effectively face identified 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.
Engaging external professional consultants with regard to the improvement of existing controls
Regular review of internal processes and controls in order to minimise system frauds
Reviewing and updating of the company's IT policy and ensuring that updates are implemented
Continuous and regular System Updates and Upgrades
Ensuring that IT backup systems are operational and effective
Ensuring that the Business Continuity Plan is updated and operational

CUSTOMER SERVICE ENHANCEMENT



Our strategic intent has always been to provide our esteemed clientele with a memorable and personalised service that would guarantee us their status as returning customers. In 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 and digitalisation initiatives that we undertake. We also have embarked on constant training and development of our staff and physical enhancement of the customer conveniences offered at our branches to ensure that all business interactions materialise in a professionally conducive atmosphere. We take great pride in ensuring that our valued customers are provided with a warm and pleasing atmosphere to conduct their business with us. Great pains are taken to ensure that our branches are designed in a manner that promote personalised and relaxed customer engagement, whilst providing facilities for customers to confidently discuss their financial needs in a confidential manner.

Intellectual Capital

ENHANCEMENT OF THE ORGANISATIONAL KNOWLEDGE BASE

We as a finance company operate in a very competitive environment rife with industry challenges and regulatory pressures. Being a pioneer financial services provider in the industry, our long term operational sustainability very much influenced on the development and the effective utilisation of our organisational knowledge base.

We are well geared to outperform our competition armed with well versatile accomplished senior management team. With a wealth of industry knowledge, networks and expertise in their respective fields, this team of industry experts plays a significant role in nurturing our internal knowledge and helps in providing our team with strategic guidance to conquer industry challenges and shape its future form.

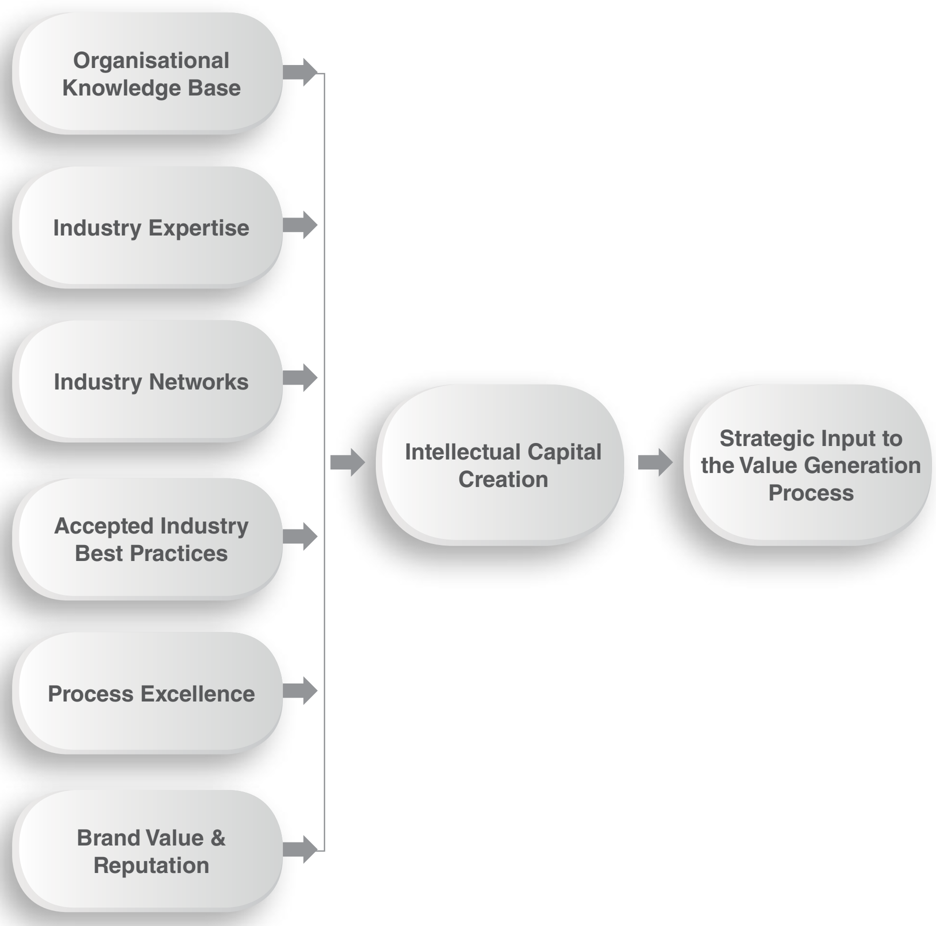
We share our industry knowledge and success stories among or team members through in house workshops and training programs that plays dual role. With a bottom up approach, knowledge is gathered from the ground level enabling us to react to industry dynamics ahead of our competition. Such practices serves 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.

ADOPTION OF ACCEPTED INDUSTRY PRACTICES AND ACHIEVEMENT OF PROCESS EXCELLENCE

Having fostered a service culture in our organisation, we have recognised the operationalisation of best practices and the achievement of process excellence as sources of competitive advantage. This is why a conscious effort is been made to consistently drive the adoption of industry best practices and compliance with documented processes so that process excellence and the transparency of operational functions is commonplace.

ENHANCEMENT OF OUR BRAND VALUE & REPUTATION

As an influential player in the NBFI industry our aim is to move away from the perception of a traditional finance company and position our brand as a total financial solutions provider. Simplicity and accessibility are key hallmarks of the new digital era we compete in and to cater this requirement we have positioned ourselves as a total financial solution provider simplifying the lifestyle of customer base.



Creating Sustainable Value

OUR SUSTAINABILITY PHILOSOPHY

Our Approach to Sustainability

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

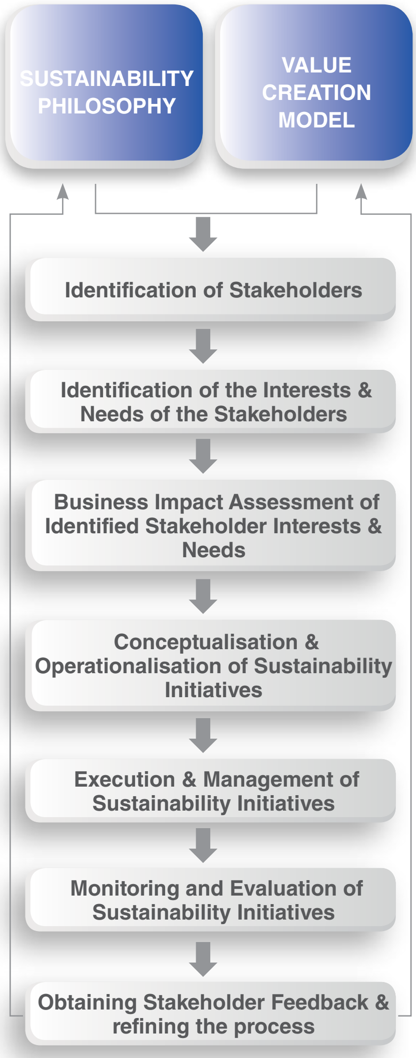
Hence, the company's approach to sustainable value creation is backed by a systematic process of constantly engaging with stakeholders, identifying their evolving needs and formulating mechanisms to address these needs.

Our Management Approach

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

The Sustainability Framework

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

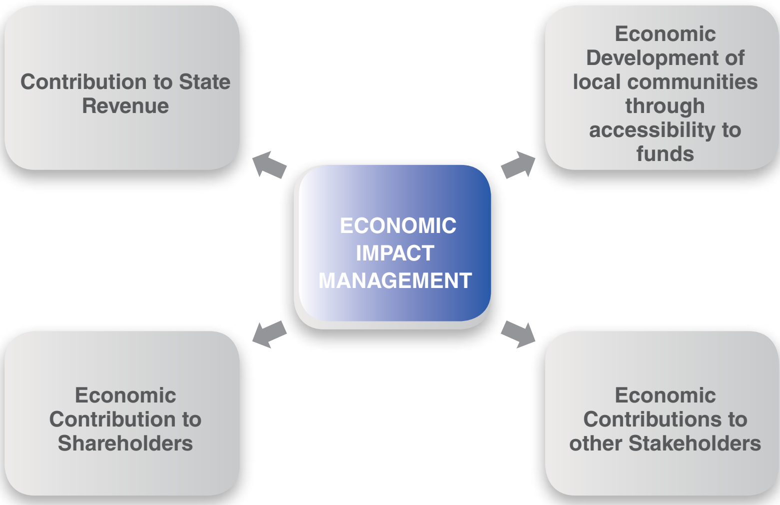


With respect to the importance of the management of the various impacts that our business has on our operating environment, we have adopted a formalised framework to sustainable value creation. This framework ensures that our sustainability strategy generates Economic, Social and Environmental value.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

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

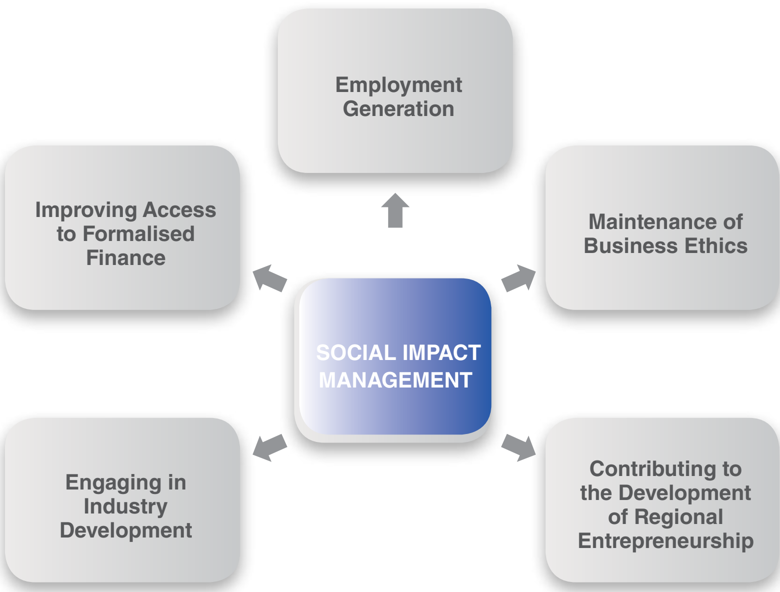
Economic Contribution

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



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 network touch points, we are simultaneously positioning ourselves to better assist the local communities and help them become economically self-sufficient



Improving Access to Finance

Our business model has been designed to consistently create sustainable value to all our stakeholders and not just our shareholders. Thus, the concept of improving accessibility to formalised sources of finance to small businesses and regional entrepreneurs has been well embedded in our business model. In this context, through the host of flexible vehicle financing, personal financing and factoring products that we offer, we have been able to deliver attractive and customisable financing options 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. We make it a point to embed such activities into our operational philosophy as it serves as a catalyst for our team to think beyond the traditional bottom line.

Employment Generation and People Development

The continuous expansion of our operational scope and market coverage means that we continue to create employment opportunities to the youth and pay special attention to the provision of employment to those from rural areas of the country. Especially when hiring personnel for our branch network, we prioritise the recruitment of talent from the respective regions in order to foster localised employment creation and encourage participation in the economic development of their respective communities. Further, we have tied up with a number of local universities and educational institutes to give opportunities to young graduates and students to gain valuable experience in the corporate sector by working with us.

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, 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 sector, we have an innate interest in developing and building people's confidence in the NBFI industry. Our continued contributions through industry associations are amongst our efforts that serve to improve community access to formalised finance, help formulate industry best practices and come up with solutions for industry challenges. Overall, our aim is to elevate public confidence in the NBFI industry so that they may transact with us without hesitation.

Environmental Contribution

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

Integrated Risk Management

INTEGRATED RISK MANAGEMENT FRAMEWORK

Risk management is the term applied to a logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring, and communicating risks associated with any activity, function or process in a way that will enable organisations to minimise losses and maximise opportunities.

The design of the Risk Management Framework at Softlogic Finance PLC is based on the ISO 31000:2018 International Standard and it 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.

Effective management of existing and emerging risks is critical to the long-term success of our organisation and to the achievement of our strategic objectives. Risk Management is therefore an integral component of the company's Corporate Governance and that would maximise the value created for all stakeholders.

The Risk Management Policy has been reviewed and approved by the "Board of Directors" and outlines the Integrated Risk Management Framework that is prevalent at Softlogic Finance PLC.

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 PROCESS

The Risk Management process at Softlogic Finance PLC (SF PLC) encompasses practices relating to the identification, analysis, evaluation, treatment, mitigation, and monitoring of the strategic, credit, Market, operational and compliance risks to achieving our key business objectives. The process is aligned to the Company's culture, processes, structure and strategy. The Risk function facilitates the company's assessment of the risk landscape and the development of potential strategies by which it can drive long-term shareholder value.

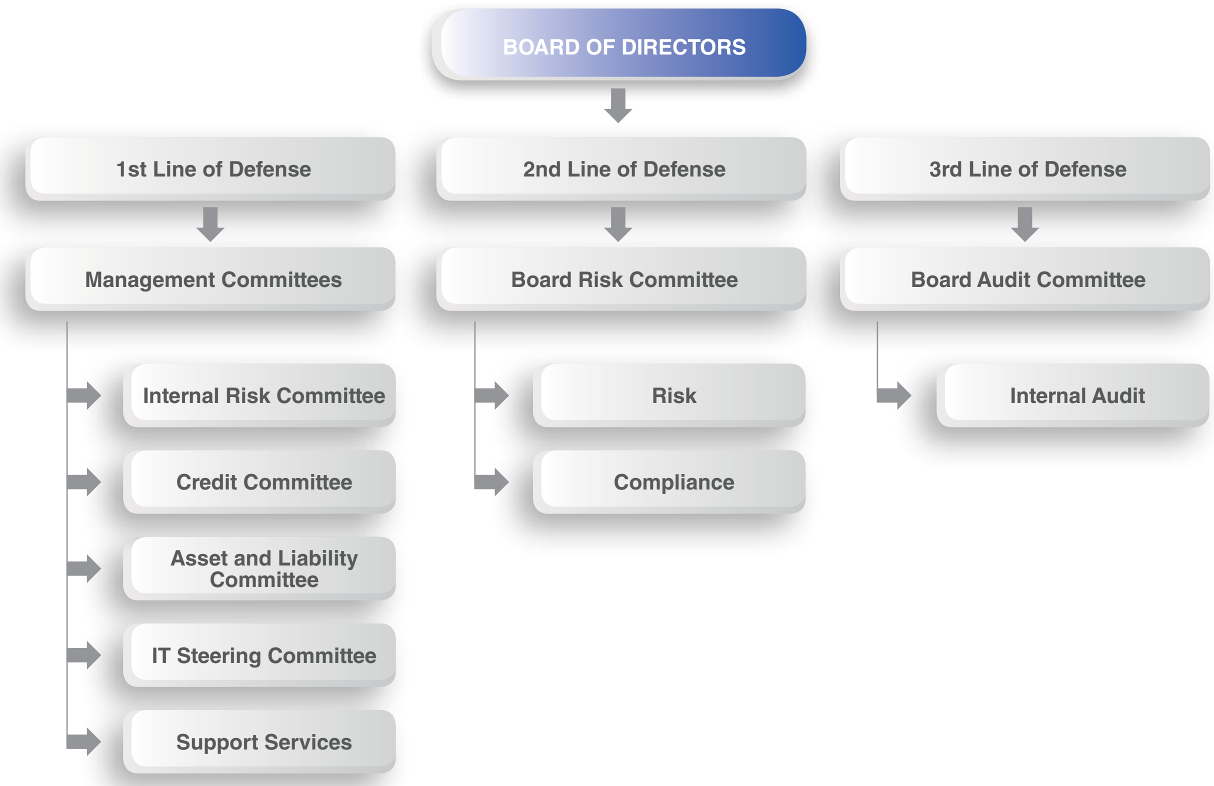
The Board is ultimately accountable for the risk management process and system of internal control within SFPLC. The comprehensive Risk Management policy incorporates continuous risk identification, assessment and internal control embedment as well as risk mitigation strategies.

The strategies, once fully defined, considered and approved by the "Board", is then incorporated into the company's three-year roadmap and helps to communicate the risk appetite and expectations of the organisation both internally and externally.

Risk Governance Structure of Softlogic Finance PLC

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.

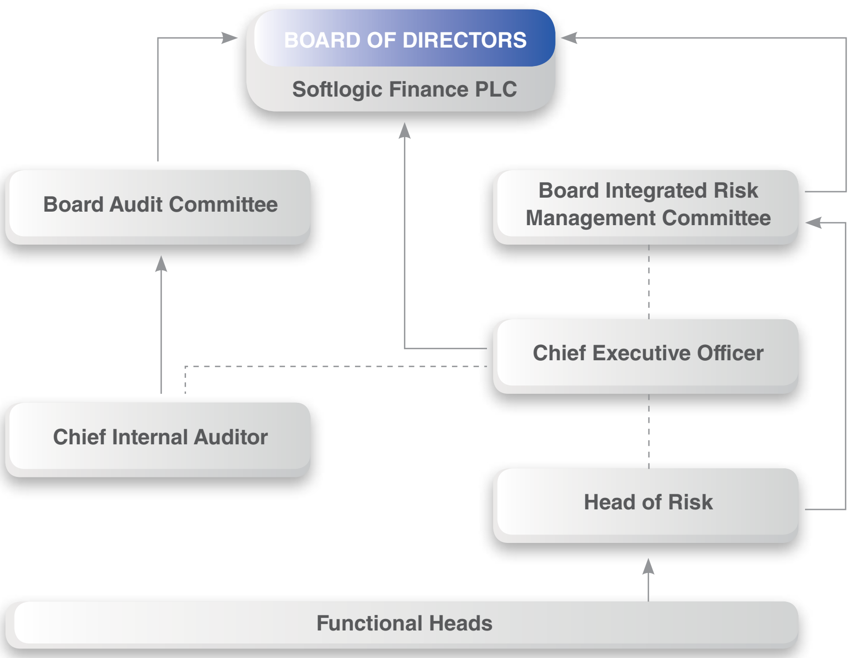
First Line	Second Line	Third Line
The first line of defense is directly linked with the activities of functional management units which include identification, management and reporting of both current and potential risks of the day-to-day business to the Management Committees.	The Centralised Risk Management Division (RMD) with the guidance of IRMC 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.	The Internal Audit provides independent and objective assurance on the Risk Management /Compliance processes and practices in place. Internal Audit has the authority to communicate with the External Auditors & the Board Audit Committee (BAC) and provide independent assurance on the first & second lines of defense and determine the applicability and effectiveness of policy implementation and internal controls which are in place.



KEY RESPONSIBILITIES

Level		Key roles and responsibilities
Board of Directors (Board)		• Approve key business objectives to be achieved by the Company. Ensuring that the executive management focuses on managing risks to key business objectives. • Review the performance of the Integrated Risk Management Committee (IRMC) and Board Audit Committee.
Board Audit Committee	**THIRD Line of Defense**	• Recommend improvements and enforce corrective action where necessary.
Internal Audit	**THIRD Line of Defense**	• Review the effectiveness of risk management practices and the internal control framework. • Confirm the level of compliance.
External Audit	**THIRD Line of Defense**	• Report to shareholders and express their true and fair view of the Financial Statements and review the internal controls in place over the financial reporting process.
Board Integrated Risk Management Committee(IRMC)	**SECOND Line of Defense**	• The IRMC oversees the identification, evaluation, and mitigation of Strategic, Credit, Market, Operational, compliance risks and other stated risks. • Monitor and approve the Risk Management framework and associated Risk practices of the Company. • Review and approve risk-related policies.
Risk Management Department	**SECOND Line of Defense**	• Oversight of risk management practices, including identification, impact assessment, monitoring, mitigation, and reporting. • Review enterprise risks in line with the achievement of business objectives periodically, initiating mitigation actions, identifying owners for mitigation actions, and reviewing progress of mitigation actions. • Formulate and deploy risk management policies and procedures. • Provide regular and periodic updates to the IRMC and the Board on enterprise risks and actions taken. • Facilitate the execution of risk management practices in the company, in the areas of risk identification, impact assessment, monitoring, mitigation and reporting. • Work closely with business units, operational departments and mitigation action owners in deploying mitigation measures and monitoring their effectiveness. • Maintain a close watch on the market and the impacts of the external environment and provide views and suggestions for the business to be proactive to minimise risk and optimise revenue.
Individuals, Functional Heads and Management Committees	**FIRST Line of Defense**	• Adhere to risk management policies and procedures laid out by the Company in their respective business units. • Implement prescribed risk mitigation actions. • Enable the identification, self-assessment and reporting of risks and effectiveness of control in a timely manner. • Ensure effectiveness of risk mitigation actions in their units.

FUNCTIONAL STRUCTURE OF THE RISK MANAGEMENT FRAMEWORK



RISK ASSESSMENT, REPORTING, AND MONITORING

By promoting a risk sensitive culture, "the Management" encourages staff at all levels to be mindful of emerging risks. When new risks are identified, they are assessed for the likelihood of occurrence and the severity of impact. Risk tolerance levels are set, based on the risk appetite of the company and generally accepted industry norms.

Control measures are formulated to ensure that the identified risks are within the tolerable levels. Exposures, which exceed the tolerable limits are identified; mitigatory action for such risks are decided and implemented. Collective dialogue amongst different department heads at the Integrated Risk Management Committee meetings, ensures comprehensive assessment of potential risks and their impact. Risk assessment report describing key risk areas such as credit risk, liquidity risk, market risk, operational risk and compliance risk implications and mitigatory actions submitted to the "Board" subsequent to the IRMC meeting.

The pandemic has created a very challenging environment for all risk analysts throughout the country as well as internationally. It is vital and important to collect information regarding the government strategies in controlling the situation and providing timely and important business impact analysis to enable management to take timely decisions.

The Board of Directors review the "Risk Assessment Report" which contains mitigation actions against the hazards identified and makes suggestions, if any, for further strengthening of the Risk Management process.

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 department heads.

RISK APPETITE FRAMEWORK

The risk appetite is formulated every year and includes a series of limits which express in quantitative and qualitative terms the maximum risk exposure that the company as a whole is willing to assume.

We believe that a process with prudent and conservative risk appetite is the mainstay of our Risk Management framework. Our Risk appetite process is defined in a manner that recognises, assesses, escalates and addresses the emerging risk- and risk-taking activities in the company's risk profile. 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 with deviations, if any, being and submitted to the IRMC.

Risk Management department and business heads have the responsibility of verifying that the limits and controls used in their daily management are set in such a way that the risk appetite limits cannot be breached. The corporate Risk Management Committee then validate this assessment, ensuring the adequacy of the risk tolerance limits.

RISK APPETITE CRITERIA

Following table outlines certain risk indicators and tolerance levels monitored and used to control various risks of the Company during last year.

Risk Tolerance Limits			
Risk Category	**Risk Indicator**	**Tolerance Limit**	**Actual Ratio as at 31st March 2021**
Credit Risk	20 Large Customer Exposure	x < 33%	19%
	Provision Coverage (SLAS)	x ≥ 73%	76%
	Impairment to Loan	x < 10.5%	11%
Credit Concentration Risk	Product Concentration ratio		
	- Leasing Four Wheelers	13% ≤ x < 80%	53%
	- Gold Loans	23% < x ≤ 40%	34%
Liquidity & Market Risk	Liquid Assets Requirement	x > 12%	15%
	Net Interest Margin	x > 2.6%	2.7%
	Total Deposits to Other Borrowings	x < 69%	84%
	20 Large Deposit Holders	x < 20%	28%
Operational Risk	Staff Turnover	x < 15%	25%
	Number of Downtime Incidents of critical systems per annum	No incidents	No incidents
Regulatory Risk	Core capital (Tier I) requirement	Above 6.5%	-3.5%
	Total risk weighted capital (Tier II) Requirement	Above 10.5%	-3.5%

RISK ASSESSMENT MAP

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

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

Integrated Risk Management

RISK SCORING MATRIX

Severity	Rating	Probability 1 Low	Probability 2 Moderate	Probability 3 High
Catastrophic	4	4	8	12
Critical	3	3	6	9
Significant	2	2	4	6
Marginal	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 four categories, namely, Marginal, Significant, Critical, Catastrophic. 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 MANAGEMENT CONTROLS, POLICIES AND PROCEDURES

Corporate risk objectives are communicated to the operational level staff by way of risk controls, policies, and procedures, which are geared towards fine-tuning the risk appetite of the company and prompting a risk culture within the Organisation. Controls are regularly streamlined to identify and counter day-to-day risks as well as long-term strategic risks.

The responsibility of managing these risks within tolerable limits is shared among the risk assuming managers and the higher-level management. This collective approach has enabled the company to establish an effective risk management framework. Periodic reports are submitted to Corporate Risk Management Committee (CRMC) meetings and IRMC meetings assessing the risk indicators against the risk parameters and tolerance levels of the company. Reasons for variances are discussed, while evaluating suggestions to control such deviations. Effects of changes in the business environment are explored and control measures are implemented to mitigate emerging risks.

STRESS TESTING

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

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

Risk Category	Risk Indicator	Actual Ratio as at 31st March 2021
Default Risk	Default of large amounts	
Liquidity Risk	Pre-mature withdrawals of large deposits (Top 20 deposits)	Low
Operational Risk	Increase in Operational Losses	Medium
Concentration Risk	Exceeding of respective sector exposures and single/group borrower limits	High
Collateral Value Risk	Fall in Forced sale value (FSV) of mortgage securities	
Interest Rate Risk	Interest rate shocks on assets	

RISK REGISTER

To assess the risks, the Risk Register is used, and this derives a prioritised list according to the level of impact. The register provides an outline through which problems that threaten the delivery of the anticipated benefits are captured. As the first step towards achieving an integrated risk management framework, we have identified the main risks under each department. This allows the company to identify the main areas that need attention to mitigate any future losses as well as opportunities to gain through identifying new control measures. These risks have been scored and analysed to achieve optimal decision making.

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 and Corporate Management team 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.

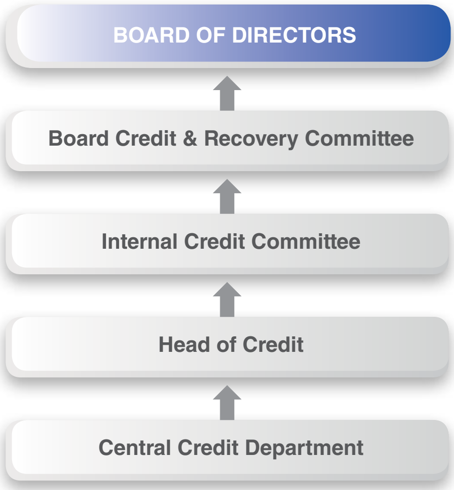
Credit Risk

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.

Softlogic Finance PLC has exercised 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. Standardised evaluation methods are practiced in the Credit Approval process.

The Board Credit Committee is responsible for establish and oversee sound credit risk governance framework within the company. The aim of the committee is to effectively control credit risk, ensuring and advising the head of credit that credit risk is managed in accordance with the delegated powers, policies and procedures and level of risk appetite approved by the board of directors.

Our Credit Risk Governance Model:



The Centralised credit department was set-up to manage the overall credit function of the company. The Credit Department is responsible for the evaluation and verification of the credit proposals emanating from the branches, Credit approval and the onward recommendation of credit facilities, which exceeds prescribed limits, to the next approval level.

Head of Credit is responsible for the credit risk when the department approves or recommends the credit facilities to the next level of approvals and for those facilities over Rs.25 Mn that are referred to the Board Credit Committee after referral to the Internal Credit Committee, to ensure a proper pre-disbursement analysis, to minimise the credit risk has been carried out.

The Board Credit and Recovery Committee has been established as a sub-committee of the Board of Directors to further strengthen the credit approval process and to review credit risk periodically. The Credit Committee consists of two non-executive Directors and the CEO. The Chairperson of the committee is a Non-Executive Director. All the credit facilities which exceed Rs.25 Mn are forwarded to the board of Directors for approval through the Board Credit Committee. Apart from the new credit granted, the committee periodically reviews the recovery strategy of the company with the detailed analysis of portfolios that reflect adverse trends. Information is collected to make strategic decisions in fine tuning the credit policy to ensure the company is operated within its planned risk framework.

Portfolio Analysis and Post Sanction Review

A portfolio analysis is carried out to ascertain a holistic vision of the credit risk in the portfolios based on viz., product wise, branch wise, marketing officer wise segregation, facilitating early detection of specific attention points, as well as preparing action plans to correct any deteriorations.

The Head of Risk Management also undertakes impact evaluations and identifies early warning signals pointing to any deterioration in the credit portfolio. In addition to the evaluating the customer credit quality at the point of sanctioning of facilities, an independent, post sanction credit review is carried out by the Risk Management Department to analyse the portfolios and their performance, as well as possible deviations regarding credit verification or approval authority levels.

Post disbursement credit risk management involves monitoring and follow-up through regular MIS and independent reviews by the Board Credit Committee.

The IRMC reviews and assesses the performance of the credit portfolio against the internal limits and the attributes of the portfolios on a quarterly basis.

Credit Concentration Risk

Credit concentration risk arises due to high exposures to specific sectors or client segments. In order to control / mitigate the associated risks, ongoing periodic reviews are in place in several areas, viz., Top 20 exposures within the portfolio, breakdowns on the portfolio product-wise, sector-wise, collateral-wise etc.

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

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, equity and 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 because of adverse movements in market rates which affect different re-pricing characteristics of company assets and liabilities. To mitigate the impacts of Interest Rate Risk, consideration is always given to the maintenance of an optimum interest spread. Close monitoring and supervision are also afforded to macroeconomic trends to understand the market behavior for firm ALCO decisions.

Monitoring and assessment interest rate risk is exercised through the ALCO and the IRMC 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 equity investments hence, 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 12% when compared to the total lending portfolio. Therefore, the impact from this area is within the controllable level.

Liquidity Risk

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

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

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

Operational Risk

Following the Basel framework, Softlogic Finance PLC defines operational risk (OR) as the risk of losses from defects or failures in its internal processes, people or systems, or external events, thus covering risk categories such as fraud, technological, cyber, legal and conduct risk.

Operational risk is inherent to all products, activities, processes and systems and is generated in all business and support areas. For this reason, all employees are responsible for managing and controlling the operational risks generated in their area of action.

Operational Risk Management Structure

During 2020, the company established a new Operational Risk Management (ORM) policy which has been designed to enhance operational risk management practices and helping to reduce future exposure and losses impacting the income statement.

To manage the operational risk in the business effectively, the following measures have been put in place:

- The new ORM Policy has been designed in line with the CBSL Directions, Industry Best Practices, BASEL Framework guidelines and other applicable regulations.
- Efficient operational risk management tools and operational risk governed policies are in place to manage Operational Risk in business units.
- Risk and Control Self Assessments provided by the respective business units and branches help inculcate an operational risk culture within the company.
- Adequacy and effectiveness of Operational Risk governed 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 analysed, and necessary actions taken to improve systems and controls to prevent future damages.
- Robust Business Continuity Planning policy (BCP), & Disaster Recovery (DR) are practiced periodically.

Business Continuity Plan (BCP)

The Business Continuity Plan (BCP) of Softlogic Finance PLC is governed and modelled based on ISO 22301 -2012, the business continuity management standard. Business Continuity is defined as the ability of the organisation to continue to deliver of products / services at acceptable predefined levels following a disruptive incident.

Therefore, the objective of ensuring Business Continuity at Softlogic Finance PLC is to build and improve resilience in its business whilst identifying the Company's key products and services, the most urgent activities that underpin them, and devise plans and strategies that will enable the company to continue its business operations whilst ensuring a swift and effective recovery from any type of disruption.

The scope of the BCP of the company

Primary Location (Head Office)	No. 13, De Fonseka Place, Colombo 04
Secondary Location/ Alternatives	1. No. 305B, Nawala Road, Sri Jayawardenepura Kotte 2. Work-from-home (WFH)

During 2020/21, the company continued to advance in implementing and continuously improving its business continuity management system and practices. The company has reviewed the methods and approaches to reinforce governance of the review and approval of continuity strategies and plans, to ensure that this process is implemented at the appropriate level within the Organisation, to comply with new policy requirements and to cover emerging risks.

Preventive measures

Preventive measures implemented at SF PLC in order to prevent / mitigate the risks or a threat that may adversely affect the operations of the company is listed below.

a. Adherence to industry standards
   - Motion detectors, alarms, CCTV Cameras and smoke detection alarms enable auto activation of alarming and prevention systems
   - Proper evacuation systems with clear directions

b. Proper backup systems and spare hardware
   - Data backups of before and after processing on daily basis
   - Off-site backup
   - Replication of main systems
   - Maintenance of spare hardware

c. Back-up Power Generators to ensure no power loss

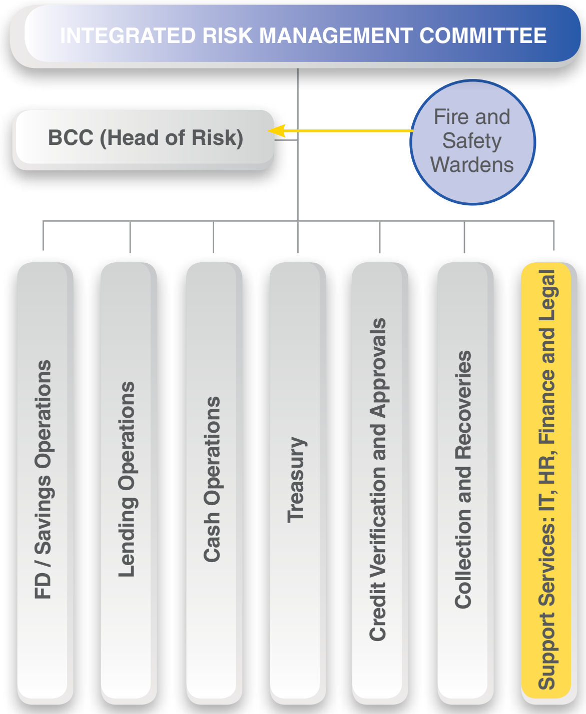
d. Training to handle emergency situations
   - Evacuation drills are carried out annually

e. Fire Prevention
   - Obtaining certification on soundness of Fire Prevention and Evacuation systems from Fire Brigade annually

f. Accessibility to IT
   - Authorised persons to have 24-hour access to all IT installations

g. Document Scanning
   - All important documents of the company such as Loan Agreements will be scanned & sent to be stored in the relevant Drives in Head Office

Crisis Management Command Structure for SF PLC is as follows;



Business Continuity in A Pandemic /Epidemic Situation

Depending on the severity of the Pandemic, the Internal Coordination Team took necessary action on safety and hygiene standards as well as imposed quarantine restrictions as necessary to all teams.

Due to the COVID 19 pandemic during the last year, the company was required to be closed entirely/ partially by order of health officials to help slow the spread of the illness. Further the company was required to adhere to the measures recommended by public health officials.

Health & safety measures implemented during the COVID 19 pandemic as business recovery strategies.

- Implemented Work from Home (WFH) concept. The company has developed and implemented a new policy for WFH.
- Moved to alternate sites including secondary recovery location and branches if allowed by Health Guidelines published.
- Ensuring that all health guidelines prescribed, are followed by the Company at the time and awareness of the same, is effectively communicated to all staff.
- Implemented social distancing policies with increased distance between people (e.g., installed a protective barrier for those working with the public, increased the distance between workstations, used larger meeting rooms, limited the number of users in a common area such as a lunchroom or washroom).
- Maintained an up-to-date list of staff, clients, and suppliers (e.g., telephone trees, call-in numbers, hot lines for information,)
- Developed communication methods to reach all staff, especially if staff are working remotely.
- Considered providing transportation for those staff that use public transportation.
- Considered providing transportation for those staff that use public transportation.

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 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 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 because of its failure to comply with laws and regulations 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.

Risk Profile & Mitigation Strategies

Risk Factor	Impact	Risk Assessment / Management	Risk Mitigating Factors	Risk Rating
Credit Risk				
Default Risk	High	• Key committees in action: - the internal credit and Board recovery and Credit Committee. • Central Credit department. • Credit verification and evaluation through specialised staff. • Post credit Review mechanism.	• Board approved credit policies. • Delegated Authority levels (DA's). • Annual reviews of credit policies and DA's. • Structured and standardised approval process. • Risk based pricing.	High
Concentration Risk				
Exposures being concentrated on specified sectors against the total portfolio.	High	• Top 20 exposures will be checked with their respective single & group limits. • Sector percentages verified with the total portfolio to assess the sector wise exposures • Identify the high exposure sectors to put up limitations.	• Sector exposures reviewed quarterly as per Board approved risk appetite statement. • Compliance with Central Bank guidelines on sector lending. • Monitoring NPLs of each sector against each portfolio.	Medium
Market Risk				
Liquidity Risk	High	• Regular monitoring of the Top 20 largest deposit holders. (Deposit concentration) • Maintain healthy margins against the Top 20 deposit total against Total Deposits. • Analysing key ratios to ensure the maintenance of proper levels. • Managing a healthy balance/mix in funding sources. • Maintain adequate unutilised funding lines to meet urgent cash outflow requirements if any.	• Status analysed by the ALCO on a regular basis for decision making. • Decisions are made on a monthly basis to facilitate the business requirements and make investment / policy decisions.	Low
Interest Rate Risk	Medium	• Monitoring movements in indices i.e. AWPLR, Government Securities Rates and competitor rates. • Assess the potential contribution towards interest rate risk. • Board approved policies / limits for assets & liabilities especially in pricing.	• Monitoring and analysis of Interest Rate related risks at ALCO and IRMC. • Stress testing & scenario analysis of identified areas/ products. • Close monitoring of macroeconomic trends in order to understand the market behavior.	Low
Foreign Exchange Risk	Low	• Assessment of foreign exchange rate risk as per Treasury limits and Board approved policies/ guidelines.	• Regular monitoring through Board approved frameworks as per CBSL requirements. • Regular stress testing for key variables.	Low

Risk Factor	Impact	Risk Assessment / Management	Risk Mitigating Factors	Risk Rating
Equity Risk	Medium	• Review of Equity portfolio. • Identify the adverse movements in equity investments. • Assessments through the Board and the ALCO.	• Regular monitoring of the macro environment in connection with the movements in stock market prices. • Decisions made upon the ROE.	Low
Operational Risk				
People Risk - Lack of appropriate human resources, inappropriate human activities, failure to manage talent sustainably	High	• Using proper manpower planning. • Regular reviews and assessments of performance on an annual basis. • Recognise and reward talents/ skills. • Practicing a proper performance management system.	• Strong and continuous staff development programs in place. (E.g. E-Learning, on the job training). • Comprehensive customer orientation programs aimed at marketing staff. • Recruitments /replacements done through proper screening and scanning. • Review of HR policies and procedures. • Transparency in evaluations. • Well established succession planning.	Low
IT /Cyber Risk	High	• Performing frequent System & IT Audits. • Plan IT/Technological enhancements during annual planning. • Empowering an IT Steering Committee.	• External professional consultations for better improvements in systems. • Proper controls in place to minimise system frauds. • New IT policies based upon ISO standards. • Continuous and regular system updates to safeguard the same from external vulnerabilities. • Proper back up system / BCP in place to successfully deal with any contingencies. • Anti-malware solutions and multi-layer fire walls. • Close relationship / membership with TechCERT & FinCERT.	Medium
Legal Risk	High	• Identify the unenforceable contracts due to inadequate legal documentation of securities, penalties and fines. • Effectiveness and adequacy of controls monitored through the Legal Department. • Special consultations through external advisers.	• Implementation of Board approved Legal policy and procedure. • Assign experienced lawyers with the capability of handling legal issues. • Proper policies and procedures in place to assess the legal impacts. • Correct procedures applied to protect intellectual properties.	Low

Risk Factor	Impact	Risk Assessment / Management	Risk Mitigating Factors	Risk Rating
Reputational Risk				
Negative publicity and impacts to the Corporate Brand and failure to manage public relations.	High	• Proper mechanism to handle customer complaints. • System to identify the early warning signals /indicators.	• Customer grievance handling procedure in place. • Updated clear code of conduct and ethics in place. • Promoting a strong corporate governance. • Effective and efficient communication amongst stakeholders.	Low

Risk Management Highlights for The Year

We carried out the following risk management activities during the year 2020/21

- Assessed and strengthened the enterprise risk management framework for further standardisation of risk identification, assessment and governance of risks across the organisation.
- Risk Management policy has been reviewed and updated including the standard risk framework and risk appetite limits.
- New "Credit Risk Management policy" has been developed including the account level and portfolio level credit risk mitigation strategies and credit risk appetite limits.
- Operational Risk Management policy" has been developed including the Operational risk events and the list of governed policies of those risk events.
- New "Fraud Risk Management policy" has been developed as an operational risk governed policy including the fraud risk prone areas, fraud risk prevention strategies and roles & responsibilities of authorities.
- The Business Continuity Plan (BCP) was reviewed and improved including the main features such as Business Impact Analysis, threat and risk assessment, preventive measures, Crisis Management Command structure, impact scenarios and disaster recovery process.
- Assessed our business momentum relative to strategic plans in key market segments, sectors, and maintaining of products mix.
- Regularly assessed the business environment including trend line of key external indicators and internal business indicators such as client concentration, sector concentration, growth of the portfolios etc..
- The connection between the credit risk appetite of the company and the credit portfolios management is implemented, formalised, and materialised through the plans and means of company strategies.
- Reviewed key operational risks and actions based on inputs from the Corporate Risk Management Committee and internal audit findings.
- Reviewed operational risk areas including information security, employee's health and safety, and business continuity management and introduced Work From Home (WFH) concept to the employees.
- Monitored key changes in regulatory environment, especially the impact relates to the directions, rules, and guidelines issues by the Central Bank of Sri Lanka. (CBSL)

Outlook and Risk Management initiatives for 2021/22

Our risk management framework will continue to be enhanced and strengthened in line with industry best practices and regulatory requirements.

Key initiatives towards the achievement of company goals and objectives in the years ahead will be focused on further improving the risk management capabilities at Softlogic Finance PLC as elaborated below.

Initiative / Element	Actions to be taken
Reinforce effectiveness and consistency of the risk management practices of the company.	• Further improve the Integrated Risk Management framework and other practices such as stress testing, model validation and whistle blowing etc.. • Identification, assessment, controlling and mitigation of inherent risk will be assigned to responsible department heads. • Further improve Operational Risk Management framework including adequate internal processes and systems, human factors and external events.
To further improve the Internal Risk Monitoring mechanism	• Business units to self-assessment and roll-out their own risk frameworks in line with the company risk policy with the assistance of the risk management department. • Introduce and Implement Risk grade for all the functional departments to manage risks faces by each department. • Conduct regular Internal Risk Meetings (Quarterly to review/discuss the overall risk aspects of the company. • Enhance the capacity of risk department.
Assess the risk appetite criteria against the strategic plan.	• Set the functional wise risk appetite criteria and regularly assess and monitor for better performance. • Develop and regularly monitor the risk dashboard.
Improve the risk quantification mechanism for better decision making.	• Use standard Risk matrix and models such as Gini-coefficient, Lorenz curve, to name a few, for better quantification.
Strengthen the Post Credit Review mechanism to identify the drawbacks and maintain good credit standards.	• Introducing non-judgmental scorecards to assess credit worthiness for certain products. • Further improve and strengthen the Credit Risk Rating system. • Implement risk-based pricing mechanism according to the risk profile of the customers.
Strengthening of POST-APPROVAL credit process	• Develop a Post Loan Review Mechanism to ascertain the quality of the credit and maintain efficiency testing mechanism for approving officers. (Quarterly) • Setting up region/ cluster-wise loan review teams to monitor the post-approval process.
Improve the IT security culture to ensure that IT system operations are in line with the set security procedures and controls.	• Upgrade the IT security related policies in line with the Group IT security policy. • Strong controls to be added/included in the IT related policies & procedures with regard to the company activities. • Introduce a data classification framework to ensure sensitive a information of customers are protected and stored with proper encryption guidelines. • Strengthen the awareness of IT security culture and ability to proactively manage threats.

ACCOUNTABILITY & TRANSPARENCY

Corporate Governance Philosophy

GOVERNANCE FRAMEWORK

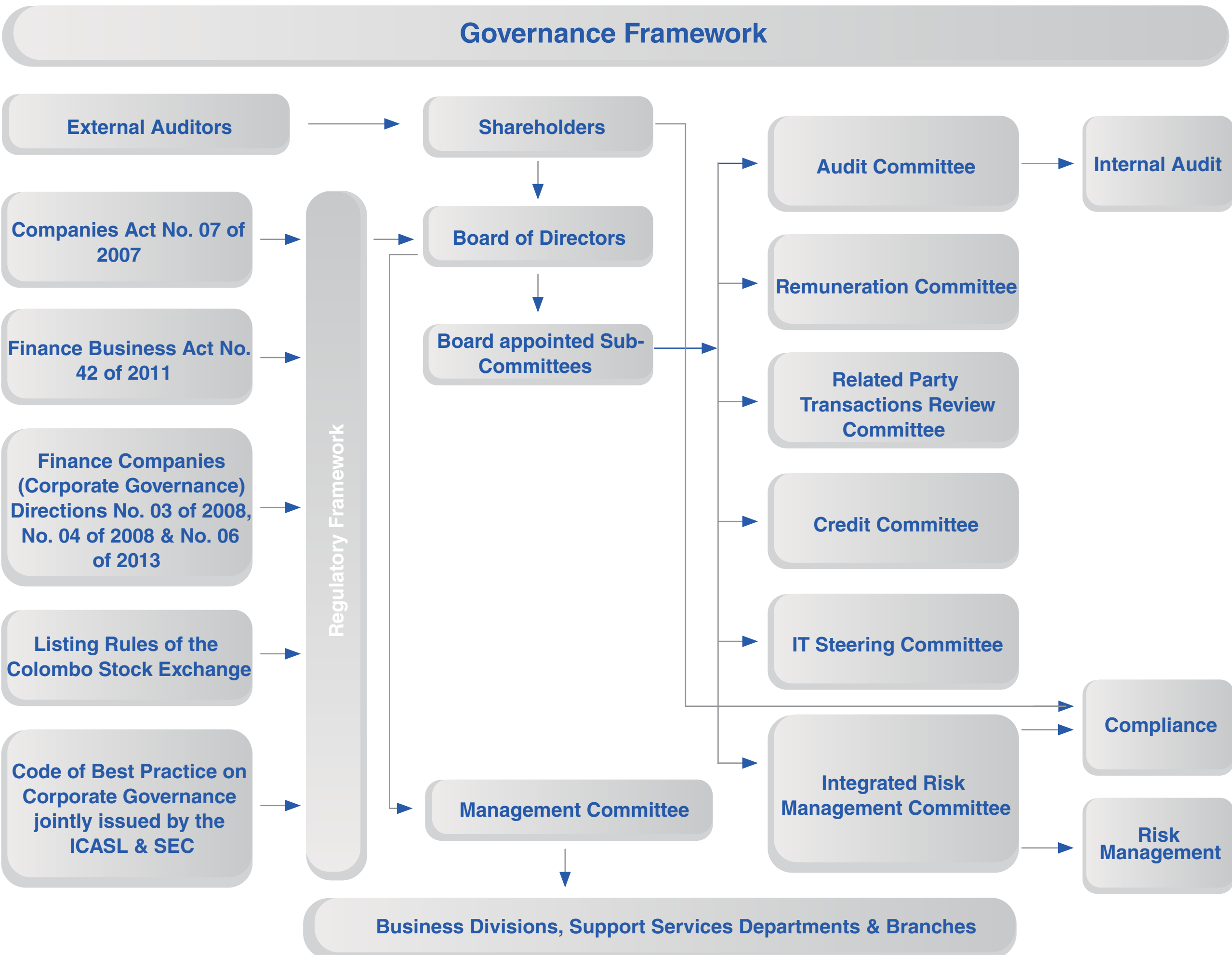
The creation of sustainable organisational value has been recognised as our primary, overarching objective. In this context, we are of the firm view that accountability, transparency and ethical, socially conscious corporate conduct serve as the catalysts for the fostering of such organisational value. 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 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 in page 106 and the statement of Directors' responsibilities is given in page 115.

The table at the end of this section in page 75 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 11 times and the attendance of each Director at these meetings was as follows:

Name of Director	Nature of the Directorship	Attendance
Mr. A. Russell-Davison *(Chairman)*	Non-Executive Director	11/11
Mr. M. H. P. Wijesekera *(CEO)*	Executive Director	10/11
Mr. H. K. Kaimal	Non-Executive Director	11/11
Mr. A. C. M. Fernando	Senior Independent - Non-Executive Director	11/11
Mr. D. P. Renganathan	Independent Non-Executive Director	11/11
Ms. A. Goonetilleka *– appointed w.e.f. 31st August 2020.*	Independent Non-Executive Director	7/7
Mr. A. C. M. Lafir *– appointed w.e.f. 14th December 2020.*	Non-Executive, Non-Independent Director	4/4
Mr. W. N. R. Bastian *– resigned w.e.f. 30th April 2020 & Central Bank approved his resignation w.e.f. 4th August 2020.*	Independent Non-Executive Director	1/1

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 106
168 (1)(b)	Signed financial statements of the company for the accounting period completed	Pages 127 to 194
168 (1)(c)	Auditor's report on the financial statements of the company	Pages 123 to 126
168 (1)(d)	Applicable accounting policies and any changes therein made during the accounting period	Pages 132 to 149
168 (1)(e)	Particulars of entries in the interests register made during the accounting period	Page 127
168 (1)(f)	Remuneration and other benefits of directors during the accounting period	Page 187
168 (1)(g)	Total amount of donations made by the company during the accounting period	Page 118
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	Pages 118 and 119
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 117
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 117
168 (1)(k)	Acknowledgement of the contents of the Annual Report and signed on behalf of the board by two directors of the company and the secretary of the company	Page 119

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 116
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 116
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 199
7.6 (iv)	The Public Holding percentage	Compliant	This is stated in the Investor Information section in page 198
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 117
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Compliant	This is stated in the Integrated Risk Management section from pages 59 to 72 and in the Integrated Risk Management Committee Report in page 113
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 pages 43 to 51. 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. 27.7 in page 165
7.6 (ix)	Number of shares representing the Entity's stated capital	Compliant	This is stated in Note No.35 in page 171
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 198
7.6 (xi)	Ratios and market price information on:	Compliant	This is stated in the Investor Relations section in page 199
	Equity: Dividend per share, Dividend payout ratio, Net asset value per share, Market value per share	Compliant	This is stated in the Investor Relations section in page 8
	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 8
	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 163

Corporate Governance Disclosures

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
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.42 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 pages 78 and 79
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.

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 6 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 116 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 13 and 15

Section Reference	Disclosure Requirement	Status of Compliance	Disclosure Details
7.10.3 (d)	Upon appointment of a new director to its board, the Entity shall forthwith provide to the Exchange a brief resume of such director for dissemination to the public	Compliant	During the period under review, two new Directors were appointed to the Board.
7.10.5	A listed company shall have a Remuneration Committee	Compliant	The composition of this committee is stated in pages 118 and 119 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 110 of this report
7.10.5 (c)	The annual report shall set out:	Compliant	The composition of this committee is stated in page 118 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 110 of this report
	(iii) Aggregate remuneration paid to Executive and Non- Executive Directors	Compliant	Please refer page 187 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 118 of this report
7.10.6 (a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors, or a majority of Independent Non-Executive Directors, whichever is higher	Compliant	The Audit Committee contains 2 independent non-executive directors and a non-executive director.
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings	Compliant	Both these officers attend Audit Committee meetings by invitation
	One non-executive director shall be appointed as Chairman of the committee by the board of directors	Compliant	The chairman of the Audit Committee is an independent non-executive director
	The Chairman or one member of the Committee should be a member of a recognised professional accounting body	Compliant	The chairman of the Audit Committee is a member of a recognised professional accounting body.
7.10.6 (b)	The functions of the Audit Committee shall be as set out in section 7.10.6 of the Listing Rules	Compliant	Please refer the Audit Committee Report from pages 108 and 109 in this report
7.10.6 (c)	The names of the directors comprising the audit committee should be disclosed in the annual report	Compliant	Please refer the Audit Committee Report from pages 108 to 109 in this report
	The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report	Compliant	Please refer the Audit Committee Report from pages 108 to 109 in this report
	The annual report shall contain a report by the audit committee, setting out the manner of compliance by the Entity, during the period to which the annual report relates	Compliant	Please refer the Audit Committee Report from pages 108 to 109 in this report

Corporate Governance Disclosures

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

Paragraph Reference	Guiding Principle	Status & Details of Compliance
The Responsibilities of the Board of Directors		
2 (1)(a)	Approving & overseeing the finance company's strategic objectives & corporate values & ensuring that such objectives & values are communicated throughout the company.	The Board is responsible for formulating strategy, ensuring the adequacy of the risk management processes, review of the internal control system & defining the responsibility of the Corporate Management. The Company's strategic objectives, corporate values, budgetary objectives and the company's business plan have been communicated to all relevant line managers of the company, who implement them in conjunction with their teams. As part of its planning process, the company has formulated 5-year comprehensive strategic plan for the FYs 2021/22 to 2025/26, 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 5 year financial projections, for the FYs 2021/22 to 2025/26, which included measurable goals. The business strategy is normally reviewed monthly by the Board with updates at Board meetings on execution of the agreed strategy. The Integrated Risk Management Committee monitors and reviews the risk management procedures and mechanisms in place, during its quarterly meetings. As part of its continuous improvement process, the company is working on introducing a revised and updated Board approved risk management policy to take into account the changing external landscape and the internal control requirements.
2 (1)(c)	Identifying risks & ensuring implementation of appropriate systems to manage the risks prudently.	The Board takes responsibility for the overall risk framework of the Company. The Integrated Risk Management Committee ensures that risks in credit, operational, market, strategic & other areas are monitored, managed and reported to the Board. As part of the Board's activities, it routinely discusses new strategies to suit changing market conditions, the risks entailed in such strategies and ways and means to mitigate such risks. Moving forward, the company plans to work on establishing a formalised process in this regard for Board members to discuss new strategies for the company, the risks arising out of such new strategies and further the ways and means to mitigate such risks.
2 (1)(d)	Approving a policy of communication with all stakeholders, including depositors, creditors, 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.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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.
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 the areas of its authority and key responsibilities. The company will get the new job descriptions of its newly appointed 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 has been developed, who can be promoted to key positions in the future. Along with reviews of the KMP classification and the new KMP appointments, 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.

Corporate Governance Disclosures

Paragraph Reference	Guiding Principle	Status & Details of Compliance
2 (1)(l)	Understanding the regulatory environment	The Board members are furnished with Central Bank guidelines, regulations, and determinations. The findings of Central Bank examinations are submitted to the Board. Further, the compliance officer submits a compliance statement to the Board with the respective updates. The company maintains an active relationship with the regulator through the compliance officer and the CEO.
2 (1)(m)	Exercising due diligence in the hiring and oversight of external auditors	The Audit Committee has considered the External Auditor's independence, objectivity & the effectiveness of the audit process, taking into account relevant professional & regulatory requirements in the appointment of the auditor.
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.
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 have to carry out a self-assessment. The company will continuously review and if necessary, update the process of obtaining self-evaluations and the analysis thereof, in order to ensure the effectiveness of this mechanism.

Paragraph Reference	Guiding Principle	Status & 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 11 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. The company has implemented a Board Charter, which 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 2020/21 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. The company has introduced a Board Charter, which stipulated the access of all Directors to advice and service of the Company Secretary.
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.
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 2021. The company were in compliance with same throughout the year.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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 2020/21.
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 2021, 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 have been 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.
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 were two Directors appointed to fill a casual vacancy on 31st August and 14th December 2020 and will be subjected to being elected by the shareholders at the forthcoming AGM.
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 was 1 resignation during the year under review. Formal notices were given to the Director of the Dept. of Supervision of Non-Bank Financial Institutions of the Central Bank and to Colombo Stock Exchange accordingly.
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.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
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 board has designated Mr. A. C. Manilka Fernando, an independent non – executive director 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.
7 (4)	The chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively & discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.	The role of the Chairman has been expressly stated and the board has established a self – evaluation process and this includes the evaluation of the effectiveness of the role played by the Chairman.
7 (5)	Primary responsibility in the preparation of the board meeting agenda is to be with the chairman, but it could be delegated to the company secretary.	The Chairman has delegated the function of preparing the board meeting agenda to the Company Secretary.
7 (6)	The chairman shall ensure that all directors are informed adequately & in a timely manner of the issues arising at each Board meeting	Directors are informed adequately & in a timely manner about the issues arising at Board meetings.
7 (7)	The chairman shall encourage each director to make a full & active contribution to the Board's affairs & take the lead to ensure that the Board acts in the best interests of the company	The Board is encouraged to actively contribute to the Board's affairs and also ensure that the Board acts in the best interests of the company. The Company Secretary will continue to review and update their minute taking and the level of detail gone into, in conjunction with the advice of the Board, in order to ensure that the individual contributions of the Directors are evidenced.
7 (8)	The chairman shall facilitate the effective contribution of non-executive directors in particular & ensure constructive relationships between executive & non-executive directors.	The Chairman ensures that constructive relationships are built between executive & non-executive directors and that substantial contribution comes from non-executive directors.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
7 (9)	The chairman shall not engage in activities involving direct supervision of KMPs or any other executive duties.	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.
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. A. C. M. Fernando, is an independent non–executive director who is a Fellow of the Institute of Chartered Accountants of Sri Lanka.
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:	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) Appointment of the external auditor	i) Committee has made recommendations in the appointment of the external auditor.
	ii) Implementation of CBSL guidelines issued to auditors	ii) No such guidelines have been issued by the Central Bank during the year under review.
	iii) Application of relevant accounting standards	iii) The Audit Committee oversees the application of accounting standards (SLFRS and LKAS) by the Company.
	iv) Service period, audit fee & resignation/ dismissal of the auditor	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 formalised policy in relation to the service period, audit fee, any resignation or dismissal of the auditor and the applicable term limits of the auditor.
8 (2)(d)	Reviewing & monitoring the external auditor's independence & objectivity & the effectiveness of the audit processes in accordance with applicable standards & best practices.	The committee regularly reviews & monitors the external auditor's independence, objectivity & the effectiveness of the audit processes as per the applicable guidelines.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
8 (2)(e)	Responsibility of the Audit Committee to develop & implement a Board approved policy on the engagement of an external auditor for non-audit services, as per the criteria laid out in this rule.	In the context of the criteria laid out in this rule, the committee has approved the engagement of the external auditor to provide non-audit services. Through its continuous monitoring activities, the committee will continue to evaluate the effectiveness of the independence of the external auditors in the provision of non-audit services. In order to formalise this process, 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 & finalise with the external auditors, the nature & scope of the audit, in line with the requirements under this rule.	The committee has discussed the audit approach & relevant procedures including matters relating to the scope & nature of the audit & the time plan for the audit.
8 (2)(g)	Responsibility of the committee to review the financial information in order to monitor the integrity of the financial statements, its annual report, accounts & periodical reports prepared for disclosure,& the significant financial reporting judgments contained therein, as per the criteria in this rule.	The Audit committee has reviewed the company's annual report including financial statements, accounting standards and policies (and changes therein) & significant adjustments arising from the audit & quarterly financial statements. Further, the committee considers the going concern assumption & compliance with relevant accounting standards & other legal requirements.
8 (2)(h)	The committee shall discuss issues, problems & reservations arising from the interim & final audits & any matters the auditor may wish to discuss.	The committee has met the external auditors twice without the executive management being present to discuss any issues relating to the audit.
8 (2)(i)	The committee shall review the external auditor's management letter & the management's response thereto.	The audit committee has reviewed the applicable management letter & the management's responses thereto.
8 (2)(j)	The committee is responsible to take the following steps with regard to the internal audit function:	
	i) Review the adequacy of the scope, functions & resources of the internal audit dept.	i) The scope, functions & resources of the internal audit department are set out in the Internal Audit department charter and have been reviewed.
	ii) Review the internal audit programme & results of the internal audit process	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) Review any appraisal or assessment of the performance of the head & senior staff members of the internal audit dept.	iii) The appraisal or assessment of the performance of the head of Internal Audit Dept. has been done by the chairman of the Board Audit Committee and it will be reviewed at the next Board Audit Committee by its members.
	iv) Recommend any appointment or termination of the head, senior staff members & outsourced service providers to the internal audit function	iv) The Committee has recommended the appointments of senior staff members for the internal audit function during the year.
	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.	v) No senior staff of the Internal Audit Dept. resigned during the year.
	vi) Ensure that the internal audit function is independent of the activities it audits	vi) The Internal Audit Dept. is independent from the activities it audits.

Corporate Governance Disclosures

Paragraph Reference	Guiding Principle	Status & Details of Compliance
8 (2)(k)	The committee shall consider the major findings of internal investigations & management's responses thereto	Findings of the internal investigations carried out during the year and the management's responses thereto were reviewed by the Audit Committee in its meetings.
8 (2)(l)	Statement regarding those who can normally attend meetings and those who can attend by invitation. Once in 6 months, the committee is to meet with the external auditors without the presence of the executive directors.	Criteria regarding those who can normally attend meetings & those who can attend by invitation have been followed. The committee has met the external auditors 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 10 times (additionally 2 Board Audit Committee meetings were held during the year with external auditors without the presence of any executive director). Due notice of issues to be discussed were given & records were kept by the company secretary regarding matters discussed & action taken.
8 (2)(o)	Annual Report to contain (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; & (iii) details of attendance of each individual member at such meetings.	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 process for employees, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. 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 2021, the committee comprised of 1 independent non-executive director, 1 executive director (the CEO) and the Head of Risk (a KMP) of the company. This sub-committee received new appointments w.e.f. 10th June 2020. 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 & 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.	Although the committee has not met first quarter of the financial year due to the COVID-19 pandemic situation, the committee met four times in the period under review and has assessed and reviewed relevant detailed Management Information System reports.
8 (3)(f)	The committee shall take appropriate actions against the officers responsible for failure to identify specific risks & take prompt corrective actions as recommended by the committee	The risk identification activities are carried out by the Integrated Risk Management Committee and as such decisions are taken collectively. If any policy breaches occur or if any detrimental action which affects the organisation is committed by an employee, the committee will recommend appropriate action against the employee.
8 (3)(g)	The committee shall submit a risk assessment report within a week of each meeting to the Board	The Committee has submitted 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. A related party transactions (RPT) charter has been introduced to formalise this process.
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. The company has introduced the RPT charter to formalise this review process.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
9 (4)	The Board shall ensure that the company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" (as defined in this rule) than that is accorded to other similar constituents of the company.	The company functionally reviews related party loans and advances, borrowings & deposits in order to ensure that such transactions do not involve "more 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, the RPT charter has been introduced.
Disclosures		
10 (1)	The Board shall ensure that: (a) annual audited financial statements & periodical financial statements are prepared & published as per the formats prescribed by the regulatory & supervisory authorities & applicable accounting standards, & that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil & English.	The financial statements (final & periodical) are in conformity with all rules & regulatory requirements & the financial statements have been published in the newspapers in all three languages.
10 (2)	The Board is to ensure that the following disclosures are made in the Annual Report	
10 (2)(a)	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards & regulatory requirements, inclusive of specific disclosures.	Compliance with applicable accounting standards and regulatory requirements has been reported in the "Statement of Directors' Responsibility" section in the Annual Report.
10 (2)(b)	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, & that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles & regulatory requirements.	The report by the Board on the company's internal control mechanism and other requirements as per this rule has been disclosed in the annual report under "Directors' Statement on Internal Controls".
10 (2)(c)	The external auditor's certification on the effectiveness of the internal control mechanism referred to in 10(2)(b) above, in respect of any statements prepared or published from the date of this Direction.	The company has disclosed that the external auditors have considered the internal controls relevant to the company's preparation of its financial statements that give a true and fair view in order to design appropriate audit procedures.
10 (2)(d)	Details of directors, including names, transactions with the company	Details of the directors are disclosed in the annual report. The Directors' transactions with the company and their remuneration have been disclosed in Note No.46 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.46 in the Notes to the Financial Statements in the annual report.

Paragraph Reference	Guiding Principle	Status & Details of Compliance
10 (2)(f)	Total net accommodation outstanding in respect of each category of related parties & the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	As per Note No.46 in the Notes to the Financial Statements in the annual report, 3 loans have been granted to 3 related parties, Softlogic Brands (Pvt) Ltd, Softlogic BPO Services (Pvt) Ltd. and Softlogic Stockbrokers (Pvt) Ltd. and the total loan outstanding amount as at 31st March 2021 stands at Rs.155.19 Mn. In effect, this translates to 3.4% of the company's capital fund.
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 amount of remuneration paid during the year of Key Management Personnel (Board and Members of the Corporate Management) and transactions with Key Management Personnel are given below:- Compensation: Rs.86,230,149/- Deposits: Rs.5,835,546/- Accommodation: Rs.2,764,473/-
10 (2)(h)	A report setting out details of the compliance with prudential requirements, regulations, laws & internal controls & measures taken to rectify any non-compliance.	The corporate governance report set out in the annual report contains details of compliance with applicable laws, regulations, the code of best practices on corporate governance issued by the ICASL & SEC & internal controls.
10 (2)(i)	A statement of the regulatory & supervisory concerns on lapses in the company's risk management, or non-compliance with the Finance Business Act & rules & directions that have been directed by the Monetary Board to be disclosed to the public.	There were no regulatory/ supervisory concerns on lapses in the company's risk management or non–compliance with applicable laws & regulations that have been directed by the Central Bank as requiring disclosure to the public.
10 (2)(j)	External auditor's certification of the compliance with the Corporate Governance Directions in the annual corporate governance reports published from the date of this Direction.	The Board has obtained Factual Findings Report of the External Auditors.

Level of compliance with the Code of Best Practice on Corporate Governance 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 11 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.
	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 18 to 20.

Ref No:	Guiding Principle	Degree of Compliance
	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 56 to 58 discusses this in detail. Further the company has adopted the "integrated reporting" methodology in its reporting.
	Ensuring that the company's values and standards are set, with emphasis on adopting appropriate accounting policies & fostering compliance with financial regulations	The company's Code of Business Ethics mandates the strict compliance to all laws and regulations. The company's accounting policies are reviewed annually and are in line with the applicable standards. The Independent Auditor's Report in page123 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.1.3.	The Board collectively and Directors individually must act in accordance with the applicable laws & a procedure agreed by the Board of Directors should be in place, to obtain independent professional advice, at the company's expense.	The Board has collectively and individually acted in accordance with all applicable laws and regulations and a procedure exists for the Directors to obtain independent advice.
A.1.4.	All Directors should have access to the advice and services of the Company Secretary. Any question of the removal of the Company Secretary should be a matter for the Board as a whole.	All Directors have direct access to the Company Secretaries and both the appointment and removal of the Company Secretaries 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.

Corporate Governance Disclosures

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, adequate professionals with the necessary financial acumen to provide guidance on matters of finance to 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 6 Non-Executive Directors who are highly experienced professionals in their respective fields. Out of the seven directors in the Board as at 31st March 2021, six 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'.	As at 31st March 2021, the Board contained Six Non-Executive Directors. Out of these Six, three of them were Independent Non-Executive Directors.
A.5.3.	For a Director to be deemed independent such Director should be independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.	The Independent Non-Executive Directors of the company fulfil this criteria and are in a position to exercise unfettered and independent judgement.
A.5.4.	Each Non-Executive Director should submit a signed and dated declaration annually of his independence or non-independence	The requisite declarations have 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 116 of the Annual Report.

Ref No:	Guiding Principle	Degree of Compliance
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.
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.

Ref No:	Guiding Principle	Degree of Compliance
A.8. Re-election:- All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.		
A.8.1.	Non-Executive Directors should be appointed for specified terms subject to re-election and their reappointment should not be automatic.	The Board makes appointments of Non-Executive Directors in line with the Finance Companies (Corporate Governance) Directions and all Directors are subject to re-election as per the Articles of Association.
A.8.2.	All Directors including the Chairman of the Board should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years.	The Articles of Association which specifies the timing and procedure for election and re-election of all Directors is in line with this principle.
A.8.3.	Resignation - In the event of a resignation of a director prior to the completion of his appointed term, the director should provide a written communication to the board of his reasons for resignation.	If and when such a resignation arises, the relevant director takes steps to adequately apprise the board with the relevant information as to his resignation.
A.9. Appraisal of Board Performance: - Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.		
A.9.1.	The Board should annually appraise itself on its performance	The Board has in place a system of self-assessment and appraisal.
A.9.2.	The Board should also undertake an annual self-evaluation of its own performance and that of its committees.	The Board undertakes annual self-evaluations of its own performance and that of its committees.
A.9.3.	The Board should have a process to review the participation, contribution and engagement of each director at the time of re-election.	The Board has appropriate processes in place to appraise the participation, contribution and engagement of directors.
A.9.4.	The Board should state how such performance evaluations have been conducted, in the Annual Report.	The Board has a system of performance evaluation that has been developed as per the Finance Companies (Corporate Governance) Directions.
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 13 to 15.
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.

Ref No:	Guiding Principle	Degree of Compliance
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 110 of the Annual Report.
B.1.2.	Remuneration Committees should consist exclusively of Non-Executive Directors & should have a Chairman, who should be appointed by the Board.	The Remuneration Committee consists entirely of Non-Executive Directors and two out of the three Non-Executive Directors are Independent. Further, the Chairman is an Independent Non-Executive Director.
B.1.3.	The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year.	The members of the Remuneration Committee and its Chairman are listed in page 118 of the Annual Report.
B.1.4.	The Board as a whole, should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association.	The Board decides upon the remuneration of the Non-Executive Directors and the Non-Executive Directors do not play a part in the determination of their own remuneration. This process is conducted as per the Articles of Association of the company.
B.1.5.	The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors and have access to professional advice	As per the terms of reference of the Remuneration Committee, it has access to professional advice and is free to consult the Chairman and/ or CEO as it feels fit.
B.2. The level & make-up of remuneration: - Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully.		
B.2.1.	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors of the quality required but should avoid paying more than is necessary for this purpose.	The remuneration policy of the company is structured in a manner to attract and retain high calibre professionals as Executive Directors, in line with industry standards.
B.2.2.	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.

Ref No:	Guiding Principle	Degree of Compliance
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 encapsulates and is in line with the guidelines provided in Schedule E of the code.
B.2.8.	Remuneration Committee should consider what compensation commitments (including pension contributions) their Directors' contracts of service, if any, entail in the event of early termination.	These have been adequately considered when determining remuneration.
B.2.9.	Where the initial contract does not explicitly provide for compensation commitments, Remuneration Committee should, within legal constraints, tailor their approach in early termination cases to the relevant circumstances.	The Remuneration Policy of the company has been designed to be in line with all applicable legal requirements.
B.2.10.	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their role, taking into consideration market practices. Remuneration for Non-Executive Directors should not normally include share options.	The time, commitment and the responsibilities that the role entails are taken into consideration when determining the remuneration of Non-Executive Directors. Remuneration for Non-Executive Directors does not include share options.
B.3. Disclosure of remuneration:- The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole and a specimen of a remuneration committee report followed by schedule D		
B.3.1.	The Annual Report should set out the names of Directors comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.	The names of the Directors comprising the Remuneration Committee have been set out in page 118. The remuneration policy has been set out in page 110. The aggregate remuneration has been set out in page 187 respectively.
C. Relations with shareholders		
C.1. Constructive use of the AGM & conduct of general meetings:- Boards should use the AGM to communicate with shareholders and should encourage their participation		
C.1.1.	Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	The notice of the AGM and the Annual Report are dispatched to shareholders in compliance with the applicable regulations.
C.1.2.	Companies should propose a separate resolution at the AGM on each substantially separate issue & should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	A separate resolution is proposed for each separate resolution at the AGM and this applies to the adoption of the Annual Report of the Board of Directors and the accounts.
C.1.3.	The Company should ensure that all valid proxy appointments received for general meetings are properly recorded and counted.	The company has a mechanism in place to count all proxy votes and indicate the level of proxies lodged on each resolution, the balance for and against and withheld for each resolution.
C.1.4.	The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration, Nomination and Related Party Transactions Review Committees and the Senior Independent Director to be available to answer questions at the AGM if so requested by the Chairman.	All the chairmen of the respective committees are available to answer any questions at the AGM.

Ref No:	Guiding Principle	Degree of Compliance
C.1.5.	Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at General Meetings.	A summary of the procedures governing the voting at the AGM are given in the Notice of the AGM itself and circulated to all shareholders.
C.2. Communication with Shareholders:- The Board should implement effective communication with Shareholders		
C.2.1.	There should be a channel to reach all shareholders of the Company in order to disseminate timely information	The channels the company uses to reach all shareholders are the AGM, the Annual Report, Quarterly Financial Statements, Disclosures to the Colombo Stock Exchange, notices in newspapers and the company website.
C.2.2.	The company should disclose the policy and methodology for communication with shareholders	The company's policy with regard to the communication with shareholders is as per applicable statutory requirements and adopted best practices. This involves the utilisation of a variety of effective and formal channels to ensure that accurate information is given in a timely manner.
C.2.3.	The company should disclose how they implement the above policy and methodology	The implementation of this policy is done as through the utilisation of a variety of channels mentioned in C.2.1.
C.2.4.	The company should disclose the contact person for such communication	The contact person for shareholder communication is the Company Secretary.
C.2.5.	There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the company	All major shareholder issues and concerns are discussed at Board Meetings. During the period under review, there were no such concerns raised that required such discussion.
C.2.6.	The company should decide the person to contact in relation to Shareholder's matters. The relevant person with statutory responsibilities to contact in relation to Shareholder's matters is the company secretary.	The contact person for shareholder communication is the Company Secretary.
C.2.7.	The process for responding to shareholder matters should be formulated by the Board & disclosed.	Appropriate responses and action, if any, are decided upon by the Board and then the company secretary communicates this to the shareholders in the most appropriate manner depending on the circumstances.
C.3. Major & material transactions: - Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the company's net assets base.		
C.3.1.	Directors' responsibility to disclose the details of major & material transactions to shareholders for their approval, prior to entering into them.	There were no major or material transactions during the year that required shareholder approval, as prescribed by this Code.
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.

Ref No:	Guiding Principle	Degree of Compliance
D. Accountability and Audit		
D.1. Financial Reporting: - The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.		
D.1.1.	The Board should present an annual report including financial statements that is true and fair, balanced and understandable and prepared in accordance with the relevant laws and regulations and any deviation being clearly explained.	The annual report presented by the Board contains financial statements that are true and fair, balanced and understandable and prepared in accordance with the relevant laws and regulations and any deviation have been clearly explained.
D.1.2.	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	The company has prepared and published quarterly, interim and annual financial statements as per the applicable financial standards and within the statutorily prescribed time periods. The company has complied with all applicable statutory disclosures and financial reporting.
D.1.3.	The Board should, before it approves the Company's financial statements for a financial period, obtain from its Chief Executive Officer and Chief Financial Officer a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the system of risk management and internal control was operating effectively.	The Board has made the necessary consultations with the Chief Executive Officer and Chief Financial Officer with regard to the fact that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the system of risk management and internal control was operating effectively.
D.1.4.	The Directors' Report, which forms part of the Annual Report, should contain declarations by the Directors on the areas covered by the code.	Refer pages 116 to 119 for the Annual Report of the Board of Directors and page 106 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 pages 116 to 119. The statement issued by the Auditors is in page 123. The Statement of Directors Responsibilities is in page 114. The Statement on Internal Controls is in page 106 respectively.
D.1.6.	Annual Report should contain a Management Discussion & Analysis	The Management Discussion & Analysis is from pages 28 to 72.
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 pages 186 to 191.

Ref No:	Guiding Principle	Degree of Compliance
D.2. Internal Controls: - The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the company's assets.		
D.2.1.	The Directors should, at least annually, conduct a review of the risks facing the company and the effectiveness of the system of internal controls.	The company has in place a system of Board approved internal control and risk management mechanisms. Continuous monitoring is done in this regard by the internal audit and risk management departments. Refer to the Audit Committee report in page 108 and the Integrated Risk Management Committee report in page 113.
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 pages 116 to 119. The Statement of Directors Responsibilities is in page 115. The Statement on Internal Controls is in page 106.
D.2.3.	The company should have an Internal Audit function	The company has a separate Internal Audit department that reports directly to the Audit Committee
D.2.4.	The Board should require the Audit Committee to carry out reviews of the process & effectiveness of risk management & internal controls & to document to the Board.	The Audit Committee carries out regular reviews of the processes and internal controls in place, through the Internal Audit department and reports to the Board of its assessments.
D.2.5.	Responsibilities of Directors in maintaining a sound system of internal control & the contents of the Statement of Internal Control	Refer the Annual Report of the Board of Directors, page 116 and the Statement of Internal Control in page 106.
D.3. Audit Committee: - The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the company's Auditors.		
D.3.1.	The board should establish an audit committee exclusively of non-executive directors with a minimum of three non-executive directors of whom at least two should be independent. If there are more non-executive directors, the majority should be independent. The Committee should be chaired by an independent non-executive director. The board should satisfy itself that at least one member of the audit committee has recent and relevant experience in financial reporting and control.	The Audit Committee contains only Non-Executive Directors and there are three of them. 2 out of the 3 members are Independent Non-Executive Members and the committee chairman is also 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 108.

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 a Non-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 and a separate Board approved Terms of Reference 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.
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 pages 116 to 119.
D.6. Corporate Governance Disclosures: - Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.		
D.6.1.	The Directors should include in the Company's Annual Report a Corporate Governance Report, setting out the manner and extent to which the Company has complied with the principles and provisions of this Code.	This report demonstrates the way in which the company has adopted this Code.

Ref No:	Guiding Principle	Degree of Compliance
Section 2:- Shareholders		
E. Institutional Investors		
E.1. Shareholder Voting: - Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.		
E.1.1.	A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.	The Annual General Meeting serves as the forum for the shareholders to express their views. Further, they can raise any issues to the Board through the Company Secretary.
E.2.	Evaluation of governance disclosures: - When evaluating the company's governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.	The Annual Report contains all the necessary governance disclosures applicable to this company. Institutional investors are at liberty to give due weight to the relevant resolutions when exercising their voting rights.
F. Other Investors		
F.1.	Investing/divesting decision: - Individual shareholders, investing directly in shares of the company should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	Individual investors are at liberty to carry out adequate analysis or seek independent advice with regard to their investing/ divesting decisions.
F.2.	Shareholder voting:- Individual shareholders should be encouraged to participate in General Meetings of the company and exercise their voting rights.	Individual shareholders are encouraged to participate in General Meetings and exercise their voting rights. The relevant notice of meeting is dispatched to all shareholders as per the statutory requirements.
G. Internet Of Things And Cyber security		
G.1.	The Board should have a process to identify how in the organisation's business model that IT devices within and outside the organisation can connect to the organisation's network to send and receive information and the consequent cyber security risks that may affect the business.	Based on the business requirements of the company and the scope of application and extent of usage of its IT resources, the company will look into introducing an appropriate policy.
G.2.	The Board should appoint a Chief Information Security Officer (CISO) with sufficient expertise, authority and budgetary allocation to introduce and implement a cyber-security risk management policy which should be approved by the Board.	The company's current Head of IT oversees and handles the management of cyber-security risk. Based on the business requirements of the company and the scope of application and extent of usage of its IT resources, the company will look into introducing an appropriate policy.
G.3.	The Board should allocate regular and adequate time on the board meeting agenda for discussions about cyber risk management.	Based on the cyber security risk management related requirements of the company's operations, the Board will allocate appropriate time for such discussions.
G.4.	The Board should ensure the effectiveness of the cyber security risk management through independent periodic review and assurance.	As per the business requirements of the company & the scope of application of its IT resources, the Board will consider the usage of independent periodic reviews & assurance with regard to its cyber security risk management.
G.5.	The Board should disclose in the annual report, the process to identify and manage cyber security risks.	Refer the Risk Management Section in pages 59 to 72.

Ref No:	Guiding Principle	Degree of Compliance
H. Environment, Society And Governance (ESG)		
H.1. ESG Reporting:- The Company's annual report should contain sufficient information to enable investors and other stakeholders to assess how ESG risks and opportunities are recognised, managed, measured and reported.		
H.1.1.	Company should provide information in relation to relevance of environmental, social and governance factors to their business models and strategy, how ESG issues may affect their business and how risks and opportunities pertaining to ESG are recognised, managed, measured and reported.	In the "Our Approach to Value Creation", "Management Discussion & Analysis" and "Accountability & Transparency" sections in its annual report, the referred material is adequately covered.
H.1.2. Environmental Factors		
H.1.2.1.	Environmental governance of an organisation should adopt an integrated approach that takes into consideration the direct and indirect economic, social, health and environmental implications of their decisions and activities	Refer the Environmental Contribution section from pages 56 to 58.
H.1.3. Social Factors		
H.1.3.1.	Social governance of an organisation should include its relationship with the community, customers, employees, suppliers, outsourced providers and any other party that can influence or be influenced by the organisation's business model.	Refer the Social Contribution section from pages 56 to 58.
H.1.4. Governance		
H.1.4.1.	Companies should establish a governance structure to support its ability to create value and manage risks in the short, medium and long term, recognising managing and reporting on all pertinent aspects of ESG.	Refer the Corporate Governance Philosophy section from pages 74 and 75.
H.1.5. Board's Role on ESG Factors		
H.1.5.1	ESG reporting is a Board's responsibility and it is designed to add value by providing a credible account of the Company's economic, social and environmental impact.	The Board has taken appropriate cognisance of these requirements and the relevant reporting has been made in the "Our Approach to Value Creation", "Management Discussion & Analysis" and "Accountability & Transparency" sections in the annual report.

Governance Reports

Directors attendance - Board & Sub committees in a snapshot

ATTENDANCE OF DIRECTORS AT BOARD & SUB-COMMITTEE MEETINGS FROM APRIL TO MARCH 2020/21

Directors	Executive	Non-Executive	Independent	Non-Independent	Attendence (Board Meetings)	Attendence (BAC)		Attendence (IRMC)	Attendence (RPT)
						Regular Meetings	Meetings without the presence of Executive Directors		
Mr. A. Russell-Davison *(Chairman)*		√		√	11/11	10/10	2/2		
Mr. P. Wijesekera *(Chief Executive Director)*	√				10/11			4/4	
Mr. A. C. M. Fernando		√	√		11/11	10/10 ****	2/2		3/3 ****
Mr. A. C. M. Lafir ***		√		√	4/4				
Mr. D. Renganathan		√	√		11/11	10/10	2/2	4/4 ****	3/3
Mr. H. K. Kaimal		√		√	11/11				3/3
Ms. A. Goonetilleka **		√	√		7/7				
Mr. W. N. R. Bastian *		√	√		1/1				

Notes

* *Resigned w.e.f 30th April, 2020 & Central Bank approved his resignation on 04th August, 2020)*
** *Appointed w.e.f 31st August, 2020*
*** *Appointed w.e.f 14th December, 2020*
**** *Committee Chairman/Chairperson*

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 noncompliance. Audits are carried out on branches and other centers, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the internal audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Company review internal control issues identified by the Internal Audit Unit, regulatory authorities and management, and 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 108.
- 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.)
Aaron Russell-Davison
Chairman

(Sgd.)
M. H. Priyantha Wijesekera
CEO / Director

(Sgd.)
A. C. M. Fernando
Chairman - Board Audit Committee

29th June 2021

Report of the Audit Committee

COMPOSITION

The Board Audit Committee comprised of the following Non-Executive Directors of the Company during the financial year.

- Mr. A. C. M. Fernando (Chairman from November 2019) - Independent Non- Executive Director (Appointed on 15th November 2019)
- Mr. A. Russell-Davison - Non-Executive Director (Appointed on 10th June 2020)
- Mr. D. P. Renganathan - Independent Non-Executive Director (Appointed on 10th June 2020)

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.
- Make determination on the independence of the external auditors.

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.

The global outbreak and spread of COVID-19 from January 2020 has caused disruption to businesses and economic activities. The Board Audit Committee reviewed the changes to the internal control systems of the company. The Internal Audit Department has carried out extended 'off sight audits' and in lockdown lifted areas, special on sight reviews.

There was a negative impact from the Moratorium in the results of the company. The Board Audit Committee monitored it through the reviews carried out by the Internal Audit Department and other reports submitted to it.

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 resolutions, 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 Board Audit Committee met ten times (excluding two Board Audit Committee meetings held during the year with external auditors without the presence of any executive director) during the year 2020/21. The attendance of the members at Audit Committee meetings was as follows:

Member	Status	No. of Meetings
Mr. A. C. M. Fernando (Chairman)	Independent Non-Executive Director	10/10
Mr. A. Russell-Davison	Non-Executive Director	10/10
Mr. D. P. Renganathan	Independent Non-Executive Director	10/10

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.)
A. C. M. Fernando
Chairman - Board Audit Committee

29th June 2021

Report of the Remuneration Committee

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

- Mr. D. P. Renganathan – Independent Non-Executive Director (Chairman of the Committee)
- Mr. A. Russell-Davison – Non-Executive Director/ Chairman (Member)
- Mr. A. C. M. Fernando – Independent NonExecutive Director (Member)

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 with Remuneration Policy.

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 Remuneration Policy of Softlogic Finance determine the formulation of all remuneration based on the job profile, industry remuneration levels and practices and the country's cost of living situation. The Remuneration Policy of the company is developed with a comprehensive compensation and benefit grid. The grid has been developed in par with the industry rates in order to ensure competitive packages at the point of recruiting people to the company.

The Company's reward strategies and remuneration structure is designed to attract, motivate and retain high caliber 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

- Remuneration is commensurate with each employee's expertise and contribution and is aligned with the business' performance and long term shareholder returns.
- Industry rates were considered with the aim of attracting, motivating and retaining high calibre people
- 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. Dinesh Renganathan
Chairman - Board Remuneration Committee

29th June 2021

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. A. C. M. Fernando	Independent Non-Executive Director	Chairman of the Committee
Mr. D. P. Renganathan	Independent Non-Executive Director	Member
Mr. H. K. Kaimal	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 has a Board approved Related Party Policy in place, 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 recognised as "related parties", as per the respective definitions set out in Section 9 of the Listing Rules. Self-declarations are obtained from each of the key management personnel, in order to identify parties related to them. 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

Related Party Transactions Review Committee Report

MEETINGS OF THE COMMITTEE

The Committee met on three (03) occasions during the year, however the COVID 19 pandemic disrupted all gatherings and meetings that the Company were unable to have the third quarter meeting and only three meetings were held during the year. The attendance at the meeting held is as follows:

Directors	Attendance			Summary
	18/06/2020	*29/10/2020	22/03/2021	
Mr. A. C. M. Fernando *Non-Executive/ Independent Chairman*	√	√	√	3/3
Mr. D. Renganathan *Non-Executive/ Independent*	√	√	√	3/3
Mr. H. K. Kaimal *Non-Executive*	√	√	√	3/3

** Virtual Meetings*

COMPLIANCE WITH RELATED PARTY TRANSACTION RULES

Transactions of related parties (as defined in LKAS 24- Related Parties Disclosure) with the Company are set out in Note No.46 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 had complied with the requirements of the Listing Rules of the Colombo Stock Exchange on Related Party.

The related party transactions of the Company for the financial year ended 31st March, 2021 have been reviewed by the Committee and the activities and comments of the Committee have been communication to the Board of Directors of the Company.

(Sgd.)
Mr. A. C. M. Fernando
Chairman - Related Party Transactions Review Committee

29th June 2021

Report of the Integrated Risk Management Committee

Operating an appropriate and effective risk management and internal control system is essential to achieving the company's strategic objectives and maintaining service delivery targets.

The Board has delegated these powers to the Board Integrated Risk Management Committee (BIRMC) to oversee the company's risk management approach, policy and framework.

As a Board Sub-committee, the BIRMC is responsible for assisting the Board in providing leadership, direction and oversight of the company's overall risk appetite, risk tolerance and risk management practices.

The committee ensures that business risks are identified, assessed, managed, and monitored across all the businesses and functions of the company. In this connection the Committee focuses on and reviews risks such as credit, market, liquidity, operational, reputational and strategic risks through appropriate risk indicators and management information.

DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

- Establish and approve the Company's risk management policy, risk limits and policies that establish appetite for credit, market, liquidity, operational and other risks.
- Review and/or recommend policies, programmes and Management Committee Charters relating to risk management and compliance.
- Review the adequacy and effectiveness of risk identification, measurement, monitoring and mitigation relating to credit, market, liquidity, operational and compliance risks and other specific risks and manage these risks within the quantitative and qualitative risk limits defined in the appetite statement.
- Review the adequacy and effectiveness of all Management Level Committees such as the Credit Committee and the Assets and Liability Management Committee
- Review Risk management reports on the risk profile of the Company, as well as current market and regulatory risks and actions undertaken to identify, measure, monitor and control such risks.
- Oversee management process for the identification of significant risks across the company and the adequacy of prevention, detection, and reporting mechanisms.
- Recommend and oversee the corrective action required to mitigate risks that are beyond the tolerant levels of the Company.
- Review the company's compliance levels with the applicable laws and regulatory requirements.
- Review changes in the economic and business environment, including emerging trends and other factors relevant to the company's risk profile.

TERMS OF REFERENCE (TOR) OF INTEGRATED RISK MANAGEMENT COMMITTEE.

The TOR clearly sets out the Purpose, Policy and Framework, Authority/Delegations, Composition, Meeting Frequency and Quorum, Agenda and Minutes, Responsibilities and Reporting Procedures of the Committee. The terms of reference of Integrated Risk Management Committee were revised and approved by the Board of Directors in August 2020

The members of the committee are:

Mr. Dinesh P. Renganathan
– *Independent Non-Executive Director (Chairman)*

Mr. Priyantha Wijesekera
– *Executive Director/ CEO*

Mr. N. K. Kongahawatta
– *Head of Risk Management.*

MEETINGS

The Committee met on four occasions during the year 2020/21 and continued to discuss emerging risks with the management team and functional heads. The Board of Directors was duly updated of its discussions and actions through the "Risk Assessment Report" submitted by the risk management department after the each BIRMC meeting.

HOW THE COMMITTEE DISCHARGED ITS RESPONSIBILITIES IN 2020/21

During the year, our risk management objectives were primarily focused on improving and establishing a robust risk management policy framework for the company to achieve our long-term business aspirations, our preparedness to address any incidents that may cause business disruptions to our physical and technological infrastructure, strengthening internal controls to detect fraudulent activity, strengthening the operational functionality, and monitoring possible impact of changes in our business environment.

Many new business insights were discussed and brought to the attention of the management team and the board of directors with the intention of protecting the stakeholders and ensuring that the growth of business was within stipulated risk parameters that met the long-term business objectives of the company.

There were no material internal control defects or significant areas of concerns identified during 2020/21 and the company has satisfactorily managed the impact of the Covid-19 pandemic. The risk management and internal control systems adopted by the company remain appropriate and effective in evaluating, determining and

Report of the Integrated Risk Management Committee

managing significant risks that the company may take in achieving its strategic objectives.

FOCUS IN 2021/22

In 2021/22, the committee will focus on the company's overall risk management strategy and policy and undertake deeper reviews of new, emerging or changing risks, such as macroeconomic challenges and the further spreading of Covid-19 pandemic. A key area of focus for the committee will be to oversee the risk management framework and strategies to ensure its appropriateness and effectiveness to the company, as the company is engaging in a rapidly challenging business environment.

The Committee will continually review various risks that could encounter by the company and strive to promote a robust risk governance framework and explicit risk appetite for the company.

The Committee also continues to be cautious and recognises that its focus must be further improved to fine tune its risk management strategy with the improvement of technology, increased vulnerability with macroeconomic shocks and volatility that poses a greater challenge in business continuity.

CONCLUSION

Based on the work performed towards the advanced risk framework and new risk culture, we believe that the committee has effectively fulfilled the responsibilities set out in its terms of reference.

(Sgd.)
Dinesh P. Renganathan
Chairman
Board Integrated Risk Management Committee

29th June 2021

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 pages 123 to 126.

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 127 to 194 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

29th June 2021
Colombo

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

The Board of Directors of Softlogic Finance PLC have the pleasure in presenting to the members their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2021.

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 reregistered 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 pages 127 to 194.

AUDITORS' REPORT

The Report of the Auditors on the Financial Statements of the Company is given on pages 123 to 126.

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 132 to 149. 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.

EXECUTIVE DIRECTOR

Mr. M. H. P. Wijesekera
– Director/CEO

NON-EXECUTIVE DIRECTORS

Mr. A. Russell-Davison

– Non-Executive Chairman

Mr. H. K. Kaimal

– Director

Mr. A. C. M. Fernando

– Senior Independent Director (c)

Mr. D. P. Renganathan

– Director

Ms. A. Goonetilleka

– Director (appointed w.e.f 31st August , 2020) (A)

Mr. Ashiq Cader Mohamed Lafir

– Director (appointed w.e.f 14th December , 2020) (A)

Mr. W. N. R. Bastian

– Director (resinged w.e.f 30th April 2020 and Central Bank approval 04th August, 2020) (B)

A. 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.
B. The approval has been granted Central Bank of Sri Lanka for the aforesaid resignation in terms of Section 05 of the Finance Companies (Structural Changes) Direction No. 01 of 2013.
C. The approval has been received to change the designation, in terms of Section 3.7 of the Finance Companies (Structural Changes) Direction No 01 of 2013.

In terms of Articles 91 and 92 of the Articles of Association of the Company, Mr. H. K. Kaimal retire and being eligible, offer himself for re-election.

In terms of Articles 97 of the Articles of Association of the Company, Ms. A. Goonetilleka and Mr. A. C. M. Lafir retire and being eligible, offer themselves for 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 2021 and 01 April 2020 are as follows:

Name of Director	Shareholding as at 31/03/2021	Shareholding as at 31/03/2020
Mr. A. Russell-Davison	Nil	Nil
Mr. H. K. Kaimal	Nil	Nil
Mr. A. C. M. Fernando	Nil	Nil
Mr. D. P. Renganathan	Nil	Nil
Mr. M. H. P. Wijesekera	Nil	Nil
Ms. A. Goonetilleka	Nil	Nil
Mr. Ashiq Lafir	Nil	Nil

Russell-Davison is a Director of Softlogic Capital PLC, which held 228,647,351 shares (85.07%) in Softlogic Finance PLC as at 31 March 2021. Messrs. A Russell-Davison and H K Kaimal are Directors of Softlogic Holdings PLC which held 3,085,963 shares (1.15%) in Softlogic Finance PLC as at 31 March 2021.

REMUNERATION OF DIRECTORS

The Directors' remuneration is disclosed under transactions with key managerial personnel in Note No.46.1 to the Financial Statements on page 187.

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 No.46.2 to the Financial Statements.

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

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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

AUDITORS

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

A total amount of Rs.3,600,000 is payable by the Company to the Auditors for the year under review as audit fees.

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

STATED CAPITAL

The Stated Capital of the Company as at 31st March 2021 was Rs.4,506,759,983.12 represented by 268,760,128 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 198 to 200 under the Investor Information section.

RESERVES

The movements of reserves during the year are given under the Statement of Changes in Equity on page 130.

PROPERTY, PLANT & EQUIPMENT

The details and movements of Property, Plant and Equipment owned by the Company are given in Note No.27 to the Financial Statements on pages 163 to 165

LAND HOLDINGS

The Company owns freehold land worth Rs.228,000,000, with the value of the total freehold land and building coming to Rs.313,400,000. The freehold land extent is 12.62 perches and is located at No: 13 De Fonseka Place, Colombo 04. This land was valued by Mr. G. W. G. Abeygunawardene, who is a Chartered Valuation Surveyor, on 31st March 2021.

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

INVESTMENTS

Details of quoted and unquoted investments made by the Company as at 31st March 2021 are given in Note No.26 to the Financial Statements on page 162.

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 108.

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 59 to 72 sets out the processes currently practiced by the Company to identify and manage the risks.

CONTINGENT LIABILITIES

Except as disclosed in Note No.43 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 76 to 104.

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. A. C. M. Fernando (Chairman)
- Mr. D. P. Renganathan
- Mr. A. Russell-Davison

Remuneration Committee

- Mr. Dinesh Renganathan – Chairman
- Mr. Aaron Russell-Davison – Member
- Mr. Manilka Fernando – Member

Credit Committee

- Ms. Aruni Goonetileke – Chair Person
- Mr. Dinesh Renganathan – Member
- Mr. Priyantha Wijesekera – Member
- Mr. Namal Sumanaratne – Member / Secretary to the committee

Integrated Risk Management Committee

- Mr. Dinesh Renganathan - Chair Person
- Mr. Priyantha Wijesekera – Member
- Mr. Kumara Kongahawatta - Member

IT Steering Committee

- Mr. Haresh Kaimal – Chairman
- Mr. Dinesh Renganathan – Member
- Mr. Priyantha Wijesekera – Member
- Mr. Channa De Silva – Member / Secretary to the committee

Related Party Transaction Review Committee

- Mr. D. P. Renganathan - Chairman
- Mr. H. K. Kaimal - Member
- Mr. A. C. M. Fernando - Member

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held by electronic means on Tuesday the 24th August, 2021 at 10.30 a.m. The Notice of the Annual General Meeting is on page 203 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. Russell-Davison
Chairman

(Sgd.)
M. H. P. Wijesekara
Director/CEO

(Sgd.)
Softlogic Corporate Services (Pvt) Ltd
Secretaries

29th June 2021
Colombo

FINANCIAL STATEMENTS

FINANCIAL CALENDAR

2020/21

Publication of Audited Financial Statements for the year ended 31 March 2020	14th August 2020
12th Annual General Meeting held on	22nd September 2020
Publication of half yearly Financial Statements (1st half of year 2020/21) (Unaudited) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Languages	5th November 2020
Publication of half yearly Financial Statements (2nd half of year 2020/21) (Audited) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Languages	30 June 2021

PUBLICATION OF INTERIM FINANCIAL STATEMENTS IN TERMS OF LISTING RULES 7.4 OF THE COLOMBO STOCK EXCHANGE

1st Quarter ended 30 June 2020	14th August 2020
2nd Quarter ended 30 September 2020	05th November 2020
3rd Quarter ended 31 December 2020	15th February 2021
4th Quarter ended 31 March 2021	20th May 2021

PROPOSED FINANCIAL CALENDAR 2021.2022

Publication of Audited Financial Statements for the year ended 31 March 2021	30th June 2021
13th Annual General Meeting to be held on	24th August 2021
Publication of half yearly Financial Statements (1st half of year 2021/22) (Unaudited) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	On or before 30th November 2021
Publication of half yearly Financial Statements (2nd half of year 2021/22) (Audited)) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	On or before 30th June 2022

PUBLICATION OF INTERIM FINANCIAL STATEMENTS IN TERMS OF LISTING RULES 7.4 OF THE COLOMBO STOCK EXCHANGE

1st Quarter ended 30 June 2021	On or before 15th August 2021
2nd Quarter ended 30 September 2021	On or before 15th November 2021
3rd Quarter ended 31 December 2021	On or before 15th February 2022
4th Quarter ended 31 March 2022	On or before 31st May 2022

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

TO THE SHAREHOLDERS OF SOFTLOGIC FINANCE PLC

REPORT ON THE 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 2021, and the statement of profit or loss and 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 2021, 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 our 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.

EY202106287001

Key audit matter	How our audit addressed the key audit matter
IMPAIRMENT ALLOWANCE ON LOANS & LEASES: As at 31 March 2021, loans & advances and receivables from lease & hire purchase (net of impairment) amounted to Rs. 11,270 Million (Note 21-23) and Rs. 5,263 Million (Note 24) respectively net of total allowance for impairment of LKR 2,065 Million (Note 21-24). These collectively contributed 79% to the Company's total assets. As described in Note 21-24, impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments (SLFRS 9). This was a key audit matter due to: ▪ materiality of the reported impairment allowance which involved complex spread sheets calculations; and ▪ the degree of assumptions, judgements and estimation uncertainty associated with the calculations. Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following: ▪ the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the company); and ▪ forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.	We assessed the alignment of the company's impairment computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following: ▪ We evaluated the design, implementation and operating effectiveness of controls where relevant over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. ▪ We checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the company. ▪ We test–checked the underlying calculations. ▪ In addition to the above, following focused procedures were performed: For a sample of loans and advances individually assessed for impairment: – Assessing the appropriateness of the criteria used by the management to determine whether there are any indicators of impairment; and – Evaluating the reasonableness of the provisions made with particular focus on the impact of COVID-19 on elevated risk industries, strategic responsive actions taken, collateral values, and the value and timing of future cashflows. For loans and advances collectively assessed for impairment: – Assessing the reasonableness of assumptions and estimates used by management including the reasonableness of forward-looking information and scenarios; and – As relevant, assessing the basis for and data used by management to determine overlays in consideration of the probable effects of the COVID-19 pandemic. – We assessed the adequacy of the related financial statement disclosures as set out in Note(s) 21 - 24.
IT SYSTEMS AND CONTROLS RELEVANT TO FINANCIAL REPORTING The Company uses multiple IT systems in its operations. We selected IT systems and controls relevant to financial reporting as a key audit matter due to: ▪ The Company's financial reporting process being heavily dependent on information derived from its IT systems and ▪ Key financial statement disclosures involving the use of multiple system – generated reports and calculations there on ▪ A changed working environment of increased remote access	Our audit procedures included the following; ▪ Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access ▪ Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and gathering of required information in calculating the significant information for financial statements disclosures ▪ Checking the source data of the reports used to generate significant disclosures for accuracy and completeness ▪ Assessing the reasonability of management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant

Key audit matter	How our audit addressed the key audit matter
IMPACT OF MORATORIUMS AND OTHER RELIEF MEASURES ON RECOGNITION OF INTEREST INCOME Moratoriums and other relief measures were granted by the Company to customers affected by the COVID – 19 Pandemic. Impact of moratoriums and other relief measures on the recognition of interest revenue on loans & receivables and lease rentals receivable & stock out on hire was a key audit matter due to: ▪ Significant judgments that were applied in determining whether such moratoriums and other relief measures have resulted in substantial modifications or not, to contracts with customers as set out in Note 7.1 to the financial statements ▪ Use of spread sheet-based calculations by management to quantify the impacts of such moratoriums and other relief measures on the amount of revenue recognised for the period	Our audit procedures (among others) included the following; ▪ We gained an understanding of the process adopted by the Company to grant, record and account for moratoriums and other relief measures provided to customers ▪ We assessed the reasonableness of judgements applied by management in determining whether moratoriums and other relief measures have resulted in substantial modifications or not, to customer contracts. This included evaluating whether interest income on modified contracts have been recognised in line with its accounting policy for interest revenue recognition ▪ We tested the accuracy of underlying spread sheet-based calculations. Our procedures included testing the completeness and accuracy of the data used in such spread sheet-based calculations, by agreeing to source documents and moratorium customer returns.

OTHER INFORMATION INCLUDED IN THE 2021 ANNUAL REPORT

Other information consists of the information included in the Company's 2021 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2021 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 will not express any form of assurance conclusion thereon.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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:

1. 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.
2. 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 controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. 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.
5. 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 ethical requirements in accordance with the Code of Ethics 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.

29 June 2021
Colombo

Income Statement

Year ended 31 March 2021	Notes	2021 Rs.	2020 Rs.
Interest Income		2,443,391,179	3,597,061,476
Less: Interest Expenses		(1,894,556,639)	(2,516,526,516)
Net Interest Income	7	548,834,540	1,080,534,961
Fee and Commission Income	8	78,473,105	128,400,023
Other Operating Income	9	65,413,640	91,514,661
Total Operating Income		692,721,285	1,300,449,645
Less: Credit Loss Expense on Financial Assets and Other Losses	10	(491,731,598)	(390,137,067)
Net Operating Income		200,989,687	910,312,578
Less: Operating Expenses			
Personnel Expenses	11	(401,291,015)	(443,014,356)
Other Operating Expenses	12	(811,806,851)	(952,830,545)
Operating Profit Before Taxes on Financial Services		(1,012,108,179)	(485,532,323)
Less: Taxes on Financial Services	13	-	(53,080,605)
Profit before Income Tax		(1,012,108,179)	(538,612,928)
Less: Income Tax Expense	14	109,257,073	204,653,631
Profit for the Year		(902,851,106)	(333,959,297)
Basic/Diluted Earnings Per Share (Rs.)	15	(5.95)	(4.29)
Dividend Per Share (Rs.)	16	-	-

The accounting policies and notes as set out in pages 132 to 194 form an integral part of these financial statements.

Statement of Comprehensive Income

Year ended 31 March 2021	Notes	2021 Rs.	2020 Rs.
Profit for the Year		(902,851,106)	(333,959,297)
Other Comprehensive Income/ (Expenses)			
Other Comprehensive Income to be Reclassified to Profit or Loss:			
Gain/(Loss) Arising on Remeasuring Available for Sale Financial Investments		(20,566,657)	10,582,405
Other Comprehensive Income that will not to be Reclassified to Profit or Loss:			
Actuarial Gain/(Loss) on Defined Benefit Plan	34.2	(4,647,589)	(8,314,858)
Deferred Tax Effect on Actuarial Gain/(Loss)	33	1,115,421	2,328,160
		(3,532,168)	(5,986,698)
Surplus from Revaluation of Property, Plant & Equipment		15,600,000	15,500,000
Deferred Tax Effect on Revaluation Surplus		-	(4,340,000)
	37	15,600,000	11,160,000
Other Comprehensive Income for the Year, Net of Tax		(8,498,825)	15,755,707
Total Comprehensive Income for the Year, Net of Tax		(911,349,930)	(318,203,590)

The accounting policies and notes as set out in pages 132 to 194 form an integral part of these financial statements.

Statement of Financial Position

As at 31 March 2021	Notes	2021 Rs.	2020 Rs.
Assets	Note		
Cash and Bank Balances	18	628,089,791	389,597,258
Placements with Banks & Other Finance Companies	19	204,377,303	611,450,581
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	19.2	300,809,707	250,000,000
Securities Purchased Under Repurchase Agreements	20	1,001,933,146	1,554,145,000
Factoring Receivables	21	564,990,812	600,088,173
Gold loan Receivables	22	2,250,074,022	2,940,869,436
Loan Receivables	23	8,454,723,905	11,011,141,328
Lease and Hire Purchase Receivables	24	5,262,704,090	2,160,284,390
Other Assets	25	979,241,099	901,703,139
Equity Instruments at Fair Value Through Other Comprehensive Income	26	37,460,367	136,137,280
Property, Plant & Equipment	27	472,580,374	493,551,514
Intangible Assets	28	156,667,481	182,035,815
Right of Use Assets	29	111,012,736	176,873,492
Deferred Tax	33	445,343,174	338,714,679
Total Assets		20,870,008,008	21,746,592,086
Liabilities			
Bank Overdraft		45,987,503	65,076,586
Due to Other Customers	30	14,598,143,536	17,063,396,151
Other Borrowed Funds	31	2,593,034,102	2,113,949,778
Other Payables	32	547,545,051	416,135,153
Retirement Benefit Obligations	34	57,407,951	47,045,376
Total Liabilities		17,842,118,143	19,705,603,044
Equity			
Stated Capital	35	4,506,759,983	2,604,765,231
Statutory Reserve Fund	36	260,448,732	260,448,732
Revaluation Reserve	37	138,505,682	126,649,682
AFS Reserve	38	(2,588,523)	(95,187,607)
Retained Earnings	39	(1,875,236,009)	(855,686,995)
Total Equity		3,027,889,865	2,040,989,043
Total Liabilities and Equity		20,870,008,008	21,746,592,086
Net Asset Value Per Share (Rs.)		11.27	19.74
Commitments and Contingencies	43	1,013,805,959	563,329,685

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

(Sgd.)
Ms. Ivon Brohier
Chief Financial Officer

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

(Sgd.)
A. Russell - Davison
Chairman

(Sgd.)
M.H.P. Wijesekera
CEO/Director

The accounting policies and notes as set out in pages 132 to 194 form an integral part of these financial statements.

29th June 2021
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 2019	2,002,269,999	260,448,732	115,489,682	(105,770,012)	(515,741,000)	1,756,697,401
Profit for the Year	-	-	-	-	(333,959,297)	(333,959,297)
Other Comprehensive Income,Net of Tax	-	-	11,160,000	10,582,405	(5,986,698)	15,755,707
Rights Issue of Shares	602,495,232	-	-	-	-	602,495,232
Transfer to Statutory Reserve Fund (Note 36)	-	-	-	-	-	-
Dividend Paid	-	-	-	-	-	-
Balance as at 31 March 2020	2,604,765,231	260,448,732	126,649,682	(95,187,607)	(855,686,994)	2,040,989,043
Balance as at 01 April 2020	2,604,765,231	260,448,732	126,649,682	(95,187,607)	(855,686,994)	2,040,989,043
Profit for the Year	-	-	-	-	(902,851,106)	(902,851,106)
Other Comprehensive Income,Net of Tax	-	-	11,856,000	(20,566,657)	(3,532,168)	(12,242,825)
Rights issue of Shares	1,901,994,752	-	-	-	-	1,901,994,752
Gain / (Loss) on Share Disposal	-	-	-	113,165,741	(113,165,741)	-
Transfer to Statutory Reserve Fund (Note 36)	-	-	-	-	-	-
Dividend Paid	-	-	-	-	-	-
Balance as at 31 March 2021	4,506,759,983	260,448,732	138,505,682	(2,588,523)	(1,875,236,009)	3,027,889,865

The accounting policies and notes as set out in pages 132 to 194 form an integral part of these financial statements.

Statement of Cash flows

Year ended 31 March 2021	Notes	2021 Rs.	2020 Rs.
Cash Flows from Operating Activities			
Profit before Taxation		(1,012,108,179)	(538,612,928)
Depreciation	27	49,284,402	55,223,848
Amortisation	28	31,058,252	19,535,231
Profit on Disposal of Property, Plant & Equipment		(244,334)	(4,434,229)
(Profit)/Loss on Sale of Real Estate		-	(1,597,736)
Impairment Charge	10	491,731,598	390,137,067
Provision for Defined Benefit Plans	34.1	21,176,245	12,510,739
Interest Expenses		1,894,556,639	2,516,526,516
		2,487,562,802	2,987,901,436
Operating Profit Before Working Capital Changes		1,475,454,623	2,449,288,508
(Increase)/Decrease in Lease and Hire Purchase Receivables		(3,157,694,928)	(235,052,899)
(Increase)/Decrease in Factoring Receivables		60,220,586	(600,088,173)
(Increase)/Decrease in Gold Loan Receivables		688,404,842	(938,946,012)
(Increase)/Decrease in Loan Receivables		2,097,228,399	2,527,757,384
(Increase)/Decrease in Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)		(50,809,707)	-
(Increase)/Decrease in Placements with Banks, Other Financial Companies, Repo Investments		959,285,132	(669,018,585)
(Increase)/Decrease in Equity Instruments at Fair Value Through Other Comprehensive Income		191,275,997	88,717,595
(Increase)/Decrease in Other Assets		(123,983,678)	96,068,623
Increase/(Decrease) in Due to Other Customers		(2,465,252,615)	(52,004,095)
Increase/(Decrease) in Other Payables		131,409,898	316,988,705
		(1,669,916,073)	534,422,542
Cash Generated from Operating Activities		(194,461,450)	2,983,711,050
Interest Expense Paid		(1,894,556,639)	(2,516,526,516)
Taxes Paid		-	-
Gratuity Paid	34.1	(10,813,670)	(7,837,605)
Net Cash Generated from Operating Activities		(2,099,831,759)	459,346,929
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment and Intangible Assets	27	(24,048,866)	(166,257,636)
Proceeds from Sale of Property, Plant and Equipment		383,165	7,050,000
Net Cash Inflow/(Outflow) from Investing Activities		(23,665,701)	(159,207,636)
Net Cash Outflow Before Financing Activities		(2,123,497,460)	300,139,293
Cash Flow from Financing Activities			
Dividends Paid		-	-
Rights issue of Shares	35	1,901,994,752	602,495,232
Proceeds from Bank Loans and Securitisations Loans	31.1	3,200,000,000	3,218,200,000
Repayments of Bank Loans and Securitisations Loans	31.1	(2,926,992,978)	(2,928,428,719)
Repayment of Debentures		-	(759,090,000)
Proceeds from Commercial Papers	31.1	206,077,301	-
Net Cash Inflow from Financing Activities		2,381,079,076	133,176,513
Net Increase/(Decrease) in Cash and Cash Equivalents		257,581,615	433,315,805
Cash & Cash Equivalents as at the Beginning of the Year		324,520,672	(108,795,132)
Cash and Cash Equivalents as at end of the Year		582,102,287	324,520,672
Analysis of the Cash and Cash Equivalents at the end of the Year			
Cash and Bank Balances	18	628,089,791	389,597,258
Bank Overdraft		(45,987,503)	(65,076,586)
		582,102,287	324,520,672

The accounting policies and notes as set out in pages 132 to 194 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.

The staff strength of the Company as at 31 March 2021 was 463 (475 as at 31 March 2020).

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. The presentation of these Financial Statements is also in compliance with the requirements of Finance Business Act No 42 of 2011, Listing Rules of the Colombo Stock Exchange and the CBSL guidelines.

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 2021 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 29th Jun 2021.

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.

- Financial Assets at fair value through other comprehensive income 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 recognised at the present value of the defined benefit obligation less the fair value of the plan assets (Note 34)

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 48.

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 comparative information has not been restated due to adoption of SLFRS 16, as explained in Note 29, Note 32.2 & 32.3.

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 44 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.

Further, the Directors have considered the potential downsides that the COVID-19 pandemic could bring to the business operations of the Company, in making this assessment. (Refer Note 6 for detail note)

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 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.

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 judgement is 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 by categorising them, into groups of assets with similar risk characteristics, to determine the expected credit loss on such loans and advances.

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 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 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.

It is the Company's policy to regularly review its models in the context of actual loss experience and adjust whenever necessary. The above assumptions and judgements are discussed in detail under Note 4.1.9 to the Financial Statements.

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 40 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 40 "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 details of deferred tax computation is given in Note 33 to the Financial Statements.

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 34 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 amortisation 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 recognised in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 43 to the Financial Statements.

3. CHANGES IN ACCOUNTING POLICIES

3.1 NEW ACCOUNTING STANDARDS/INTERPRETATIONS EFFECTIVE DURING THE YEAR

The Company has adopted SLFRS16 - Leases, effective for annual periods beginning on or after 01 April 2019, for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

3.1.1 SLFRS 16 - LEASES

SLFRS 16 supersedes LKAS 17 Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 April 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4 at the date of initial application.

The Company has lease contracts for various branches. Before the adoption of SLFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 4.2.2 for the accounting policy prior to 1 April 2019.

Upon adoption of SLFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 4.2.1 for the accounting policy beginning 1 April 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

LEASES PREVIOUSLY CLASSIFIED AS FINANCE LEASES

For leases that were classified as finance leases applying LKAS 17, the carrying amount of the right of use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying LKAS 17.For those leases, the Company accounted for the right of use asset and the lease liability applying this Standard from the date of initial application.

LEASES PREVIOUSLY ACCOUNTED FOR AS OPERATING LEASES

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

3.1.2 IFRIC INTERPRETATION 23 “UNCERTAINTY OVER INCOME TAX TREATMENT”

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated within certain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex environment, it assessed whether the interpretation had an impact on its Financial Statements. Upon adoption of the interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Company in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be statements of the accepted by the taxation authorities. The interpretation did not have an impact on the Financial Statements of the Company.

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

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- 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.

(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.

(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 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.

(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 securitisations.

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 recognised 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 recognised 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

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 in 2021.

4.1.7 DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

4.1.7.1 DERECOGNITION DUE TO SUBSTANTIAL MODIFICATION OF TERMS AND CONDITIONS

The Company derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be credit impaired at the date of inception.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Company considers the following factors.

CHANGE IN COUNTERPARTY

If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

4.1.7.2 DERECOGNITION OTHER THAN FOR SUBSTANTIAL MODIFICATION

(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.

(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 income statement.

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 40 to the Financial Statements.

4.1.9 IMPAIRMENT OF FINANCIAL ASSETS

(I) 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 41

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 utilisation.

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) 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 (III) RENEGOTIATED LOANS

The Company sometimes 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.

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 41. The Company also considers whether the assets should be classified as Stage 3.

If modifications are substantial, the loan is derecognised

4.1.9 (IV). WRITE-OFF OF FINANCIAL ASSETS AT AMORTISED COST

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. If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the Income Statement. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

4.1.9 (V). 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 (VI). 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 (VII). 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 LEASES

4.2.1 POLICY APPLICABLE AS OF 1 JANUARY 2019

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A. THE COMPANY AS LESSOR

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

B. THE COMPANY AS LESSEE

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

RIGHT-OF-USE ASSETS

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented in Note 29 and are subject to impairment in line with the Company's policy as described in Note 4.5 Impairment of non-financial assets.

LEASE LIABILITIES

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

4.3 PROPERTY, PLANT & EQUIPMENT AND RIGHT -OF- USE ASSETS

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. Right- of -use assets are presented separately in the Statement of Financial Position.

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 and Building. 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 and Building 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 and Building during the financial year 2021 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 capitalises 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 are 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 recognised 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:

	2021	2020
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.	20.00% p.a.

Right-of-use assets are depreciated on a straight-line method from the commencement date to the earlier of the end of the useful life of the right of use assets or the end of the lease term.

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.

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 capitalised 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, AMORTISATION 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 AMORTISATION

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 unamortised 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 SEGMENT INFORMATION

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment.

For management purposes, the Company has identified three operating segments based on products and services, as follows.

- Leasing and Hire purchase
- Vehicle Loans
- Gold Loans
- Other Loans & Receivables
- Other

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 profits or losses, which in certain respects, are measured differently from operating profits or losses in the Financial Statements. Income taxes are managed on collective basis and not allocated to operating segments.

Revenue from transactions with a single external customer or counterparty did not exceed 10% or more of the Company's total revenue in 2021 & 2020.

The income, profit total assets and total liabilities of the Company's operating segments are presented in Note 47 to the Financial Statements.

4.11 RECOGNITION OF INTEREST INCOME INTEREST EXPENSE

4.11.1 INTEREST INCOME / EXPENSE

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 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 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.

4.11.2 INTEREST INCOME ON OVERDUE RENTALS

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

4.12 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.

4.13 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.

4.14 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 recognised 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.

4.15 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.

4.15.1 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 2021) and the amendment thereto, at the rate specified in Note 14 to the Financial Statements.

4.15.2 DEFERRED TAX

Deferred tax is recognised using 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 33 to the Financial Statements respectively.

4.15.3 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.

4.15.4 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. This tax was abolished by the government with effect from 1st December 2019.

4.15.5 DEBT REPAYMENT LEVY

According to the Finance Act No.35 of 2018, every financial institution shall pay 7% on the value addition attributable to the supply of financial services by such institution as DRL with effect from 01 October 2018.DRL is calculated based on the value addition used for the purpose of VAT on financial services. This tax was abolished by the government with effect from 1st January 2020.

4.15.6 WITHHOLDING TAX (WHT) ON DIVIDENDS

Withholding Tax arises from the distribution of dividends by the Company and is recognised at the time the liability to pay the related dividend is recognised. As per Notice dated 18 February 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective 1 January 2020.

4.15.7 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. This tax was abolished by the government with effect from 1st January 2020.

4.16 REGULATORY PROVISIONS

4.16.1 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.

4.16.2 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.

4.17 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.

4.18 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 ECL Provision under SLFRS 9.

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. From 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 43.

5. SRI LANKA ACCOUNTING STANDARDS NOT YET EFFECTIVE AS AT 31 MARCH 2021

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 2021. The Company intends to adopt these standards, if applicable, when they become effective.

5.1. SLFRS 17 INSURANCE CONTRACTS

SLFRS 17 Insurance Contracts, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 Insurance contracts. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first apply SLFRS17.This standard is not applicable to the Company.

5.2 AMENDMENTS TO LKAS 1 AND LKAS 8: DEFINITION OF MATERIAL

Amendments to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting policies, Changes in accounting Estimates and Errors are made to align the definition of "material" across the standard and to clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are applied prospectively for the annual periods beginning on or after 1 January 2020 with early application permitted.

The amendments to the definition of material are not expected to have a significant impact on the Company's Financial Statements.

5.3 AMENDMENTS TO SLFRS 3: DEFINITION OF A BUSINESS

Amendments to the definition of a business in SLFRS 3 Business Combinations are made to help the entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definition of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020 with early application permitted.

5.4 AMENDMENTS TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN SLFRS STANDARDS

Revisions to the Conceptual Framework were made because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework includes:

- A new chapter on measurement;
- Guidance on reporting financial performance;
- Improved definitions of an asset and a liability, and guidance supporting these definitions; and
- Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting

Since the amendments are effective for annual periods beginning on or after 1 January 2020, the Company will not be affected by these amendments as at the reporting date. Further, the amendments to the references to the conceptual framework in SLFRS standards are not expected to have a significant impact on the Company's Financial Statements.

Further the following Sri Lanka Accounting Standards and interpretations have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2020. The Company intends to adopt these new and amended standards, if applicable, when they become effective.

1. AMENDMENTS TO SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 AND SLFRS 16 – INTEREST RATE BENCHMARK REFORM (PHASE 1 AND PHASE 2)

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments support companies in applying SLFRS when changes are made to contractual cash flows or hedging relationships because of the reform.

.

These amendments to various standards are effective for the annual reporting periods beginning on or after 01 January 2021. The Company is in process of assessing the potential impact of implementation of the aforementioned amendments.

6. THE IMPACT OF COVID 19

6.1 RELIEF MEASURES TO ASSIST COVID-19 AFFECTED BUSINESSES AND INDIVIDUALS BY THE CENTRAL BANK OF SRI LANKA (CBSL)

The COVID-19 outbreak gave rise to restricted travel movements and lockdown measures across the country. This predominately disrupted the value chains in businesses decreased the level of economic activities causing lost revenue for businesses and unemployment for individuals. The Central Bank of Sri Lanka has provided financial assistance to affected industry sectors and those who employed in those sectors, in the form of a debt moratorium through licensed banks/financial institutions in the country.

(a) COVID-19 MORATORIUM (FIRST WAVE): CIRCULAR NO. 4 OF 2020

The Central Bank of Sri Lanka issued Circular No. 4 of 2020 on 24th March 2020 instructing financial institutions to offer a debt moratorium to segments of the economy that were majorly impacted by the pandemic. According to the above circular, financial institutions were required to offer moratoriums of two months, three months, and six months for eligible borrowers under different qualifying criteria. Instalments (both capital and interest) that were due during the moratorium period have been converted to a new loan account which can be repaid by the borrowers after the moratorium period. Repayment period of the new loan varies based on the repayment capacity of each borrower and the terms and conditions of the loan agreement with the Company. When initially recognised, the new loans were recorded at their nominal value as the Company considers that it is representative of the fair value. As per the Circular No. 4 of 2020 and the subsequent communication issued by the CBSL in this regard, finance companies were required to charge interest at a reduced rate of 11.5% per annum during the moratorium period.

Modification to the original terms and conditions of the loan due to COVID-19 moratorium resulted in derecognition of the original loans as the Company concluded that the modification was substantial. Consequently a new loan has been recognised and the EIR has also been restated based on the original carrying value (before modification) and the revised cash flows. Accordingly, loss arising from modification has been differed through the remaining tenure of the loan.

(b). COVID-19 MORATORIUM (SECOND WAVE): CBSL CIRCULAR NO. 9 OF 2020 / NO. 11 OF 2020

In November last year, the second wave of the COVID-19 outbreak resulted in re-imposing the travel restrictions, leading to recurrent disruption to economic activities. Giving due consideration to the requests received from affected individuals and businesses, CBSL advised licensed finance companies, to extend the debt moratorium for a further period of six months commencing from 1 October 2020 to 31 March 2021.

Finance Companies shall convert the capital and interest falling due during the moratorium period commencing from 1 October 2020 to 31 March 2021 into a term loan of which repayment shall commence from July 2021. Further, the finance companies are eligible to charge an interest rate for the converted loan, not exceeding the latest auction rate for 364-days Treasury Bills available as at 1 April 2021, plus 5.5% per annum but not exceeding 11.5%. Repayment period of the new loan shall be two years in general; however this may vary based on the terms and conditions agreed with the borrower. The finance companies were also allowed to recover interest at the original EIR during the moratorium period and therefore did not recognise any modification loss on account of the second phase of the COVID-19 moratorium. The granting of the moratorium is directly attributed to the cash flow difficulties caused by the pandemic. However, it did not lead to an automatic transfer of these credit facilities into stage two or stage three. Each case was analysed to determine its most significant exposure and only those exposures with increased credit risk have been moved to stage two and stage three. Further, the real impact of the pandemic on ECL allowance is expected to be realised upon the cessation of the moratorium.

(c) COVID-19 - MORATORIUM (THIRD WAVE)

The outbreak of COVID-19 has caused disruption to business and economic activities, and uncertainty in the global and local economy. Subsequent to the outbreak of COVID-19 in Sri Lanka, the company has strictly adhered to the guidelines and directions issued by both the Government and the Central Bank of Sri Lanka (CBSL) when conducting its business operations. Further, the Company has provided reliefs for the affected businesses and individuals in line with the directions issued by the CBSL in addition to its own relief schemes. These relief measures include deferment of repayment terms of credit facilities and offering concessionary rates of interest to eligible loan products (debt moratorium) and waiving off certain fees and charges. The closing date for the customer request is 15 July 2021.

6.2 COVID-19 IMPACT ON THE USE OF ESTIMATES AND ASSUMPTIONS

On 11 March 2020, the World Health Organisation declared COVID-19 a global pandemic. While COVID- 19 is a health crisis, it has caused a socioeconomic disruption on a global scale that has led to an unprecedented economic crisis. The Company has considered the impact of pandemic when preparing the financial statements and related note disclosures. While the effects of COVID-19 do not change the significant estimates, judgments and assumptions in the preparation of financial statements, it has resulted in higher estimation of uncertainty in application of further judgments within those identified areas affected by the pandemic in the preparation of the financial statements. In this context of increased economic uncertainties originated from COVID-19, the Company has enhanced its financial reporting procedures and governance practices surrounding the preparation of the financial statements.

In addition to standard financial year end reporting practices, the Company has:

- Developed a detailed program of work to understand and analyse how COVID-19 may impact key disclosures in the financial statements.
- Critically assessed estimates, judgments and assumptions used in the preparation of the financial statements, including updating the Company's outlook on economic conditions arising from COVID-19
- Reviewed external publications and market communications to identify other potential COVID-19 impacts in the preparation of the financial statements.
- Considered emerging market practice and trends along with regulatory pronouncements to assess the completeness of assessed COVID-19 impacts in the preparation of the financial statements
- Determined the impact of COVID-19 has had on the reported amounts and disclosures in the financial statements and updated these disclosures accordingly.

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

6.3 FINANCIAL REPORTING IMPACT DUE TO COVID 19

IMPACT OF COVID-19 ON THE PROVISION FOR IMPAIRMENT ON LOANS AND RECEIVABLES

The COVID-19 pandemic, together with measures implemented to contain the virus, has had a profound impact on the Sri Lankan and global economy, driving heightened levels of market uncertainty and a significant deterioration, or expected deterioration, in macroeconomic conditions, notably unemployment, and gross domestic product (GDP). This, in turn, has resulted in a significant impact on the provision for impairment on financial assets, as forecast macroeconomic conditions are a key factor in determining the expected credit loss (ECL) for loans and advances. In response to COVID-19 and the Company's expectations of economic impacts, the key assumptions used in the Company's calculation of ECL have been revised. At reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19. Although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to the COVID-19 pandemic, the fundamental credit model mechanics and methodology underpinning the Company's calculation of ECL have remained consistent with prior periods.

7. NET INTEREST INCOME

7.1 INTEREST INCOME

Year ended 31 March	2021 Rs.	2020 Rs.
Interest income on lease receivables	671,907,076	489,736,214
Interest income on hire purchase receivables	4,659,569	3,613,993
Interest income on factoring receivables	84,946,037	81,381,567
Interest income on SME and other loan receivables	790,458,582	1,944,129,856
Interest income on personal loan receivables	37,143,508	106,421,613
Interest income on gold loan receivables	574,971,269	657,907,821
Interest income on revolving loan receivables	138,918,295	102,212,476
Interest income on government securities	104,251,811	154,367,743
Interest income on placements with banks	36,135,031	57,290,193
Total interest income	2,443,391,179	3,597,061,476

Day 1 Loss on granting moratorium for lease rentals and loan repayments in compliance with the circulars issued by the Central Bank of Sri Lanka of Rs 301.759 Mn was recognised in these financial statements, as a reduction from revenue. The loss recognised is the difference between the gross carrying amount of the financial asset and the present value of the modified cashflow discounted at the financial asset's original effective interest rate.

7.2 INTEREST EXPENSES

Year ended 31 March	2021 Rs.	2020 Rs.
Due to customers		
Interest expenses on time deposits	1,677,574,608	2,200,408,429
Interest expenses on savings deposits	4,324,591	3,662,058
Due to banks		
Interest expenses on bank borrowings	109,280,700	174,613,606
Other borrowed funds		
Interest expenses on securitised borrowings	103,376,739	100,133,065
Interest expenses on debentures	-	37,709,359
Total interest expenses	1,894,556,639	2,516,526,516
Net interest income	548,834,540	1,080,534,960

8. NET FEE AND COMMISSION INCOME

Year ended 31 March	2021 Rs.	2020 Rs.
Documentation and processing fees	60,935,507	118,800,455
Sundry Income	17,537,598	9,599,568
Total fee and commission income	78,473,105	128,400,023

9. OTHER OPERATING INCOME

Year ended 31 March	2021 Rs.	2020 Rs.
Profit on disposal of property, plant and equipment	244,334	4,434,229
Profit from sale of real estates	-	1,597,736
Recovery of bad debts written off	20,372,514	40,785,181
Income from hiring vehicles	33,042,900	32,248,778
Income on Money market investment / unit trust	10,259,625	10,172,396
Dividend income	1,494,267	2,276,342
Total other operating income	65,413,640	91,514,661

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 31.03.2021 recorded in the income statement.

	2021			
	Rs. Stage 1	Rs. Stage 2	Rs. Stage 3	Rs. Total
Lease & Hire Purchase receivables	11,234,942	9,566,330	34,473,955	55,275,227
Gold Loans	(144,391)	(299,547)	2,834,510	2,390,572
Factoring	(6,278,883)	(9,597,436)	(9,246,907)	(25,123,225)
Loan receivables	(24,891,501)	(27,739,610)	476,846,929	424,215,819
Other Receivable	-	-	18,049,427	18,049,427
Write offs	-	-	16,923,778	16,923,778
	(20,079,833)	(28,070,262)	539,881,693	491,731,598

10.2 The table below shows the expected credit loss (ECL) charges for financial instruments for the year ended 31.03.2020 recorded in the income statement.

	2020			
	Rs. Stage 1	Rs. Stage 2	Rs. Stage 3	Rs. Total
Lease & Hire Purchase receivables	3,241,260	5,822,547	31,698,374	40,762,181
Gold Loans	452,706	188,567	7,152,365	7,793,637
Factoring	14,370,254	13,082,447	15,206,101	42,658,802
Loan receivables	(63,994,887)	(16,117,988)	274,502,853	194,389,978
Other Receivable	-	-	6,041,554	6,041,554
Write offs	-	-	98,490,914	98,490,914
	(45,930,666)	2,975,573	433,092,160	390,137,067

11. PERSONNEL EXPENSES

Year ended 31 March	2021 Rs.	2020 Rs.
Salaries and bonus	322,329,200	366,771,228
Contribution to defined contribution plan	47,252,683	51,304,215
Gratuity charge for the year	16,528,656	14,093,139
Others	15,180,475	10,845,774
	401,291,015	443,014,356

12. OTHER OPERATING EXPENSES

Year ended 31 March	2021 Rs.	2020 Rs.
Directors' emoluments	7,981,905	6,136,818
Auditors' remuneration	3,600,000	3,100,000
Professional & legal expenses	13,550,418	62,098,686
Depreciation on property, plant & equipment	49,284,402	55,223,848
Amortisation of intangible assets	31,058,252	19,535,231
Deposit insurance premium	23,063,616	24,850,000
Secretarial Fee	3,041,969	2,946,837
Office administration & establishment expenses	627,620,156	690,517,944
Advertising expenses	29,394,765	63,496,553
Share issue expenses	892,024	158,870
Other expenses	22,319,345	24,765,758
	811,806,851	952,830,545

13. TAXES ON FINANCIAL SERVICES

Year ended 31 March	2021 Rs.	2020 Rs.
Value added tax on financial services	-	30,532,355
Nation building tax on financial services	-	4,672,795
Debt repayment levy on financial services	-	17,875,455
	-	53,080,605

14. INCOME TAX EXPENSE

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

Year ended 31 March	2021	2020
Income statement	Rs.	Rs.
Current tax expense		
Income tax for the year	-	-
Under/ (Over) provision of current taxes in respect of previous years	-	-
Deferred tax expense		
Effect of changes in income tax rates	48,387,811	-
Deferred taxation charge (refer note 33)	(157,644,884)	(204,653,631)
	(109,257,073)	(204,653,631)

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

Year ended 31 March	2021	2020
	Rs.	Rs.
Accounting profit before income tax	-	-
At the statutory income tax rate	-	-
Tax effect of non deductible expenses	-	-
Tax effect of other allowable credits	-	-
Tax effect of lease capital generation	-	-
Tax effect of losses claimed	-	-
Under/ (Over) provision of current taxes in respect of previous years	-	-
Effect of changes in income tax rates	48,387,811	-
Deferred tax expense	(157,644,884)	(204,653,631)
	(109,257,073)	(204,653,631)

The Company's income is taxed at the rate of 24% in year 2021 and 28% in year 2020 respectively.

15. EARNINGS PER ORDINARY SHARE - BASIC/DILUTED

Year ended 31 March	2021	2020
	Rs.	Rs.
Profit attributable to ordinary shareholders (Rs.)	(902,851,106)	(333,959,297)
Weighted average number of ordinary shares during the year (15.1)	151,853,720	77,902,188
Basic/Diluted earnings per ordinary share (Rs.)	(5.95)	(4.29)

15.1 WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES (BASIC)

	Outstanding No. of Shares		**Weighted Average No. of Shares**	
	2021	2020	2021	2020
Number of shares in issue as at 1 April	103,369,280	67,928,384	103,369,280	67,928,384
Add: New shares from Rights Issue	165,390,848	35,440,896	48,484,440	9,973,804
Number of shares in issue/weighted average number of ordinary shares at 31st March	268,760,128	103,369,280	151,853,720	77,902,188

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. DIVIDENDS PAID

Year ended 31 March	2021 Rs.	2020 Rs.
Paid during the year	-	-
Number of Ordinary Shares	268,760,128	103,369,280
Dividends per Ordinary Share (Rs.)	-	-

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.

17.1 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 March 2021	Financial Assets Recognised through Profit or Loss Rs.	Financial Assets Recognised through OCI Rs.	Amortised Cost Rs.	Total Rs.
Financial Assets				
Cash and bank balances			628,089,791	628,089,791
Placements with banks & other finance compnies			204,377,303	204,377,303
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	300,809,707			300,809,707
Securities purchased under repurchase agreements			1,001,933,146	1,001,933,146
Factoring receivables			564,990,812	564,990,812
Gold loan receivables			2,250,074,022	2,250,074,022
Loan Receivables			8,454,723,905	8,454,723,905
Lease & hire purchase receivables			5,262,704,090	5,262,704,090
Equity instruments at fair value through OCI		37,460,367		37,460,367
Other assets			434,395,836	434,395,836
Total Financial Assets	300,809,707	37,460,367	18,801,288,905	19,139,558,979
Financial Liabilities				
Bank overdraft			45,987,503	45,987,503
Due to other customers			14,598,143,536	14,598,143,536
Debt issued and other borrowed funds			2,593,034,102	2,593,034,102
Other payables			547,545,051	547,545,051
Total Financial Liabilities			17,784,710,192	17,784,710,192

As at 31 March 2020	Financial Assets Recognised through Profit or Loss	Financial Assets Recognised through OCI	Amortised Cost	Total
	Rs.	Rs.	Rs.	Rs.
Financial Assets				
Cash and bank balances			389,597,258	389,597,258
Placements with banks & other finance compnies			611,450,581	611,450,581
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	250,000,000			250,000,000
Securities purchased under repurchase agreements			1,554,145,000	1,554,145,000
Factoring receivables			600,088,173	600,088,173
Gold loan receivables			2,940,869,436	2,940,869,436
Loan Receivables			11,011,141,328	11,011,141,328
Equity instruments at fair value through OCI		136,137,280		136,137,280
Other Assets			376,321,462	376,321,462
Total Financial Assets	250,000,000	136,137,280	19,643,897,629	20,030,034,909
Financial Liabilities				
Bank overdraft			65,076,586	65,076,586
Due to other customers			17,063,396,151	17,063,396,151
Debt issued and other borrowed funds			2,113,949,778	2,113,949,778
Other payables			416,135,153	416,135,153
Total Financial Liabilities	-	-	19,658,557,668	19,658,557,668

18. CASH AND BANK BALANCES

As at 31 March	2021	2020
	Rs.	Rs.
Cash in hand	81,186,304	70,008,040
Balances with local banks	546,903,487	319,589,218
	628,089,791	389,597,258

19. PLACEMENTS WITH BANKS & OTHER FINANCE COMPANIES

As at 31 March	2021	2020
	Rs.	Rs.
Placements with banks & other finance companies	204,827,995	611,901,274

19.1 The movement in provision for expected credit losses are as follows.

As at 31 March	2021	2020
	Rs.	Rs.
	Stage 1	Total
Balance as at 01st April	450,692	450,692
Charge/(Reversal) for the year	-	-
Balance as at 31st March	450,692	450,692
Net of Placements with banks & other finance companies	204,377,303	611,450,581

19.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

As at 31 March	2021 Rs. Stage 1	2020 Rs. Total
Unqouted unit investment in unit trusts	300,809,707	250,000,000
	300,809,707	250,000,000

20. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

As at 31 March	2021 Rs.	2020 Rs.
Securities purchased under repurchase agreements	1,001,933,146	1,554,145,000
	1,001,933,146	1,554,145,000

21. FACTORING RECEIVABLES

As at 31 March	2021 Rs.	2020 Rs.
Gross factoring receivable	582,526,389	642,746,975
Less : Allowance for expected credit losses	(17,535,577)	(42,658,802)
	564,990,812	600,088,173

21.1 ANALYSIS OF FACTORING RECEIVABLES ON MAXIMUM EXPOSURE TO CREDIT RISK

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Gross factoring receivable	289,851,110	17,619,915	275,055,364	582,526,389
Allowance for expected credit losses (ECL)	(8,091,371)	(3,485,012)	(5,959,194)	(17,535,577)
	281,759,739	14,134,903	269,096,171	564,990,812

21.2 ANALYSIS OF FACTORING RECEIVABLES ON MAXIMUM EXPOSURE TO CREDIT RISK

As at 31 March 2020	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Gross factoring receivable	547,238,887	68,669,541	26,838,547	642,746,975
Allowance for expected credit losses (ECL)	(14,370,254)	(13,082,447)	(15,206,101)	(42,658,802)
	532,868,633	55,587,093	11,632,446	600,088,173

21.3 ALLOWANCE FOR EXPECTED CREDIT LOSSES/IMPAIRMENT PROVISION SUBJECT TO COLLECTIVE IMPAIRMENT

Year ended 31 March	2021 Rs.	2020 Rs.
Balance as at 01st April	42,658,802	-
Charge/ (Reversal) to income statement	(25,123,225)	42,658,802
Balance as at 31st March	17,535,577	42,658,802

21.4 MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2020	14,370,254	13,082,447	15,206,101	42,658,802
Charge/ (Reversal) to income statement (Note 10.1)	(6,278,883)	(9,597,436)	(9,246,907)	(25,123,225)
Balance as at 31st March 2021	8,091,371	3,485,012	5,959,194	17,535,577

21.5 MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES

As at 31 March 2020	**Stage 1** **Rs.**	**Stage 2** **Rs.**	**Stage 3** **Rs.**	**Total** **Rs.**
Balance as at 01st April 2019	-	-	-	-
Charge/ (Reversal) to income statement (Note 10.2)	14,370,254	13,082,447	15,206,101	42,658,802
Balance as at 31st March 2020	14,370,254	13,082,447	15,206,101	42,658,802

22. GOLD LOAN RECEIVABLES

As at 31 March	2021 Rs.	**2020** **Rs.**
Gold loan receivables	2,265,462,464	2,953,867,305
Less : Allowance for expected credit losses/ collective impairment (Note 22.1)	(15,388,441)	(12,997,869)
	2,250,074,022	2,940,869,436

22.1 ANALYSIS OF GOLD LOAN RECEIVABLES ON MAXIMUM EXPOSURE TO CREDIT RISK

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Gross Gold loan receivable subject to collective impairment	1,320,735,340	466,400,154	478,326,970	2,265,462,464
Allowance for expected credit losses (ECL)	(1,356,203)	(1,009,965)	(13,022,273)	(15,388,441)
	1,319,379,137	465,390,189	465,304,697	2,250,074,022

22.2 ANALYSIS OF GOLD LOAN RECEIVABLES ON MAXIMUM EXPOSURE TO CREDIT RISK

As at 31 March 2020	**Stage 1** **Rs.**	**Stage 2** **Rs.**	**Stage 3** **Rs.**	**Total** **Rs.**
Gross Gold loan receivable subject to collective impairment	1,633,126,999	742,952,820	577,787,486	2,953,867,305
Allowance for expected credit losses (ECL)	(1,500,594)	(1,309,513)	(10,187,763)	(12,997,869)
	1,631,626,405	741,643,307	567,599,723	2,940,869,436

22.3 ALLOWANCE FOR EXPECTED CREDIT LOSSES/IMPAIRMENT PROVISION SUBJECT TO COLLECTIVE IMPAIRMENT

Year ended 31 March	2021 Rs.	**2020** **Rs.**
Balance as at 01st April	12,997,869	5,204,232
Charge/ (Reversal) to income statement	2,390,572	7,793,637
Balance as at 31st March	15,388,441	12,997,869

22.4 MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2020	1,500,594	1,309,513	10,187,763	12,997,869
Charge/ (Reversal) to income statement (Note 10.1)	(144,391)	(299,547)	2,834,510	2,390,572
Balance as at 31st March 2021	1,356,203	1,009,966	13,022,273	15,388,442

22.5 MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES

As at 31 March 2020	**Stage 1** **Rs.**	**Stage 2** **Rs.**	**Stage 3** **Rs.**	**Total** **Rs.**
Balance as at 01st April 2019	1,047,888	1,120,946	3,035,398	5,204,232
Charge/ (Reversal) to income statement (Note 10.2)	452,706	188,567	7,152,365	7,793,637
Balance as at 31st March 2020	1,500,594	1,309,513	10,187,763	12,997,869

23. LOAN RECEIVABLES

As at 31 March	2021 Rs.	**2020** **Rs.**
Revolving loan receivables	1,608,683,200	1,686,091,491
Vehicle loan receivables	806,541,624	2,033,730,246
Personal/Business loan receivables	7,866,264,291	8,637,108,307
Gross loan receivables	10,281,489,114	12,356,930,044
Less : Allowance for expected credit losses/ individual impairment (Note 23.3)	(532,593,003)	(224,623,192)
Less : Allowance for expected credit losses/ collective impairment (Note 23.4)	(1,294,172,207)	(1,121,165,524)
	8,454,723,905	11,011,141,328

23.1 ANALYSIS OF LOAN RECEIVABLES ON MAXIMUM EXPOSURE TO CREDIT RISK

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Gross loan receivables - subject to collective impairment	1,419,039,723	769,447,044	8,093,002,348	10,281,489,114
Allowance for expected credit losses(ECL)	(31,690,430)	(97,510,789)	(1,697,563,991)	(1,826,765,210)
	1,387,349,293	671,936,255	6,395,438,357	8,454,723,905

23.2 ANALYSIS OF LOAN RECEIVABLES ON MAXIMUM EXPOSURE TO CREDIT RISK

As at 31 March 2020	**Stage 1** **Rs.**	**Stage 2** **Rs.**	**Stage 3** **Rs.**	**Total** **Rs.**
Gross loan receivables - subject to collective impairment	3,114,842,117	1,438,775,996	7,803,311,931	12,356,930,044
Allowance for expected credit losses(ECL)	(56,581,930)	(125,250,399)	(1,163,956,386)	(1,345,788,715)
	3,058,260,187	1,313,525,597	6,639,355,545	11,011,141,328

23.3 ALLOWANCE FOR EXPECTED CREDIT LOSSES/IMPAIRMENT - INDIVIDUALLY IMPAIRED LOANS

As at 31 March	2021 Rs.	**2020** **Rs.**
Balance as at 01st April	224,623,192	192,943,551
Charge/ (Reversal) to income statement	307,969,811	31,679,641
Balance as at 31st March	532,593,003	224,623,192

23.4 ALLOWANCE FOR EXPECTED CREDIT LOSSES/IMPAIRMENT - LOANS SUBJECT TO COLLECTIVE IMPAIRMENT

As at 31 March	2021 Rs.	2020 Rs.
Balance as at 01st April	1,121,165,524	958,455,186
Charge/ (Reversal) to income statement	173,006,683	162,710,337
Balance as at 31st March	1,294,172,207	1,121,165,524

23.5 MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2020	56,581,930	125,250,399	1,163,956,386	1,345,788,715
Charge/ (Reversal) to income statement (Note 10.1)	(24,891,501)	(27,739,610)	476,846,929	424,215,819
Transfers / Movements	-	-	56,760,675	56,760,675
Balance as at 31st March 2021	31,690,430	97,510,789	1,697,563,991	1,826,765,210

23.6 MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2019	120,576,817	141,368,387	889,453,533	1,151,398,737
Charge/ (Reversal) to income statement (Note 10.2)	(63,994,887)	(16,117,988)	274,502,853	194,389,978
Balance as at 31st March 2020	56,581,930	125,250,399	1,163,956,386	1,345,788,715

24. LEASE & HIRE PURCHASE RECEIVABLES - AT AMORTISED COST

As at 31 March	2021 Rs.	2020 Rs.
Total lease & hire purchase rentals receivable	7,321,166,525	3,018,071,930
Less: Unearned interest income	(1,852,861,155)	(707,461,487)
Gross lease & hire purchase receivable	5,468,305,370	2,310,610,442
Less: Allowance for expected credit losses/ collective impairment (Note 24.3 & 24.4)	(205,601,280)	(150,326,052)
Net lease receivable (Note 24.1 & 24.2)	5,262,704,090	2,160,284,390

24.1 MATURITY ANALYSIS OF NET LEASE & HIRE PURCHASE RECEIVABLE

As at 31 March 2020	1 Year Rs.	1- 5 Year Rs.	Over 5 Years Rs.	Total Rs.
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	873,949,626	6,447,216,899	-	7,321,166,525
Less: Unearned lease interest income	(56,997,542)	(1,795,863,613)	-	(1,852,861,155)
Gross lease receivable	816,952,084	4,651,353,286	-	5,468,305,370
Less: Allowance for expected credit losses				(205,601,280)
Net lease receivable				5,262,704,090

24.2 MATURITY ANALYSIS OF NET LEASE & HIRE PURCHASE RECEIVABLE

As at 31 March 2021	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	-	3,018,071,930
Less: Unearned lease interest income	(391,457,933)	(356,564,582)	-	(707,461,487)
Gross lease receivable	940,041,021	1,135,516,523	-	2,310,610,442
Less: Provision for collective impairment				(150,326,052)
Net lease receivable				2,160,284,390

24.3 ANALYSIS OF LEASE & HIRE PURCHASE RECEIVABLES ON MAXIMUM EXPOSURE TO CREDIT RISK

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Gross receivables - subject to collective impairment	3,713,589,173	885,195,684	869,520,512	5,468,305,370
Allowance for expected credit losses (ECL)	(23,632,135)	(36,127,882)	(145,841,263)	(205,601,280)
	3,689,957,038	849,067,803	723,679,249	5,262,704,090

24.4 ANALYSIS OF LEASE & HIRE PURCHASE RECEIVABLES ON MAXIMUM EXPOSURE TO CREDIT RISK

As at 31 March 2020	**Stage 1 Rs.**	**Stage 2 Rs.**	**Stage 3 Rs.**	**Total Rs.**
Gross receivables - subject to collective impairment	1,344,903,306	493,287,403	472,419,733	2,310,610,442
Allowance for expected credit losses (ECL)	(12,397,193)	(26,561,551)	(111,367,308)	(150,326,052)
	1,332,506,113	466,725,852	361,052,426	2,160,284,390

24.5 ALLOWANCE FOR EXPECTED CREDIT LOSSES/IMPAIRMENT - LOANS SUBJECT TO COLLECTIVE IMPAIRMENT

	2021 Rs.	**2020 Rs.**
Collective Impairment		
Balance as at 01st April	128,881,165	95,527,460
Charge/ (Reversal) to income statement	27,640,417	33,353,705
Balance as at 31st March	156,521,582	128,881,165
Individual Impairment		
Balance as at 01st April	21,444,887	14,036,411
Charge/ (Reversal) to income statement	27,634,811	7,408,476
Balance as at 31st March	49,079,698	21,444,887

24.6 MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES

As at 31 March 2021	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 31st March 2020	12,397,193	26,561,551	111,367,309	150,326,053
Charge/ (Reversal) to income statement (Note 10.1)	11,234,942	9,566,330	34,473,955	55,275,227
Balance as at 31st March 2021	23,632,135	36,127,882	145,841,263	205,601,280

24.7 MOVEMENT IN ALLOWANCE FOR EXPECTED CREDIT LOSSES

As at 31 March 2020	**Stage 1** **Rs.**	**Stage 2** **Rs.**	**Stage 3** **Rs.**	**Total** **Rs.**
Balance as at 31st March 2019	9,155,933	20,739,004	79,668,935	109,563,872
Charge/ (Reversal) to income statement (Note 10.2)	3,241,260	5,822,547	31,698,374	40,762,181
Balance as at 31st March 2020	12,397,193	26,561,551	111,367,309	150,326,053

25. OTHER ASSETS

As at 31 March	2021 Rs.	**2020** **Rs.**
Financial Assets		
Repossessed vehicle stock	38,414,074	29,444,566
Less: Provision for repossessed stock	(38,414,074)	(18,920,228)
Real state stock	191,696,539	191,696,539
Less: Impairment for Real state stock	(16,999,847)	(16,999,847)
Amount due from Related Companies (Note 25.1)	4,000,799	2,712,817
Other receivables	255,698,345	190,107,035
Less: Impairment for insurance premium receivable and other receivables	-	(1,719,419)
	434,395,836	376,321,462
Non-Financial Assets		
Deposits & Prepayments	178,409,088	159,176,229
Inventories	1,615,808	1,848,275
Income tax receivable	254,052,137	254,052,137
Taxes receivable	110,768,230	110,305,036
	544,845,263	525,381,677
	979,241,099	901,703,139

25.1 AMOUNT DUE FROM RELATED COMPANIES

As at 31 March	2021 Rs.	**2020** **Rs.**
Softlogic Retail (Pvt) Ltd	1,142,484	1,582,858
Softlogic Communication (Pvt) Ltd	-	1,129,959
Softlogic Life PLC	2,858,315	-
	4,000,799	2,712,817

26. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 March	Notes	2021 Rs.	2020 Rs.
Equity instruments at fair value through OCI - Quoted	26.1	37,429,767	136,106,680
Equity instruments at fair value through OCI - Unquoted	26.2	30,600	30,600
		37,460,367	136,137,280

26.1 FINANCIAL INSTRUMENTS -QUOTED

	2021 Rs.		
	No. of Shares	Cost	Market Value
National Development Bank PLC	-	-	-
Asiri Hospitals PLC	1,467,834	40,018,290	37,429,767

	2020 Rs.		
	No. of Shares	Cost	Market Value
National Development Bank PLC	1,067,500	191,275,997	106,750,000
Asiri Hospitals PLC	1,467,834	40,018,290	29,356,680

26.2 FINANCIAL INSTRUMENTS - UNQUOTED

	2021 Rs.		
	No. of Shares	Cost	Market Value
Credit Information Bureau of Sri Lanka	100	30,600	30,600

	2020 Rs.		
	No. of Shares	Cost	Market Value
Credit Information Bureau of Sri Lanka	100	30,600	30,600

In 2021, the Company received dividends of Rs.1,494,267/- (2019-Rs.2,276,342/-) from these quoted & unquoted equity investments, and recorded as other operating income.

27. PROPERTY, PLANT AND EQUIPMENT

27.1 COST/VALUATION

	Balance as at 31.03.2020 Rs.	Additions Reclasifications Rs.	Revaluation surplus Rs.	Disposals Rs.	Balance as at 31.03.2021 Rs.
Owned Assets					
Freehold Land	218,000,000	-	10,000,000	-	228,000,000
Freehold Building	84,000,000	-	1,400,000	-	85,400,000
Officer Partitioning	160,152,696	5,140,813	-	-	165,293,508
Furniture & Fittings	84,540,420	269,397	-	(423,303)	84,386,514
Office equipment	282,323,260	7,441,882	-	(220,834)	289,544,308
Motor vehicles	12,021,981	-	-	(271,850)	11,750,131
Motor Vehicles (Hiring)	123,930,810	-	-	-	123,930,810
Sub Total	964,969,167	12,852,092	11,400,000	(915,986)	988,305,272
Leased Assets					
Furniture & Fittings	3,590,487	-	-	-	3,590,487
Office equipment	707,000	-	-	-	707,000
Motor vehicles	-	-	-	-	-
Motor Vehicles (Hiring)	3,631,213	-	-	-	3,631,213
Sub Total	7,928,700	-	-	-	7,928,700
Total Assets	972,897,867	12,852,092	11,400,000	(915,986)	996,233,972

27.2 ACCUMULATED DEPRECIATION

	Balance as at 31.03.2020 Rs.	Charge for the year Rs.	Disposals Rs.	Balance as at 31.03.2021 Rs.
Owned Assets				
Freehold Land	-	-	-	-
Freehold Building	-	4,200,000	(4,200,000)	-
Officer Partitioning	111,182,904	15,390,521	-	126,573,426
Furniture & Fittings	74,682,480	3,349,975	(316,678)	77,715,777
Office equipment	243,564,672	16,619,904	(188,628)	259,995,948
Motor vehicles	12,021,982	-	(271,851)	11,750,131
Motor Vehicles (Hiring)	29,965,615	9,724,000	-	39,689,615
Total Cost/ Valuation	471,417,653	49,284,401	(4,977,157)	515,724,897
Leased Assets				
Furniture & Fittings	3,590,487	-	-	3,590,487
Office equipment	707,000	-	-	707,000
Motor vehicles	-	-	-	-
Motor Vehicles (Hiring)	3,631,213	-	-	3,631,213
Sub Total	7,928,700	-	-	7,928,700
Total Depreciation	479,346,354	49,284,401	(4,977,157)	523,653,598

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 31.03.2021.

27.3 NET BOOK VALUES

As at 31 March	2021 Rs.	2020 Rs.
Freehold Land	228,000,000	218,000,000
Freehold Building	85,400,000	84,000,000
Officer Partitioning	38,720,083	48,969,791
Furniture & Fittings	6,670,737	9,857,940
Office equipment	29,548,360	38,758,588
Motor vehicles	-	-
Motor Vehicles (Hiring)	84,241,195	93,965,195
Total carrying amount of Owned Assets	472,580,374	493,551,514
Leased Assets		
Furniture & Fittings	-	-
Office equipment	-	-
Motor vehicles	-	-
Motor Vehicles (Hiring)	-	-
Total carrying amount of Leased Assets	-	-
Total carrying amount of Assets	472,580,374	493,551,514

27.5 During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs.12.85 Mn (2020 Rs.166.25 Mn).

Cost of fully depreciated assets of the Company which are still in use as at 31 March 2021 is Rs.402.46 Million (2020 - Rs.306.98 Mn).

27.6 FAIR VALUE RELATED DISCLOSURES OF FREEHOLD LAND & BUILDING

Freehold land & building located at No. 13, De Fonseka Place,Colombo 04 is carried at the revalued amount, the independent valuers provide the fair value of land and buildings one year from carrying amounts according to the Company policy. Therefore the fair value exist in the recent valuation (31 March 2021) which was carried out by G.W.G. Abeygunawardene FRICS (Chartered Valuation Surveyor) professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard-SLFRS 13 (Fair Value Measurement).

FAIR VALUE HIERARCHY

The fair value of the Company's freehold land & building is categorised into Level 3 of the fair value hierarchy.

LEVEL 3 FAIR VALUE

The following table shows a reconciliation from the beginning balances to the closing balances for the fair value measurements to the Company's freehold land & building.

	Freehold land	Freehold building
Balance at 31 March 2020	218,000,000	84,000,000
Acquisition	-	-
Changes in fair value	10,000,000	1,400,000
Balance at 31 March 2021	228,000,000	85,400,000

27.7 VALUATION TECHNIQUES AND SIGNIFICANT UNOBSERVABLE INPUTS

The following table shows the valuation technique used in measuring the fair value of freehold land, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Range (weighted average) 2021	Range (weighted average) 2020
Market Comparable Method	Estimated price per perch (Land extent: 12 perches)	Rs. 15 Million - Rs.20 Million	Rs. 15 Million - Rs.20 Million
	Price per sq. ft for building	Between Rs. 6,400/= to Rs. 8,900/=	Between Rs. 6,450/= to Rs. 7,950/=

The following table demonstrates the sensitivity of the Other Comprehensive Income on Income statement to reasonably possible changes in perches price & sqft price by 500 basis points, with all other variables held constant. The sensitivity of the OCI statement is the effect of the assumed changes in perches price & sqft price for one year.

	Changes in basis points	Effect on OCI Rs.
2021		
Movement in land price	+500 b.p	11,400,000
	-500 b.p	(11,400,000)
2020		
Movement in price of sqft	+500 b.p	4,270,000
	-500 b.p	(4,270,000)

27.8 THE CARRYING VALUE OF COMPANY'S REVALUED FREEHOLD LAND, IF IT WAS CARRIED AT COST,WOULD BE AS FOLLOWS.

As at 31 March	2021		2020	
	Cost Rs.	Carrying value	Cost Rs.	Carrying value
Freehold land	62,181,178	62,181,178	62,181,178	62,181,178
Freehold building	92,480,006	92,480,006	92,480,006	92,480,006

28. INTANGIBLE ASSETS

As at 31 March	2021 Rs.	2020 Rs.
Cost as at 01April	266,091,396	123,706,430
Additions, improvements & Transfers	5,689,918	142,384,966
Cost as at 31 March	271,781,313	266,091,396
Amortisation as at 01 April	84,055,580	64,520,349
Amortisation for the year	31,058,252	19,535,231
Accumulated amortisation as at 31 March	115,113,832	84,055,580
Net book value as at 31 March	156,667,481	182,035,815

29. RIGHT OF USE ASSETS

As at 31 March	2021 Rs.	2020 Rs.
Cost as at 01 April	176,873,492	254,744,783
Additions and improvements	12,670,536	7,003,007
Cost as at 31 March	189,544,028	261,747,791
Amortisation as at 01 April	-	42,509,029
Amortisation expenses for the year	78,531,292	42,365,270
Accumulated amortisation as at 31 March	78,531,292	84,874,299
Net book value as at 31 March	111,012,736	176,873,492

30. DUE TO OTHER CUSTOMERS

As at 31 March	2021 Rs.	2020 Rs.
Fixed deposits	14,502,809,533	16,997,814,487
Saving deposits	95,334,004	65,581,665
	14,598,143,536	17,063,396,151

31. OTHER BORROWED FUNDS

As at 31 March	2021 Rs.	2020 Rs.
Bank Loans	653,504,471	946,175,712
Securitisations	1,724,604,120	1,167,774,067
Commercial Papers	214,925,511	-
Debentures	-	-
	2,593,034,102	2,113,949,778

The company has not had any default of principal, interest or other breaches with regard to any liability during 2020 & 2021.

31.1 MOVEMENT IN OTHER BORROWED FUNDS

	2020 Rs.	Grantings/ Accrual Rs.	Repayments Rs.	2021 Rs.
Long-term borrowings (Note 31.2)	440,625,007	600,000,000	840,645,007	199,980,000
Short-term borrowings (Note 31.2)	500,000,000	1,100,000,000	1,150,000,000	450,000,000
Commercial Papers	-	206,077,301	-	206,077,301
Securitisations	1,078,200,000	1,500,000,000	910,545,687	1,667,654,313
Capital outstanding of debt issued and other borrowed funds	2,018,825,007	3,406,077,301	2,901,190,694	2,523,711,615
Interest Payable	95,124,771			69,322,487
Total Borrowings	2,113,949,778			2,593,034,102

31.2 INSTITUTIONAL WISE

As at 31 March	Tenor	Amortised cost	
		2021	2020
		Rs.	Rs.
Short term loans			
Commercial Bank	6 months	250,000,000	250,000,000
Seylan Bank PLC	3 months	200,000,000	250,000,000
		450,000,000	500,000,000
Long term loans			
Hatton National Bank PLC	36 Months	199,980,000	300,000,000
Union Bank PLC	48 Months	-	140,625,007
		199,980,000	440,625,007
		649,980,000	940,625,007

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

31.2.1 LOANS - ON MATURITY

	Payable within One Year	Payable after One Year	Total
	Rs.	Rs.	Rs.
Short term loans and long term loans payable	450,000,000	199,980,000	649,980,000
	450,000,000	199,980,000	649,980,000

Detail analysis of loans obtained as follows:

Lending Institution	Nature of Facility	Interest rate	Repayment Term	2021	2020	Carrying value of Collaterals Rs. Mn	Security
Union Bank PLC	Term Loan	AWPLR + 3.75%, Floor rate of 15.5%	48 monthly installments commencing from June 2018, However early Settlement completed on July 2020	-	142,471	-	Mortgage over Loan receivables
HNB	Term Loan	AWPLR +2.00%	36 monthly installments commencing from March 2020	201,105	302,564	280	Mortgage over Lease & Vehicle Loans receivables
Commercial Bank of Ceylon PLC	Revolving Loan	AWPLR+ 3.00%	monthly interest payment & capital payment every 6 months	251,380	250,601		
Seylan Bank PLC	Revolving Loan	AWPLR+ 2.00%	monthly interest payment & capital payment every 3 months	201,020	250,539	375	Mortgage over Lease receivables
				653,504	946,176	655	

31.2.1 LOANS - ON MATURITY (Contd.)

Lending Institution	Nature of Facility	Interest rate	Repayment Term	2021	2020	Carrying value of Collaterals Rs. Mn	Security
NSB Trust	Securitisation	15.00%	31 monthly installments commencing from November 2018	18,672	112,663	25	Mortgage over Lease receivables
HNB Trust 2	Securitisation	16.75%	24 monthly installments commencing after grace period of 6 months starting from July 2019	69,577	353,771	93	Mortgage over Lease & Vehicle Loans receivables
HNB Trust 3	Securitisation	16.25%	24 monthly installments commencing after grace period of 6 months starting from September 2019	35,669	237,164	49	Mortgage over Lease & Vehicle Loans receivables
HNB Trust 4	Securitisation	16.00%	24 monthly installments commencing after grace period of 5 months starting from November 2019	85,282	464,175	115	Mortgage over Lease & Vehicle Loans receivables
HNB Trust 6	Securitisation	10.25%	24 monthly installments commencing after grace period of 5 months starting from December 2020	513,921	-	831	Mortgage over Gold Loan receivables
HNB Trust 7	Securitisation	10.00%	18 monthly installments commencing after grace period of 6 months starting from March 2021	1,001,484	-	1,420	Mortgage over Lease & Vehicle Loans receivables
				1,724,604	1,167,773	2,533	

32. OTHER PAYABLES

As at 31 March	2021 Rs.	2020 Rs.
Non Financial Liabilities		
Accrued expenses	64,178,881	48,012,248
Related Party Payables (Note 32.1)	21,868,996	9,416,510
Deposit insurance premium	1,756,484	2,095,059
Dividend Payable	598,465	598,465
Lease Liability (Note 32.2 & 32.3)	121,564,040	174,215,505
Other payables	337,578,185	181,797,365
	547,545,051	416,135,153

32.1 RELATED PARTY PAYABLES

As at 31 March	2021 Rs.	**2020** **Rs.**
Softlogic BPO Services (Pvt) Ltd.	-	3,539,791
Softlogic Corporate Services (Pvt) Ltd.	-	511,017
Softlogic Information Technologies (Pvt) Ltd.	-	1,943,521
Softlogic Life PLC	17,546,070	-
Softlogic Capital Ltd.	4,322,927	884,958
Central Hospitals Ltd.	-	73,450
Nextage (Pvt) Ltd.	-	336,884
Future Automobiles (Pvt) Ltd.	-	1,410,072
Softlogic Holdings PLC	-	716,818
	21,868,996	9,416,510

32.2 MOVEMENT OF LEASE LIABILITIES DURING THE YEAR IS AS FOLLOWS.

As at 31 March	2021 Rs.	**2020** **Rs.**
Balance as at 01 April	174,215,505	232,391,700
Additions	2,090,230	3,644,388
Accretion of interest	24,809,646	31,946,235
Payments during the year	(79,551,342)	(93,766,818)
Balance as at 31 March	121,564,040	174,215,505

32.3 GROSS MATURITY ANALYSIS OF LEASE LIABILITIES

As at 31 March	2021 Rs.	**2020** **Rs.**
Less than one year	64,965,265	83,163,855
One to five years	90,305,799	138,081,283
More than five years	-	1,397,550
Total lease liabilities as at 31 March	155,271,065	222,642,687

33. DEFERRED TAX LIABILITIES/(ASSETS)

DEFERRED TAX (ASSETS), LIABILITIES AND INCOME TAX RELATES TO THE FOLLOWING

	Accelerated depreciation for tax purposes						
	Property, plant & equipment	Leased assets	Provision for loan losses	Revaluation on land	Retirement benefit obligation	Tax losses on leasing & Others	Total
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.
Balance as at 1 April 2019	159,090,699	179,051,745	(546,519,438)	147,818,822	(32,474,984)	(392,941,443)	(485,974,599)
Income statement (Note 14.1)	19,013,031	13,130,181	-	-	-	(236,796,844)	(204,653,632)
Other comprehensive income	-			15,500,000	(8,314,858)	-	7,185,142
Other impacts on deferred taxation						(526,252,193)	(526,252,193)
Balance as at 31 March 2020	178,103,730	192,181,926	(546,519,438)	163,318,822	(40,789,842)	(1,155,990,480)	(1,209,695,282)
Deffered Tax Asset as at 31 March 2020							338,714,679
Balance as at 1 April 2020	178,103,730	192,181,926	(546,519,438)	163,318,822	(40,789,842)	(1,155,990,480)	(1,209,695,282)
Income statement (Note 14.1)	(24,336,599)	(64,809,359)	-	-	-	(20,111,115)	(109,257,073)
Other comprehensive income	-			15,600,000	(4,647,589)	-	10,952,411
Other impacts on deferred taxation	-	-	-	-	-	(547,596,613)	(547,596,613)
Balance as at 31 March 2021	153,767,131	127,372,567	(546,519,438)	178,918,822	(45,437,431)	(1,723,698,208)	(1,855,596,558)
Deffered Tax Asset as at 31 March 2021							445,343,174

34. RETIREMENT BENEFIT OBLIGATIONS

An actuarial valuation of the gratuity fund of the Company was carried out as at 31 March 2021 by Messrs. Actuarial & Management Consultants (Pvt) Limited, 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).

34.1 DEFINED BENEFIT OBLIGATION RECONCILIATION

As at 31 March	2021	2020
	Rs.	Rs.
Balance as at 01st April	47,045,376	32,474,984
Current service cost for the year	11,685,778	10,459,189
Interest on the defined benefit liability	4,842,878	3,633,950
Acturial losses / (gains) (Note 34.2)	4,647,589	(651,956)
(Gains) / losses due to changes in assumptions (Note 34.2)	-	8,966,814
Benefits paid by the plan	(10,813,670)	(7,837,605)
Balance as at 31st March	57,407,951	47,045,376

34.2 AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME (OCI)

As at 31 March	2021	2020
	Rs.	Rs.
Liability (gains)/losses due to changes in assumptions	4,741,894	(651,956)
Liability experience (gains)/losses arising during the year	(94,305)	8,966,814
Total amount recognised in OCI	4,647,589	8,314,858

34.3 ASSUMPTIONS

As at 31 March	2021 Rs.	2020 Rs.
Discount rate	6.71%	9.61%
Future salary increment rate	7.00%	8.00%
Mortality	A 1967/70	GA 1983
	Mortality Table	Mortality Table
Retirement age	55	55
Expected average future working life of the active participants (in years)	4.1	7.2

34.4 DISTRIBUTION OF PRESENT VALUE OF DEFINED BENEFIT OBLIGATION IN FUTURE YEARS

As at 31 March	2021 Rs.	2020 Rs.
within the next 12 months	9,548,874	5,555,134
between 1 to 2 years	16,433,110	6,332,916
between 3 to 5 years	16,707,235	8,788,205
between 6 to 10 years	11,050,821	15,607,449
beyond 10 years	3,667,911	10,761,672
Total	57,407,951	47,045,376

34.5 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**	2021		**2020**	
		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%	(2.3 Million)	(2.3 Million)	(3.25 Million)	(3.25 Million)
Discount rate	-1.00%	2.5 Million	2.5 Million	3.67 Million	3.67 Million
Salary Increment rate	1.00%	2.7 Million	2.7 Million	3.62 Million	3.62 Million
Salary Increment rate	-1.00%	(2.5 Million)	(2.5 Million)	(3.27 Million)	(3.27 Million)

35. STATED CAPITAL

As at 31 March	2021		**2020**	
	No. of shares	Rs.	**No. of shares**	**Rs.**
Issued and Fully Paid-Ordinary shares				
Ordinary shares as at 01st April	103,369,280	2,604,765,231	67,928,384	2,002,269,999
Rights issue	165,390,848	1,901,994,752	35,440,896	602,495,232
Ordinary shares as at 31st March	268,760,128	4,506,759,983	103,369,280	2,604,765,231

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.

36. 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	2021 Rs.	**2020** **Rs.**
Balance as at 01st April	260,448,732	260,448,732
Transfer during the year	-	-
Balance as at 31st March	260,448,732	260,448,732

37. REVALUATION RESERVE

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

As at 31 March	2021 Rs.	**2020** **Rs.**
Balance as at 01st April	126,649,682	115,489,682
Revaluation surplus (net of tax)	11,856,000	11,160,000
Balance as at 31st March	138,505,682	126,649,682

38. AFS RESERVE

As at 31 March	2021 Rs.	**2020** **Rs.**
Balance as at 01st April	(95,187,607)	(105,770,012)
Change during the year (net of tax)	92,599,084	10,582,405
Balance as at 31st March	(2,588,523)	(95,187,607)

39. 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	2021 Rs.	**2020** **Rs.**
Balance as at 01st April	(855,686,995)	(515,741,000)
Dividends Paid	-	-
Net change in other comprehensive income	(3,532,168)	(5,986,698)
Gain / (Loss) on share disposal	(113,165,741)	-
Transferred from current year's Profit/loss	(902,851,106)	(333,959,297)
Balance as at 31st March	(1,875,236,009)	(855,686,995)

40. FAIR VALUE OF ASSET AND LIABILITIES

The following describes the methodologies and assumptions used to determine fair value of those financial instruments which are 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 financial assets primarily consist of quoted 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.

FINANCIAL ASSETS	2021				
	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
Cash and bank balances	628,089,791	628,089,791			628,089,791
Placements with banks & other finance companies	204,377,303		204,377,303		204,377,303
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	300,809,707		300,809,707		300,809,707
Securities purchased under repurchase agreements	1,001,933,146		1,001,933,146		1,001,933,146
Factoring receivables	564,990,812			564,990,812	564,990,812
Gold loan receivables	2,250,074,022			2,250,074,022	2,250,074,022
Loan receivables	8,454,723,905			8,308,120,979	8,308,120,979
Lease and hire purchase receivables	5,262,704,090			5,555,528,589	5,555,528,589
Other Financial assets	434,395,836			434,395,836	434,395,836
Equity Instruments at fair value through other comprehensive income	37,460,367	37,429,767	30,600		37,460,367
TOTAL FINANCIAL ASSETS	19,139,558,979	665,519,558	1,507,150,756	17,113,110,239	19,285,780,552
FINANCIAL LIABILITIES					
Due to customers	14,598,143,536			14,119,605,535	14,119,605,535
Other borrowed funds	2,639,021,605	-	2,639,021,605	-	2,639,021,605
TOTAL FINANCIAL LIABILITIES	17,237,165,141	-	2,639,021,605	14,119,605,535	16,758,627,140

There were no transfers between levels of fair value hierarchy during 2021 and 2020.

41. 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

RISK MANAGEMENT FRAMEWORK

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

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

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

OBJECTIVES AND POLICIES

Integrated Risk Management Committee (IRM) with the ultimate objective of to deliver superior shareholder value between risk and return. This Committee consists of one independant non executive director, one executive director & Head of Risk Management. 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.

RESPONDING TO COVID-19 PANDEMIC RISKS

The Company"s risk measurement and reporting functions were further strengthened during the year amidst the COVID-19 pandemic. The credit risk of the Company"s loan book increased as the loan repayments were impacted by the lock downs and movement restrictions imposed locally and globally. Further, the Company monitored the liquidity position with concern as it was under pressure due to the payment holidays offered under moratoriums. The operational risks too increased owing to the work from home arrangements etc. during the lock down periods.

In this back drop, the Company took additional measures to ensure that the risks caused by the pandemic are adequately managed.

Continuous reviews of the limits, policies and performance were carried out during the period. Some of these include;

- Reviewed risk elevated industries in the context of COVID-19 pandemic.
- Assessed the impact of the COVID-19 lock downs and moratoriums (payment holidays) on the portfolio staging.
- Used of a range of additional stress tests to assess the impact on Company"s performance and capital.
- Strengthened Cyber Security Management in light of the increase in use of digital platforms.
- Ensured adequate liquidity resources were held to meet Company"s obligations, given the uncertainties caused by the pandemic.

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

As at 31 March	2021 Carrying amount Rs.	**2020 Carrying amount Rs.**
Equity Instruments at fair value through other comprehensive income	37,460,367	136,137,280
	37,460,367	136,137,280

FINANCIAL LIABILITIES SUBJECT TO MARKET RISK

As at 31 March	2021 Carrying amount Rs.	**2020 Carrying amount Rs.**
Due to banks	868,429,981	946,175,712
Other borrowed funds	1,724,604,120	1,167,774,067
	2,593,034,102	2,113,949,778

MARKET RISK - EQUITY PRICE RISK

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

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

	Change in equity price	**Effect on equity Rs.**
31 March 2021	+ 10%	2,935,668
Quoted shares – (Colombo Stock Exchange)	-10%	(2,935,668)
31 March 2020	+ 10%	13,610,668
Quoted shares – (Colombo Stock Exchange)	-10%	(13,610,668)

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 2021 Rs.	31 March 2020 Rs.
Fixed interest rate instruments:		
Financial assets	19,804,093,786	20,429,750,347
Financial liabilities	16,517,862,654	18,206,672,737
Floating interest rate instruments:		
Financial assets	Nil	Nil
Financial liabilities	649,980,000	940,625,007

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.
2021		
Floating interest rate instruments	+25 b.p	1,624,950
	-25 b.p	(1,624,950)
2020		
Floating interest rate instruments	+25 b.p	2,351,563
	-25 b.p	(2,351,563)

INTEREST RATE RISK EXPOSURE ON FINANCIALS ASSETS AND LIABILITIES

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

As at 31 March 2021	Less than 3 Months	More than 3 and Less than 12 Months	More than 1 Year and Less than 3 Years	>3 Years	Non-Interest Bearing	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and cash equivalents	546,903,487	-	-	-	81,186,304	628,089,791
Equity Instruments at fair value through other comprehensive income	-	-	-	-	37,460,367	37,460,367
Placements with banks & other finance companies	204,377,303	-	-	-	-	204,377,303
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	300,809,707	-	-	-	-	300,809,707
Securities purchased under repurchase agreements	1,001,933,146	-	-	-	-	1,001,933,146
Lease and hire purchase receivables	235,441,258	488,966,240	2,633,783,562	1,904,513,030	-	5,262,704,090
Loans and receivables	6,537,598,200	1,539,533,512	2,328,744,009	863,913,018	-	11,269,788,740
Other Financial Assets	-	-	434,395,836			434,395,836
	8,827,063,100	2,028,499,752	5,396,923,407	2,768,426,048	118,646,671	19,139,558,979
Financial Liabilities						
Due to customers	3,203,666,853	8,153,292,596	3,033,861,462	207,322,627	-	14,598,143,536
Other borrowed funds	782,298,014	1,068,495,647	788,227,944	-	-	2,639,021,605
	3,985,964,866	9,221,788,243	3,822,089,406	207,322,627	-	17,237,165,141
Interest Rate sensitivity gap	4,841,098,234	(7,193,288,491)	1,574,834,002	2,561,103,422	118,646,671	1,902,393,838

As at 31 March 2020	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	319,589,218	-	-	-	70,008,040	389,597,258
Equity Instruments at fair value through other comprehensive income	-	-	-	-	136,137,280	136,137,280
Placements with banks & other finance companies	333,406,618	278,043,964	-	-	-	611,450,581
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	250,000,000	-	-	-	-	250,000,000
Securities purchased under repurchase agreements	-	1,554,145,000	-	-	-	1,554,145,000
Lease and hire purchase receivables	470,982,411	543,279,131	1,022,842,368	123,180,480	-	2,160,284,390
Loans and receivables	7,820,399,505	3,842,072,942	2,367,157,940	522,468,549	-	14,552,098,937
Other Financial Assets	-	-	376,321,462			376,321,462
	9,194,377,752	6,217,541,037	3,766,321,771	645,649,030	206,145,320	20,030,034,909
Financial Liabilities						
Due to customers	4,186,645,686	8,016,494,698	3,163,931,549	1,696,324,218	-	17,063,396,151
Other borrowed funds	1,425,297,350	586,074,701	167,654,313	-	-	2,179,026,364
	5,611,943,036	8,602,569,399	3,331,585,862	1,696,324,218	-	19,242,422,516
Interest Rate sensitivity gap	3,582,434,716	(2,385,028,363)	434,735,909	(1,050,675,188)	206,145,320	787,612,393

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.

SIGNIFICANT INCREASE IN CREDIT RISK

The company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the company assesses whether there has been a significant increase in credit risk. Since initial recognition. The company considers an exposure to have a significantly increased credit risk when it is past due for more than 30 days.

"The Company is focused on supporting customers who are experiencing financial difficulties because of the COVID 19 pandemic and has offered a range of industry-wide financial assistance measures including the debt moratorium initiated by the Central Bank of Sri Lanka. As per industry guidance given by the Central Bank and the Institute of Chartered Accountants of Sri Lanka, eligibility for the debt moratorium does not automatically result in a significant increase in credit risk (SICR) which moves an exposure from stage 1 (12-month ECL) to stage 2 (lifetime ECL). Accordingly, as explained in Note 4.1.9, a case-by-case analysis has been conducted on the most significant exposures and only those exposures with increased credit risk has been moved to stage 2.

POST-MODEL ADJUSTMENTS

Post-model adjustments represent the adjustments in relation to data and model limitations as a result of the Covid-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. They include the effect of government and other support programmes.

MANAGEMENT OVERLAYS

Analysed the current position of the customers who were applied only the 01st Moratorium relief and expect the same patten will continue with the customers who applied for the 02nd Moratorium relief and make the bucket movement by considering the worst case. Furthermore, the company has identified tourism industry that carrying an increased credit risk. Accordingly, exposures outstanding from the borrowers operating in this industry have been classified to stage 2 and stage 3 unless such exposures are individually significant and has specifically identified as stage 1 and stage 2 respectively.

The company calculates expected credit losses based on three probability-weighted scenarios. During the year, due to the uncertainties created by COVID-19 pandemic, the company assigned relevant weightages to the worst case scenario by evaluating current economic condition.

This approach ensures the volume of exposures in stage 2 and stage 3 reflects a forward-looking view of the economy and not just what is observable as at the reporting date.

ASSESSMENT OF EXPECTED CREDIT LOSSES

Analysis of the total allowance for expected credit losses is as follows.

At 31 March 2021	Stage 1	Stage 2	Stage 3	Total
Placements with banks & other finance companies	450,692			450,692
Factoring receivables	4,488,866	7,087,517	5,959,194	17,535,577
Gold loan receivables	755,891	1,610,277	13,022,273	15,388,441
Loan receivables	18,289,219	110,912,000	1,697,563,991	1,826,765,210
Lease and hire purchase receivables	14,745,372	45,014,645	145,841,263	205,601,280
Other assets			124,493,230	124,493,230
Total impairment for expected credit losses	38,730,040	164,624,438	1,986,879,951	2,190,234,430

At 31 March 2020	Stage 1	Stage 2	Stage 3	Total
Placements with banks & other finance companies	450,692			450,692
Factoring receivables	14,370,254	13,082,447	15,206,101	42,658,802
Gold loan receivables	1,500,594	1,309,513	10,187,763	12,997,869
Loan receivables	56,581,930	125,250,399	1,163,956,386	1,345,788,715
Lease and hire purchase receivables	12,397,193	26,561,551	111,367,308	150,326,052
Other assets			106,718,803	106,718,803
Total impairment for expected credit losses	85,300,664	166,203,910	1,407,436,360	1,658,940,934

MOVEMENT OF THE TOTAL ALLOWANCE FOR EXPECTED CREDIT LOSSES DURING THE PERIOD

As at 31 March	2021 Rs.	2020 Rs.
Balance as at 01st April	1,658,904,935	1,368,642,752
Net charge to profit or loss (Note 10)	491,731,598	390,137,067
Write-off during the year	16,923,778	99,874,884
Other movements	56,521,675	-
Balance as at 31st March	2,190,234,430	1,658,904,935

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 2021		31 March 2020	
	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Cash and cash equivalents	628,089,791	546,903,487	389,597,258	319,589,218
Equity Instruments at fair value through other comprehensive income	37,460,367	37,460,367	136,137,280	136,137,280
Placements with banks & Securities purchased under repurchase agreements	1,507,120,156	-	2,415,595,581	-
Lease and hire purchase receivables	5,262,704,090	-	2,160,284,390	-
Loans and receivables	11,269,788,740	9,019,714,717	14,552,098,937	11,611,229,501
Other Financial Assets	434,395,836	259,699,144	376,321,462	192,819,852
Total Financial Assets	19,139,558,979	9,863,777,715	20,030,034,909	12,259,775,851

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.

As at 31 March	2021 Rs.	2020 Rs.
Concentration by sector (Gross)		
Agriculture	1,632,021,280	817,420,179
Manufacturing	2,385,169,259	1,632,210,142
Tourism	582,168,602	552,035,213
Transport	610,061,137	791,795,844
Construction	643,781,425	1,053,040,923
Trading	4,768,071,618	6,067,053,876
Services	2,522,576,349	1,856,797,918
Other	5,453,933,668	5,493,800,670
	18,597,783,337	18,264,154,766

The Provisional breakdown for factoring, gold loans, leases, hire purchases and loans as follows,

As at 31 March	2021 Rs.	2020 Rs.
Central Province	3,374,101,660	3,321,355,822
North Central Province	953,529,874	963,644,419
North Western Province	1,339,812,197	1,204,080,360
Northern Province	489,862,043	723,701,744
Sabaragamuwa Province	1,024,886,235	983,243,403
Southern Province	2,114,466,991	2,165,848,181
Uva Province	313,180,283	338,308,917
Western Province	8,987,944,056	8,563,971,919
Eastern Province	-	-
	18,597,783,337	18,264,154,766

LIQUIDITY RISK

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

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

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

As at 31 March 2021	Less than 3 Months	More than 3 and Less than 12 Months	More than 1 Year and Less than 3 Years	>3 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets					
Cash and cash equivalents	628,089,791	-	-	-	628,089,791
Placements with banks & other finance companies	206,307,478	-	-	-	206,307,478
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	300,809,707	-	-	-	300,809,707
Securities purchased under repurchase agreements	1,006,018,717	-	-	-	1,006,018,717
Lease and hire purchase receivables	237,687,160	543,717,879	3,549,772,029	2,784,388,176	7,115,565,245
Loans and receivables	6,542,513,585	1,613,122,761	2,927,943,036	1,057,752,796	12,141,332,177
Other Financial Assets	-	-	434,395,836	-	434,395,836
Total financial assets	8,921,426,437	2,156,840,640	6,912,110,902	3,842,140,971	21,832,518,951
Financial Liabilities					
Due to customers	3,393,161,443	8,736,379,954	2,462,050,036	1,450,605,135	16,042,196,568
Other borrowed funds	675,974,751	1,324,795,373	820,499,272	-	2,821,269,396
Total financial liabilities	4,069,136,194	10,061,175,327	3,282,549,308	1,450,605,135	18,863,465,963

As at 31 March 2020	Less than 3 Months	More than 3 and Less than 12 Months	More than 1 Year and Less than 3 Years	>3 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets					
Cash and cash equivalents	389,597,258	-	-	-	389,597,258
Placements with banks & other finance compnies	-	648,432,557	-	-	648,432,557
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	250,000,000	-	-	-	250,000,000
Securities purchased under repurchase agreements	-	1,687,670,479	-	-	1,687,670,479
Lease and hire purchase receivables	516,370,537	846,223,694	1,362,782,681	142,368,965	2,867,745,877
Loans and receivables	8,009,954,094	4,371,563,373	2,955,949,643	620,983,959	15,958,451,069
Other Financial Assets	-	-	376,321,462	-	376,321,462
Total financial assets	9,165,921,889	7,553,890,104	4,695,053,786	763,352,924	22,178,218,703
Financial Liabilities					
Due to customers	14,001,995,985	2,198,721,150	2,538,633,452	1,871,190,871	20,610,541,458
Other borrowed funds	775,302,342	957,964,698	445,759,324	-	2,179,026,364
Total financial liabilities	14,777,298,327	3,156,685,849	2,984,392,777	1,871,190,871	22,789,567,823

SENSITIVITY OF IMPAIRMENT PROVISION ON LOANS AND ADVANCES TO OTHER CUSTOMERS

The company has estimated the impairment provision on loans and advances to other customers as at 31st March 2021, subject to various assumptions. The changes to such assumptions may lead to changes in the impairment provision recorded in the Statement of Financial Position.

The following table demonstrates the sensitivity of the impairment provision of the company as at 31st March 2021 to a feasible change in PDs, LGDs and all other information.

Sensitivity on ECL	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on Income Statement
	Stage 1	Stage 2	Stage 3	Total	
Loss rate 1% increase across all age buckets	66,811,002	20,914,089	47,358,337	135,083,428	135,083,428
Loss rate 1% decrease across all age buckets	(36,971,193)	(16,506,008)	(47,310,244)	(100,787,445)	(100,787,445)

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	2021 Rs.	2020 Rs.
Average for the year	10.78%	11.90%
Maximum for the year	16.61%	14.83%
Minimum for the year	8.37%	10.22%

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	2021 Rs.	2020 Rs.
Cash in Hand & Bank Balances	628,089,791	389,597,258
Deposits in Commercial Banks free from lien	204,377,303	861,450,581
Sri Lanka Government Treasury Bills and Treasury Bonds, maturing within one year, free from any lien or charge	1,001,933,146	1,554,145,000
Total Liquid Assets as at end of March	1,834,400,240	2,805,192,839

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

	2021		2020	
	Encumbered Rs.	Unencumbered Rs.	Encumbered Rs.	Unencumbered Rs.
Cash and cash equivalents	-	628,089,791	-	389,597,258
Equity Instruments at fair value through other comprehensive income	-	37,460,367	-	136,137,280
Placements with banks & Securities purchased under repurchase agreements	-	1,206,310,449	-	2,415,595,581
Lease and hire purchase receivables	1,517,085,330	3,745,618,760	896,727,200	1,263,557,191
Loans and receivables	1,186,099,697	10,083,689,042	1,616,677,013	12,935,421,924
Other non financial assets	-	614,420,732		554,345,813
Intangible assets	-	156,667,481		182,035,815
Property, plant & equipment	-	472,580,374		493,551,515

** Encumbered- Pledged as collateral in borrowings*

CAPITAL MANAGEMENT

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

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

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. During the year company issued 165,390,848 new shares by way of Rights issue (8 new Ordinary shares for every 5 shares held by shareholder) at a price of Rs. 11.50 per share on December 2020, and raised Rs. 1901,994,752.00 in order to comply with the Finance Business Act Direction No 03 of 2018 of the Central Bank of Sri Lanka.

Softlogic 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 2021. As a result, the Central Bank of Sri Lanka had issued a letter dated 23 January 2019 imposing a temporary cap on loans and advances base & for the deposit base untill required minimum Capital Adequacy Requirement is met.

As at 31 March	2021 Rs.	2020 Rs.
SLFRS 9 based impairment provisions recorded in the Financial Statements	2,065,290,507	1,551,771,439
Regulatory provisions reported to Central Bank without Interest in Suspense	4,017,192,636	3,305,876,808
Interest in Suspense reported to Central Bank*	970,454,010	995,202,342
Total Regulatory provisions	4,987,646,646	4,301,079,149
Impairment Provision Gap	2,922,356,138	2,749,307,711
Profit/(Loss) as reported in accordance with the Central Bank provisioning method	(1,142,988,125)	(1,366,757,720)
Capital Adequacy Ratios (As per Central Bank Direction No. 03 of 2018 Capital Adequacy Requirements)		
Tier 1 Ratio - (Minimum Requirement - 6.5%)	-3.9%	-5.6%
Total Capital ratio - (Minimum Requirement - 10.5%)	-3.9%	-5.8%

** IFRS Interest in suspense of Rs. 289,065,777.15 was considered and netted from CBSL Interest in suspense amount during the year.*

42. UTILISATION OF FUNDS RAISED VIA CAPITAL MARKET

42.1 The company has raised funds via the capital market through a rights issue on 20th December 2019. The progress of uitlisation of the capital raised as per the objectives stated in the right issue circular is given below.

Objective number	Objective as per Circular	Amount allocated as per Circular in Rs.	Proposed date of utilisation as per Circular	Amount allocated from proceeds in Rs. (A)	% of total proceeds	Amount utilised in Rs. (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including if not utilised where are the funds invested
(a)	To Settle the utilised overdraft facilities of the company	474,880,432	Within 2 months from the completion of the Rights Issue	474,880,432	79%	474,880,432	100%	N/A
(b)	To expand the lending activities of the company	127,614,800	Within 2 months from the completion of the Rights Issue	127,614,800	21%	127,614,800	100%	N/A
		602,495,232		602,495,232	100%	602,495,232		

42.2 The company has raised funds further via the capital market through a rights issue on 15th December 2020. The progress of uitlisation of the capital raised as per the objectives stated in the right issue circular is given below.

Objective number	Objective as per Circular	Amount allocated as per Circular in Rs.	Proposed date of utilisation as per Circular	Amount allocated from proceeds in Rs. (A)	% of total proceeds	Amount utilised in Rs. (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including if not utilised where are the funds invested
(a)	To repay maturity liabilities	1,901,994,752	Within 6 months from the completion of the Rights issue	1,901,994,752	100%	1,901,994,752	100%	N/A
(b)	To increase the secured lending portfolio to the required regulatory levels							N/A
	(i) Leasing							
	(ii) Other lending							
		1,901,994,752		1,901,994,752	100%	1,901,994,752		

43. COMMITMENTS AND CONTINGENCIES

As at 31 March	2021 Rs.	2020 Rs.
Contingent Liabilities		
Guarantees issued to banks and other institutions	2,500,000	11,550,000
Commitments		
Commitment for unutilised facilities	772,189,810	549,808,346
Capital Commitment for Software	239,116,150	1,971,339
	1,013,805,959	563,329,685

The Company has formal controls and policies for managing tax commitments. Once professional advice has been obtained and the amount of assessment/penalties reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending tax commitments as at 31 March 2021 which would have a material impact on the Financial Statements to disclose.

ANALYSIS OF COMMITMENT AND CONTINGENCIES BY REMAINING CONTRACTUAL MATURITIES

	Less than 3 Months Rs.	More than 3 and Less than 12 Months Rs.	More than 1 Year and Less than3 Years Rs.	More than 3 Years Rs.	Total Rs.
Contingent liabilities					
Guarantees issued to banks and other institutions	-	2,500,000	-	-	2,500,000
	-	2,500,000	-	-	2,500,000
Commitments					
Commitment for unutilised facilities	757,657,833	6,531,877	-	8,000,100	772,189,810
Software Project commitment	29,482,050	16,830,000	102,804,100	90,000,000	239,116,150
	787,139,882	23,361,877	102,804,100	98,000,100	1,011,305,959

43.1 LITIGATION AGAINST THE COMPANY

Set out below are the unresolved legal claims against the Company as at March 31, 2021 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome.

The court case has been filed against the Company in the Distric Court of Colombo under case No. DMR 3743/19, by one of our customer claiming damages of Rs. 100 Mn for the reputational loss and mental agony suffered. The Company will take appropriate action to defend the case in order to preserve its rights.

44. 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. Other than the note given below.

Further the Board of Directors of the company, resolved on 10th May 2021 , to increase the Company' s Stated Capital by infusing fresh capital in a sum of Rupees 2,239,667,740/= by way of a Rights Issue.

1. The number of Ordinary Shares to be issued 223,966,774
2. The Ordinary Shares are to be issued in the proportion of Five (5) new Ordinary Shares for every Six (6) Ordinary Shares held by the shareholders in the Register of Shareholders as at end of trading on the Date of Entitlement.
3. A share is to be issued at a cash consideration of Rs. 10/=
4. The purpose of this issue is to enable the Company to infuse iresh capital, to strengthen the Tier I Capital, based on the Company's forecasted Business ,expansion Programme, during the financial Year 2021/2022, whilst being in compliance with the Capital Adequacy Requirements up to 1st July 2022 as stipulated by Finance Business Act Directions No. 03 of 2018. Read together with the Press Release issued by' the Departtnent of Supervision Of the Non-Bank Financial Institution of the Central Bank of Sri Lanka dated 12th April 2020.
5. The Rights Issue is subject to the Colombo Stock Exchange approving in principle, the issue and listing of the Ordinary Shares and obtaining shareholder approval by way of an Ordinary Resolution, at a General Meeting.
6. The parent company, Softlogic Capital PLC, has informed the Company to take up fully, their rights entitlement and to further subscribe fully for any unsubsribed rights, so that the Rights Issue would be fully subscribed.

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

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

CARRYING VALUE OF ASSETS AND ASSOCIATED LIABILITIES

As at 31 March	2021 Rs.	**2020** **Rs.**
Lease and hire purchase receivables	1,517,085,330	896,727,200
Securitisation payable	1,186,099,697	1,616,677,013

46. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

The Company carried out transactions in ordinary course of business on an arm's length basis with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures'.

The pricing applicable to such transactions is based on the assessment of risk and pricing method of the company and is compairable with what is applied to transactions between the company/ group and its unrelated customers.

46.1 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (KMPs)

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

As at 31 March	2021 Rs.	2020 Rs.
Short-term employee benefits	41,130,681	49,626,968
Post-employment benefits	-	2,012,500
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	41,130,681	51,639,468

46.1.1 TRANSACTION,ARRANGEMENTS AND AGREEMENTS INVOLVING KMPs AND THEIR CLOSE MEMBERS OF THE FAMILY (CMFS)

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

	Reported under	2021 Rs.	2020 Rs.
Statement of financial position			
Assets			
Personal Loans	Loan receivables	936,049	-
Lease	Lease and hire purchase receivables	3,167,822	-
Liabilities			
Time Deposits	Due to customers	-	-
Savings Deposits	Due to customers	20,497	-
Statement of comprehensive income			
Interest income on lease & loan receivables	Interest income	329,008	-
Interest expense on customer deposits	Interest expenses	8,575	5,788,290
Other Transactions			
Dividend Paid on shareholding		-	-

46.1.2 ISSUE OF SHARE CAPITAL TO SHAREHOLDERS DURING THE YEAR

Issue of share capital by way of Rights issue to its related parties during the year as given below:

Shareholder name	**No. of Shares**			
	Share holding Prior to Rights issue	**Provisional Allotment & Subscription**	**Provisional Allotment & Subscription %**	**Share holding as at 31.03.2021 Post Rights issue**
Softlogic Capital PLC	42,769,101	100,752,737	147.2%	143,521,838
Pan Asia Banking Corporation PLC/Softlogic Capital PLC	32,740,582	52,384,931	100.0%	85,125,513
Softlogic Life Insurance PLC - A/C No. 04 (Participating Fund)	6,033,858	9,654,172	100.0%	15,688,030
Softlogic Holdings PLC	1,186,909	1,899,054	100.0%	3,085,963
Peoples Bank/Asoka Kariyawasam Pathirage	346,956	555,129	100.0%	902,085
	83,077,406	165,246,023		248,323,429
Others	20,291,874	144,825	0.4%	20,436,699
Total	103,369,280	165,390,848		268,760,128

46.2 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, 2021.

These transactions are on the same terms and conditions as those entered into by other customers.

Company	Relationship	F/Y	(Receivables)/ Payables	Loans, Advances & Investments	Borrowings / Deposits	Income Earned
Softlogic Corporate Services (Pvt) Ltd	Affiliated Company	2020/21	-	-	-	-
	Affiliated Company	2019/20	511,017	-	-	-
Softlogic Stock Brokers (Pvt) Ltd	Affiliated Company	2020/21	-	81,786	-	4,362
	Affiliated Company	2019/20	-	-	-	-
Softlogic Holdings PLC	Ultimate Parent Company	2020/21	-	-	-	-
	Ultimate Parent Company	2019/20	716,818	-	-	-
Softlogic Retail (Pvt) Ltd	Affiliated Company	2020/21	(1,142,484)	-	271	8,003,289
	Affiliated Company	2019/20	(1,582,858)	195,000,000	16,912,343	45,128,766
Softlogic Communications (Pvt) Ltd	Affiliated Company	2020/21	-	-	-	-
		2019/20	(1,129,959)	-	-	-
Softlogic Brands (Pvt) Ltd	Affiliated Company	2020/21	-	152,565,312	752,186	30,110,796
		2019/20	-	175,000,000	-	31,653,437
Softlogic Information Technologies (Pvt) Ltd	Affiliated Company	2020/21	-	-	-	-
	Affiliated Company	2019/20	1,943,521	-	-	-
Softlogic Life Insurance PLC	Affiliated Company	2020/21	14,687,755	-	-	-
	Affiliated Company	2019/20	-	-	-	-

Note:
The Rationale for Entering into the Transaction:

Normal business activity of the company and arm's length transaction.

Cost Incurred	Plant & Equip. Purchased / (sold)	Sale of equity shares under FVTOCI	Nature and Terms of the Transaction
2,729,561	-	-	> Cost for Secretarial services provided
3,457,854	-	-	> Cost for Secretarial services provided
530,568	-	-	> Leasing facility granted at market rate for a period of 12 months > Stock brocker fees
2,013,487	-	-	> Stock brocker fees
2,988,834	-	-	> Reimbursement of directors annual insurance liability premium > payment for fuel & fuel cards > Top Jobs annual subscription renewal 2021
724,108	-	-	> Reimbursement of directors annual insurance liability premium > Top Jobs annual subscription renewal 2021
115,769	1,019,439	-	> Purchasing fixed assets. > Maintaining Savings Accounts at a Interest rate of 4.5% > Loan granted & settled during the year @ 18% p.a for a period of 12 months.
3,670,665	1,801,799	-	> Purchasing fixed assets. > Maintaining Savings Accounts at a Interest rate of 4.5% > Loan granted & settled during the year @ 18% p.a for a period of 12 months.
373,866	-	-	> Purchsing of Tabs for recovery staff
-	-	-	
7,656	-	-	> Maintaining Savings Accounts at a Interest rate of 4.5% Loans granted at a rate of 18% p.a for a period of 12 months
-	-	-	> Maintaining Savings Accounts at a Interest rate of 4.5% Loans granted at a rate of 18% p.a for a period of 12 months
12,500	4,229,460	-	> Cost of fixing of Networking cabling > Purchase of Fixed assets
-	2,550,328	-	> Cost of fixing of Networking cabling > Purchase of Fixed assets
21,948,839	-	-	> Business promotional activities - Covid 19 Insurance Coverage for Gold Loan Customers > Staff insurance Premium for 2021
13,431,102	-	-	> Staff insurance Premium for 2021

Notes to the Financial Statements

Company	Relationship	F/Y	(Receivables)/ Payables	Loans, Advances & Investments	Borrowings / Deposits	Income Earned
Softlogic BPO Services (Pvt) Ltd	Affiliated Company	2020/21	-	2,532,612	-	205,515
	Affiliated Company	2019/20	3,539,791	2,750,000	-	34,375
Softlogic Computers (Pvt) Ltd	Affiliated Company	2020/21	-	-	-	-
	Affiliated Company	2019/20	-	-	-	-
Softlogic Capital PLC	Parent Company	2020/21	4,322,927	-	-	-
	Parent Company	2019/20	884,958	-	-	-
Nextage (Pvt) Ltd	Affiliated Company	2020/21	-	-	-	-
	Affiliated Company	2019/20	336,884	-	-	-
Central Hosptal Ltd	Affiliated Company	2020/21	-	-	-	-
	Affiliated Company	2019/20	73,450	-	-	-
Softlogic Asset Management Ltd	Affiliated Company	2020/21	-	-	15,000,000	-
			-	-	25,000,000	491,895
	Affiliated Company	2019/20	-	-	28,514,633	-
Future Automobiles (Pvt) Ltd.	Affiliated Company	2020/21	-	-	-	-
	Affiliated Company	2019/20	1,410,072	-	-	-
Softlogic Mobile Distributors (Pvt) Ltd.	Affiliated Company	2020/21	-	-	-	-
	Affiliated Company	2019/20	-	-	-	-
Suzuki Motors Lanka (Pvt)Ltd	Affiliated Company	2020/21	-	-	1,573,891	-
	Affiliated Company	2019/20	-	-	1,527,876	-

Cost Incurred	Plant & Equip. Purchased / (sold)	Sale of equity shares under FVTOCI	Nature and Terms of the Transaction
21,684,605	-	-	> Cost of Hardware maintain services & its related services > Cost for staff discount cards. > Loans granted at a rate of 15% p.a for a period of 60 months
18,565,022	-	-	> Cost of Hardware maintain services & its related services > Cost for staff discount cards. > Loans granted at a rate of 15% p.a for a period of 60 months
-	795,085	-	> Purchase of computers & related
464,543	21,725	-	> Purchase of computers & related
3,437,968	825,000	78,110,256	> Sold of 1,067,500 NDB voting shares at a market price of Rs. 74/= per share in open market > Outsource call center charges > Reimbursement of Web development charges
1,066,884	-	-	> Outsource call center charges
33,786	-	-	> Advertising & agency services
1,037,902	-	-	> Advertising & agency services
69,000	-	-	> Obtaining auditorium facilities
265,023	-	-	> Obtaining auditorium facilities
-	-		> Accepting of Fixed deposits & Commercial papers at market rate > Interest cost incurred on fixed deposit & commercial papers placed
-	-		> Invest in Softlogic Invest Money market fund
-	-		> Accepting of Fixed deposits & Commercial papers at market rate > Interest cost incurred on fixed deposit & commercial papers placed
3,450,227	-	-	> Vehicle repair services
5,369,357	-	-	> Vehicle repair services
-	254,202	-	> Purchasing Tabs for E-lease app
-	-	-	
164,960	-	-	> Accepted Fixed deposit at a rate of 10.19% p.a. for one year period > Interest cost on Fixed deposit
133,758	-	-	> Accepting of Fixed deposits at market rate > Interest cost incurred on fixed deposit placed

47. BUSINESS SEGMENT INFORMATION

The company's segmental reporting is based on the following operating segments: Leasing & Hire purchase, Vehicle Loans, Gold 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.

	2021	2020	2021	2020
	Leasing & Hire Purchases		Vehicle Loans	
	Rs.	Rs.	Rs.	Rs.
Interest income	676,566,645	493,350,206	247,581,446	309,034,187
Interest expenses	-	-	-	-
Net interest income	676,566,645	493,350,206	247,581,446	309,034,187
Fee and commission income	21,638,077	17,560,874	7,918,195	11,000,118
Net trading income/(loss)	-	-	-	-
Other operating income	-	-	-	-
Total operating income	698,204,722	510,911,080	255,499,641	320,034,305
Impairment charges for loan and advances	(57,545,635)	(45,752,483)	7,054,914	(35,733,270)
Net operating income	640,659,087	465,158,596	262,554,555	284,301,034
Depreciation for property, plant and equipment	(12,427,845)	(5,485,881)	(1,807,995)	(5,055,795)
Amortisation of intangible assets	(7,831,832)	(1,940,610)	(1,139,370)	(1,788,469)
Personal cost	-	-	-	-
Other operating expenses	(201,693,035)	(120,091,115)	(73,807,146)	(75,224,982)
Segment profit before VAT on financial services	418,706,376	337,640,990	185,800,044	202,231,789
VAT and NBT on financial services	-	-	-	-
Segment profit before tax	418,706,376	337,640,990	185,800,044	202,231,789
Income tax reversal/(expenses)	-	-	-	-
Profit / (Loss) for the year	418,706,376	337,640,990	185,800,044	202,231,789
Total assets	5,262,704,090	2,160,284,390	765,614,694	1,990,920,757
Total Liabilities	4,499,173,555	1,957,534,610	654,536,779	1,804,066,309

2021	2020	2021	2020	2021	2020	2021	2020
Gold Loans		Other Loans and Receivables		Unallocated		Total	
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
574,971,269	657,907,821	803,884,976	1,925,111,325	140,386,842	211,657,935	2,443,391,178	3,597,061,476
-	-	-	-	(1,894,556,639)	(2,516,526,516)	(1,894,556,639)	(2,516,526,516)
574,971,269	657,907,821	803,884,976	1,925,111,325	(1,754,169,797)	(2,304,868,581)	548,834,539	1,080,534,960
18,388,835	23,418,326	25,709,995	68,524,622	4,818,003	7,896,084	78,473,105	128,400,023
-	-	-	-	1,494,267	2,276,342	1,494,267	2,276,342
-	-	-	-	63,919,372	89,238,319	63,919,372	89,238,319
593,360,104	681,326,147	829,594,971	1,993,635,948	(1,684,247,426)	(2,205,798,617)	692,721,284	1,300,449,645
(2,390,572)	(7,793,637)	(438,850,305)	(300,857,675)	-	-	(491,731,598)	(390,137,067)
590,969,533	673,532,510	390,744,666	1,692,778,273	(1,684,247,426)	(2,205,798,617)	200,989,685	910,312,577
(5,313,537)	(7,468,119)	(19,492,009)	(24,430,056)	(10,243,017)	(12,783,998)	(49,284,402)	(55,223,847)
(3,348,507)	(2,641,819)	(12,283,556)	(8,642,042)	(6,454,987)	(4,522,292)	(31,058,252)	(19,535,232)
-	-	-	-	(401,291,015)	(443,014,356)	(401,291,015)	(443,014,356)
(171,406,174)	(160,147,666)	(239,648,233)	(468,609,850)	(44,909,609)	(53,997,853)	(731,464,197)	(878,071,466)
410,901,315	503,274,907	119,320,868	1,191,096,325	(2,144,263,260)	(2,717,786,657)	(1,012,108,180)	(485,532,323)
-	-	-	-	-	(53,080,605)	-	(53,080,605)
410,901,315	503,274,907	119,320,868	1,191,096,325	(2,144,263,260)	(2,770,867,262)	(1,012,108,180)	(538,612,928)
-	-	-	-	109,257,073	204,653,631	109,257,073	204,653,631
410,901,315	503,274,907	119,320,868	1,191,096,325	(2,035,006,187)	(2,566,213,631)	(902,851,106)	(333,959,297)
2,250,074,022	2,940,869,436	8,254,100,023	9,620,308,745	4,337,515,178	5,034,208,759	20,870,008,007	21,746,592,087
1,923,625,833	2,664,859,187	7,056,567,862	8,717,411,194	3,708,214,114	4,561,731,744	17,842,118,143	19,705,603,044

48. 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.

As at 31 March	2021			2020		
	Within 12 Months	After 12 Months	Total as at 31st March 2021	Within 12 Months	After 12 Months	Total as at 31st March 2020
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets						
Cash and cash equivalents	628,089,791	-	628,089,791	389,597,258	-	389,597,258
Equity Instruments at fair value through other comprehensive income	37,460,367	-	37,460,367	136,137,280	-	136,137,280
Placements with banks & other finance companies	204,377,303	-	204,377,303	611,450,581	-	611,450,581
Securities purchased under repurchase agreements	1,001,933,146	-	1,001,933,146	1,554,145,000		1,554,145,000
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	300,809,707	-	300,809,707	250,000,000		250,000,000
Lease and hire purchase receivables	724,407,498	4,538,296,592	5,262,704,090	1,014,261,542	1,146,022,849	2,160,284,390
Loans and receivables	8,077,131,712	3,192,657,027	11,269,788,740	11,662,472,447	2,889,626,490	14,552,098,937
Other assets	-	979,241,099	979,241,099	-	901,703,139	901,703,139
Deferred tax asset	-	445,343,174	445,343,174	-	338,714,679	338,714,679
Intangible assets	-	156,667,481	156,667,481	-	182,035,815	182,035,815
Right of Use Assets	-	111,012,736	111,012,736	-	176,873,492	176,873,492
Property, plant & equipment	-	472,580,374	472,580,374	-	493,551,514	493,551,514
Total Assets	10,974,209,523	9,895,798,484	20,870,008,007	15,618,064,108	6,128,527,978	21,746,592,086
Liabilities						
Bank Overdrafts	45,987,503	-	45,987,503	65,076,586	-	65,076,586
Due to customers	11,356,959,448	3,241,184,088	14,598,143,536	12,203,140,384	4,860,255,767	17,063,396,151
Other borrowed funds	1,804,806,158	788,227,944	2,593,034,102	1,946,295,465	167,654,313	2,113,949,778
Other non financial liabilities	-	547,545,051	547,545,051	-	416,135,153	416,135,153
Retirement benefit obligations	-	57,407,951	57,407,951	-	47,045,376	47,045,376
Deferred tax liabilities	-	-	-	-	-	-
Total liabilities	13,207,753,109	4,634,365,034	17,842,118,143	14,214,512,435	5,491,090,609	19,705,603,044

SUPPLEMENTARY INFORMATION

10 Year Summary

Year ended 31 March (Rs.'000)	2020/21	2019/20	2018/19	2017/18
OPERATING RESULTS				
Interest income	2,443,391	3,597,061	3,674,450	3,523,556
Interest Expense	(1,894,557)	(2,516,527)	-2,490,557	(2,561,130)
Net intrest income	548,835	1,080,535	1,183,892	962,426
Other Income	143,887	219,915	344,443	622,837
Operating Income	692,721	1,300,450	1,528,335	1,585,264
Operating expense	(1,213,098)	(1,395,845)	(1,274,180)	(1,184,430)
Operating Profit	(520,377)	(95,395)	254,155	400,834
Impairment (Charges/Reversal/ Provision for doughtful debt)	(491,732)	(390,137)	(189,682)	(108,425)
Taxes on financial Services	-	(53,081)	(1,358)	(99,329)
Profit before taxation	(1,012,108)	(538,613)	63,115	193,079
Tax expenses	109,257	204,654	140,854	25,686
Proft/ (Loss) for the year	(902,851)	(333,959)	203,969	218,766
As at 31 March				
ASSETS				
Cash and bank balances	628,090	389,597	709,895	945,104
Financial & Equity Investments	1,544,581	2,551,733	1,971,432	2,110,743
Lease, Loans & Advances	16,532,493	16,712,383	18,018,225	17,377,793
PPE & Intangible Assets	629,248	675,587	571,205	600,609
Right of Use Assets	111,013	176,873	-	-
Other Assets	1,424,584	1,240,418	1,133,845	645,968
	20,870,008	21,746,592	22,404,601	21,680,217
LIABILITIES				
Public Deposits	14,598,144	17,063,396	17,115,400	16,391,947
Borrowings	2,639,022	2,179,026	3,342,706	2,916,905
Other Liabilities	604,953	463,181	130,612	90,914
	19,705,603	19,705,603	20,647,904	19,399,767
SHAREHOLDERS' FUNDS				
Stated Capital	4,506,760	2,604,765	2,002,270	2,002,270
Reserves & Retained Earnings	(1,478,870)	(563,776)	(245,573)	278,180
	3,027,890	2,040,989	1,756,697	2,280,450
Growth in Interest Income	-32%	-2%	4%	3%
Growth Interest Expenses	-25%	1%	-3%	12%
Growth in Operating Profit	-445%	-138%	-37%	-48%
Growth in Profit After Tax(PAT)	-170%	-264%	-7%	-10%
Earnings Per Share (Rs.)	-6.01	(4.29)	3.00	3.70
Growth in Advances	-1%	-7%	4%	-3%
Growth in Deposits	-14%	0%	4%	2%
Debt to Equity Ratio (times)	5.9	9.65	11.75	8.51
Net Assets Per Share (Rs.)	11.27	19.74	25.86	33.57
OTHER INFORMATION				
No. of Employees	463	475	528	551
Supporting Branch Network	32	35	35	35

**Financials prepared based on SLFRSs from Financial Years 2011/12 onwards.*

2016/17 Restated	2015/16 Restated	2014/15	2013/14	2012/13	2011/12
3,431,752	3,558,081	3,545,704	3,338,543	2,277,546	1,534,039
(2,291,408)	(2,002,506)	(2,081,375)	(2,057,633)	(1,391,050)	(793,293)
1,140,343	1,555,575	1,464,329	1,280,910	886,497	740,746
746,956	522,517	427,198	152,351	161,742	70,806
1,887,299	2,078,092	1,891,527	1,433,261	1,048,238	811,552
(1,122,141)	(1,208,537)	(1,098,298)	(877,014)	(742,095)	(610,705)
765,158	869,555	793,229	556,246	306,143	200,847
(440,822)	(711,846)	(522,296)	(327,796)	(72,964)	(5,919)
(40,734)	(67,129)	(50,273)	(37,025)	(36,913)	(30,062)
283,603	90,581	220,661	191,425	196,267	164,866
(39,268)	(17,438)	(4,172)	(25,771)	(32,213)	(44,039)
244,335	73,142	216,490	165,654	164,054	120,827
754,813	509,281	1,078,469	2,431,469	1,472,506	1,103,948
1,962,016	2,165,798	2,059,796	1,600,660	193,668	70,486
17,989,809	15,906,349	15,528,099	12,212,184	10,634,877	8,245,290
468,884	410,783	367,465	322,171	186,214	183,662
-	-	-	-	-	-
530,460	950,173	980,006	1,693,255	731,538	472,355
21,705,982	19,942,383	20,013,834	18,259,739	13,218,803	10,075,741
16,048,474	14,055,203	12,077,054	9,312,743	6,956,951	4,681,850
3,671,392	4,076,520	5,396,150	6,484,267	4,234,833	3,717,284
144,575	154,810	590,995	1,153,180	822,422	568,527
19,864,440	18,286,533	18,064,199	16,950,191	12,014,206	8,967,661
1,692,615	1,692,615	1,404,523	1,003,231	1,003,231	1,003,231
148,927	(36,765)	545,112	306,318	201,366	104,849
1,841,542	1,655,850	1,949,635	1,309,549	1,204,597	1,108,080
-4%	0%	6%	47%	48%	136%
14%	-4%	1%	48%	75%	136%
-12%	10%	43%	82%	52%	88%
234%	-66%	31%	1%	36%	76%
4.14	1.40	5.44	4.42	3.66	4.38
13%	2%	27%	15%	29%	118%
14%	16%	30%	34%	49%	195%
10.79	11.04	10.69	12.94	9.97	8.09
31.18	28.03	33.23	34.96	32.16	29.79
490	491	521	502	467	550
31	30	18	17	17	16

Investor Information

1. GENERAL

	As at 31/03/2021	As at 31/03/2020
Stated Capital (Rs.)	4,506,759,983.10	2,604,765,231.12

2. STOCK EXCHANGE LISTING

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

3. SHARES HELD BY THE PUBLIC

	2020/21	2019/20
Shares held by the public (%)	7.6%	19.73%
The number of public shareholders	1,632	1,526
Float Adjusted Market Capitalisation (Rs.)	204,257,697.28	234,587,277.72

The Company is not Compliant with Option 2 of the Listing Rules 7.13.1 (b), where the Float Adjusted Market Capitalisation is less than Rs. 1.0 Bn and requires a minimum 10% public holding. Steps to be adopted by the Company to comply with the Minimum Public Holding.

4. DISTRIBUTION OF SHAREHOLDING AS AT 31ST MARCH 2021

There were 1,637 Registered shareholders as at 31st March 2021 and 1,531 Registered shareholders as at 31st March 2020.

No. of Shares held		No. of Shareholders		% of Shareholders		No. of Shares		% of Shares	
From	To	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
1	1,000	1,080	1,034	65.97%	67.54%	305,858	301,034	0.11%	0.29%
1,001	10,000	426	378	26.02%	24.69%	1,493,752	1,302,805	0.56%	1.26%
10,001	100,000	106	98	6.48%	6.40%	2,709,465	2,644,213	1.01%	2.56%
100,001	1,000,000	17	13	1.04%	0.85%	4,124,196	4,252,358	1.53%	4.11%
Over 1,000,000		8	8	0.49%	0.52%	260,126,857	94,868,870	96.79%	91.78%
	Total	1,637	1,531	100.00%	100.00%	268,760,128	103,369,280	100.00%	100.00%

5. ANALYSIS REPORT OF SHAREHOLDERS AS AT 31ST MARCH 2021

Category	No. of Shareholders		% of Shareholders		No. of Shares		% of Shares	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
Individual	1,529	1,426	93.40%	93.14%	8,220,438	9,633,746	3.06%	9.32%
Institutional	108	105	6.60%	6.86%	260,539,690	93,735,534	96.94%	90.68%
Total	1,637	1,531	100.00%	100.00%	268,760,128	103,369,280	100.00%	100.00%
Resident	1,628	1,525	99.45%	99.61%	268,674,844	102,748,705	99.97%	99.40%
Non-resident	9	6	0.55%	0.39%	85,284	620,575	0.03%	0.60%
Total	1,637	1,531	100.00%	100.00%	268,760,128	103,369,280	100.00%	100.00%

6. TWENTY MAJOR SHAREHOLDERS AS AT 31ST MARCH 2021

Shareholder	No. of Shares as at 31/03/2021	%	No. of Shares as at 31/03/2020	%
M/s Softlogic Capital PLC	143,521,838	53.40	42,661,852	41.27
M/s Pan Asia Banking Corporation Plc/Softlogic Capital PLC	85,125,513	31.67	32,740,582	31.67
M/s Softlogic Life Insurance Plc-A/C No. 04 (Participating Fund)	15,688,030	5.84	6,033,858	5.84
M/s Vanik Incorporation Ltd	5,376,068	2.00	5,376,068	5.20
Mr. Kulappuarachchige Don Dammika Perera	3,276,253	1.22	3,276,253	3.17
M/s Softlogic Holdings PLC	3,085,963	1.15	1,186,909	1.15
M/s L.B. Finance Limited.	2,090,000	0.78	2,090,000	2.02
M/s Hatton National Bank PLC/Subramaniam Vasudevan	1,963,192	0.73	-	-
M/s Peoples Bank/Asoka Kariyawasam Pathirage	902,085	0.34	346,956	0.34
M/s People's Leasing & Finance PLC/L.P. Hapangama	767,992	0.29	587,912	0.57
Mr. Shanker Varadananda Somasunderam	405,000	0.15	500,000	0.48
M/s Hatton National Bank PLC/Arunasalam Sithampalam	300,000	0.11	300,000	0.29
Mr. Weerathunga Arachchige Sampath Palitha De Saram	201,105	0.07	-	-
Mr. Tharmalingam Loganathan	187,073	0.07	142,073	0.14
M/s Sampath Bank PLC/Mr. Abishek Sithampalam	159,782	0.06	159,782	0.15
M/s Assetline Leasing Co. Ltd/Ms.R.K.R. Pathiranage	152,166	0.06	152,166	0.15
Mr. Balendiran Janegan	144,111	0.05	-	-
Mrs. Pamela Christine Cooray	132,444	0.05	132,444	0.13
M/s Hatton National Bank PLC/Ratnasabapathy Iyer Shanmugasarma	125,130	0.05	-	-
Mr. Thevarathanthrige Manoj Priyanga Fernanod	111,497	0.04	-	-
Total of top 20 shareholders	263,715,242	98.12	95,686,855	92.57
Others	5,044,886	1.88	7,682,425	7.43
Total	268,760,128	100.00	103,369,280	100.00

7. SHARE TRADING INFORMATION

	CRL.N000		CRL.R000	
	2020/21	2019/20	2020/21	2019/20
Highest (Rs.)	14.00	26.00	0.10	1.20
Lowest (Rs.)	9.40	11.50	0.10	0.10
Closing (Rs.)	10.00	11.50	0.10	0.20
Turnover (Rs.)	82,798,865.40	41,530,999.50	61,286.40	866,330.10
No. of Shares Traded	6,741,470	2,292,683	612,864	3,158,177
No. of Trades	5,115	2,374	80	210

8. SELECTED KEY PERFORMANCE INDICATORS

Item	As at 31.03.2021		As at 31.03.2020	
	Actual	Required	Actual	Required
Regulatory Capital Adequacy				
Tier 1 Capital Adequacy Ratio	-3.9%	6.5%	-5.6%	6.5%
Total Capital Adequacy Ratio	-3.9%	10.5%	-5.8%	10.5%
Capital Funds to Deposit Liabilities Ratio	20.8%	10.0%	11.8%	10.0%
Quality of Loan Portfolio (%)				
Gross Non- Performing Loans Ratio	34.6%		32.8%	
Net Non- Performing Loans Ratio	29.9%		28.9%	
Net Non-Performing Loans to Core Capital Ratio	190.3%		249.9%	
Provision Coverage Ratio	60.9%		54.6%	
Profitability				
Net Interest Margin	2.6%		4.9%	
Return on Assets	-4.7%		-2.4%	
Return on Equity	-35.6%		-17.6%	
Cost to Income Ratio	175.1%		107.3%	
Liquidity				
Available Liquid Assets to Required Liquid Assets (Minimum 100%)	207.1%		132.7%	
Liquid Assets to External Funds	11.2%		12.3%	
Memorandum information				
Number of Branches	33		35	
External Credit Rating	[SL]BB-; Rating watch with developing implications; reaffirmed		[SL] BB- ;	

RATIOS

	2020/21	2019/20
Debt to Equity Ratio (Times)	5.89	9.65
Interest Cover (Times)	0.51	0.79

INTEREST RATE OF COMPARABLE GOVERNMENT SECURITIES

	2020/21	2019/20
3 Year Treasury Bond	6.41%	8.91%
5 Year Treasury Bond	7.05%	9.41%

Branch Network

No.	Branch	Address	Telephone Number	Fax Number	E-mail Address
1	ANURADHAPURA	No.156/11, Maithreepala Senanayake Mawatha, Anuradhapura	025-2226279	025-2234743	anuradhapura@softlogicfinance.lk
2	BADULLA	No.38, Anagarika Dharmapala Mawatha, Badulla	055-2224205	055-2223905	badulla@softlogicfinance.lk
3	BORELLA	No.1072, Maradana Road, Borella	011-2698016	011-2694261	borella@softlogicfinance.lk
4	CHILAW	No.28B, Kurunegala Road, Chilaw	032-2221415	032-2223754	chilaw@softlogicfinance.lk
5	CHUNNAKAM	Nos, 101 and 105, K.K.S. Road, Chunnakam	021-2242770	021-2242772	chunnakam@softlogicfinance.lk
6	CORPERATE	29/2, Visaka Road, Colombo 04	011-2303373	011-2303363	cityoffice@softlogicfinance.lk
7	DAMBULLA	No.719, Anuradhapura Road, Dambulla	066-2284737	066-2284717	dambulla@softlogicfinance.lk
8	DEMATAGODA	No.85, Kolonnawa Road, Colombo 09	011-2679089	011-2646226	dematagoda@softlogicfinance.lk
9	EMBILIPITIYA	No.176, Rathnapura Road, Pallegama, Embilipitiya	047-2230590	047-2230592	embilipitiya@softlogicfinance.lk
10	GALLE	No.64, Colombo Road, Kaluwella, Galle	091-2248920	091-2248095	galle@softlogicfinance.lk
11	GAMPAHA	No.57/A, Bauddhaloka Mawatha, Gampaha	011-2281285	033-2227506	gampaha@softlogicfinance.lk
12	GRANDPASS	No.408, Grandpass Road, Colombo 14	051-2222108	051-2225739	pettah@softlogicfinance.lk
13	HATTON	No.115, Main Street, Hatton	011-2359700	011-2359799	hatton@softlogicfinance.lk
14	HEAD OFFICE	No.13 De Fonseka place Colombo 04.	021-2219444	021-2219666	headoffice@softlogicfinance.lk
15	JAFFNA	No.62,64,66, Stanley Road, Jaffna	011-2923011	011-2923013	jaffna@softlogicfinance.lk
16	KADAWATHA	No.139/7D, Kandy Road, Kadawatha	034-2224714	034-2223262	kadawatha@softlogicfinance.lk
17	KALUTHARA	No.264,Galle Road,Kaluthara South.	081-2224912	081-2224916	kalutara@softlogicfinance.lk
18	KANDY	No.165,Kotugodella Veediya,Kandy	031-2274233	031-2272672	kandy@softlogicfinance.lk
19	KOTAHENA	No.242,244,266, George R.De Silva Mawatha kotahena	011-2337040	-	kotahena@softlogicfinance.lk
20	KOTTAWA	No.87/A, High Level Road, Kottawa	011-2178464	011-2842824	kottawa@softlogicfinance.lk
21	KURUNEGALA	No.13, Rajapihilla Road, Kurunegala	037-2232875	037-2232565	kurunegala@softlogicfinance.lk
22	MATALE	No.253, Main Street, Mathale	066-2226461	066-2228863	matale@softlogicfinance.lk
23	MATARA	No.8A K.K.K. Building, Station Road, Matara.	041-2220195	041-2227257	matara@softlogicfinance.lk
24	NAWALA	305/B, Nawala Road, Nawala	011-2807080	011-2807082	nawala@softlogicfinance.lk
25	NEGOMBO	No.86, St. Joseph Street, Negambo	031-2224714	031-2224716	negombo@softlogicfinance.lk
26	NUWARA ELIYA	No.72, Kandy Road, Nuwaraeliya	052-2223382	052-2223383	nuwaraeliya@softlogicfinance.lk
27	POLONNARUWA	No.125, Batticolao Road, Polonnaruwa	011-2367901	011-2055517	polonnaruwa@softlogicfinance.lk
28	RATNAPURA	No.1/200,Main Street, Rathnapuara	011-2334461	011-2334549	pettah@softlogicfinance.lk
29	SENKADAGALA	No.288, Katugasthota Road, Mahiyyawa	027-2226727	027-2225909	senkadagala@softlogicfinance.lk
30	TISSAMAHARAMA	No.28, Main Street, Thissamaharama	045-2230677	045-2223574	tissamaharama@softlogicfinance.lk
31	WATTALA	No.182, Negombo Road, Wattala	047-2239933	047-2239504	wattala@softlogicfinance.lk
32	WELIGAMA	No.2, Matara Road, Weligama	011-2051660	011-2051676	weligama@softlogicfinance.lk

STANDALONE GOLD LOAN CENTRE

No.	Branch	Address	Telephone Number	Fax Number	E-mail Address
1	MAWANELLA	No. 131, 132, Kandy Road, Mawanella	035-2247304	-	mawanella@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 Mor tgage Act No. 06 of 1949 and Inland Trust Receipts Act No. 14 of 1990.

Quoted in the Colombo Stock Exchange on 22nd J anuary 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. A. Russell-Davison
(Chairman - Since 24.10.2019)

Mr. M. H Priyantha Wijesekera
(Director/CEO Since 01.03.2020)

Mr. H. K. Kaimal

Mr. Manilka Fernando

Mr. Dinesh P. Renganathan

Ms. Aruni Goonetilleke

Mr. Aashiq Cader Mohamed Lafir

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
People's Bank
Pan Asia Banking Corporation PLC
Sampath Bank PLC
Bank of Ceylon
Nations Trust Bank PLC
DFCC Bank PLC
Union Bank of Colombo PLC
National Savings Bank
Cargills Bank Limited

VISIT OUR WEBSITE

We've introduced QR code links to information that is suitable to view on your smartphone. Scan the barcode link and the relevant page will open in your browser window.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 13th Annual General Meeting of the Company will be held by electronic means on 24th August, 2021 at 10.30 a.m. centered at No 13, De Fonseka Place, Colombo 04 for the following purposes:

(1) To receive and consider the Annual Report of the Board of Directors and Financial Statements of the Company for the year ended 31 March 2021 together with the Report of the Auditors thereon.

(2) To re-elect Mr. H.K. Kaimal who retires by rotation in terms of Articles 91 and 92 of the Articles of Association, as a Director of the Company.

(3) To elect Mr. A.C.M Lafir who retires in terms of Article 97 of the Articles of Association, as a Director of the Company.

(4) To elect Ms. A. Goonetilleka who retires in terms of Article 97 of the Articles of Association, as a Director of the Company.

(5) To re-appoint Messrs. Ernst & Young as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.

(6) To authorise the Directors to determine and make donations for the year ending 31 March 2022 and up to the date of the next Annual General Meeting.

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

(Sgd.)
SOFTLOGIC CORPORATE SERVICES (PVT) LTD.
Company Secretaries
Colombo
29th June 2021

Note:

1. A Shareholder who is entitled to participate, speak and vote at the meeting is entitled to appoint a proxy to attend and vote on behalf of him/her by electronic means as per the attached guidelines.
2. A proxy need not be a Shareholder of the Company.
3. The Form of Proxy is enclosed for this purpose.
4. Shareholders are advised to follow the Guidelines and Attendance Registration Process for the Annual General Meeting attached hereto.

Notes

Form of Proxy

**I/We .... of ....
.... being *a member/members of SOFTLOGIC FINANCE PLC, do hereby appoint ....
.... (holder of N.I.C. No. ....)
of.. or failing him

Mr A Russell-Davison	of Colombo or failing him*
Mr. H K Kaimal	of Colombo or failing him*
Mr. A. C. M. Fernando	of Colombo or failing him*
Mr. D. P. Renganathan	of Colombo or failing him*
Mr. M. H. P. Wijesekera	of Colombo or failing him*
Ms. A. Goonetilleka	of Colombo or failing him*
Mr. A.C.M Lafir	of Colombo

as *my/our Proxy to represent *me/us and to speak and vote for *me/us on *my/our behalf at the 13th Annual General Meeting of the Company to be held by electronic means on 24th August, 2021 at 10.30 a.m. 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 2021 together with the Report of the Auditors thereon.		
2. To re-elect Mr. H K Kaimal who retires by rotation in terms of Articles 91 and 92 of the Articles of Association, as a Director of the Company.		
3. To elect Ms. A. Goonetilleka who retires in terms of Article 97 of the Articles of Association, as a Director of the Company		
4. To elect Mr. A. C. M. Lafir who retires in terms of Article 97 of the Articles of Association, as a Director of the Company		
5. To reappoint Messrs. Ernst & Young, as Auditors and to authorise the Directors to determine their remuneration.		
6. To authorise the Directors to determine and make Donations		

Signed this .... day of .... Two Thousand and Twenty One.

....
*Signature/s

Note:
1. A proxy need not be a shareholder of the Company.
2. Instructions as to completion appear overleaf.

INSTRUCTIONS AS TO COMPLETION

1. The full name, National Identity Card number and the registered address of the shareholder appointing the Proxy and the relevant details of the Proxy should be legibly entered in the Form of Proxy which should be duly signed and dated.
2. The completed Proxy should be forwarded to the Company for deposit at the Registered Office through the Company Secretaries, Softlogic Corporate Services (Pvt) Ltd, No.14, De Fonseka Place, Colombo 05 marked "Softlogic Finance PLC – 13th Annual General Meeting" or email corporateservices@softlogic.lk not later than 48 hours before the time appointed for the Meeting.

   In forwarding the completed and duly signed Proxy to the Company, please follow the Guidelines and Attendance Registration Process for the Annual General Meeting attached to the Notice of Annual General Meeting.
3. The Proxy shall –

   (a) In the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.

   (b) In the case of a Company or Corporate / statutory body either be under its Common Seal or signed by its Attorney or by an Officer on behalf of the Company or Corporate / statutory body in accordance with its Articles of Association or the Constitution or the Statute. (as applicable)
4. Please indicate with a 'X' how the Proxy should vote on each resolution. If no indication is given, the Proxy in his discretion will vote as he thinks fit.