සියපත ෆිනෑන්ස්
சியபத பினான்ஸ்
Siyapatha Finance
(Finance Company of Sampath Bank Group)

Siyapatha Finance PLC

Annual Report 2018

A STORY OF INNOVATION

At Siyapatha Finance, we tirelessly work towards transforming the way people live through the creation of innovative financial solutions.

A SPIRIT OF PARTNERSHIP

Over the years we have fostered and nurtured relationships with all our stakeholders, building partnerships that last a lifetime.

A SYMBOL OF TRUST

Our steadfast, prudent strategies, and our impeccable track record has garnered us a reputation of security and trust among Sri Lankans across the island.

PROVIDING INCLUSIVE SOLUTIONS

We are banking the unbankable, distributing wealth and value across the nation - powering communities and enriching lives.

DEDICATED TO SERVE

Our commitment to our customers remains unmatched - focusing on their needs remains a priority in all aspects of our operations.

TRANSFORMING THE FUTURE

We are reaching across boundaries to serve our stakeholders with vast stores of value - looking ahead with a farsighted vision, transforming the future as we know it.

A VIBRANT FUTURE

Since our inception, at Siyapatha Finance, we have emphasized a spirit of care, innovation, prudence, and strong ethical practices as key drivers in our story of success. Year on year, we have built on this firm foundation to bring innovative solutions that deliver nothing but the best to our stakeholders across the island.

Today we are proud to partner with thousands of Sri Lankans to transform their lives, enabled by our unwavering commitment to our customers, and our dedication to serve. As we work towards our goal to become the most innovative and trusted premier financial services provider, we are future focused – embarking on a journey of growth, with the promise of a vibrant future.

OUR VISION

To be the most innovative and trusted premier financial services provider.

OUR MISSION

To provide flexible and creative solutions to customers and generate greater values to our stakeholders while assuring corporate governance through an empowered professional team.

CONTENTS

2 - 18

ABOUT US

20 - 60

MANAGEMENT DISCUSSION & ANALYSIS

OUR VALUES

GRI 102-16

- Loyalty
- Openness
- Trust
- Unity
- Service Excellence

ABOUT US

COMPREHENSIVE PRODUCT PORTFOLIO

GRI 102-7

Siyapatha Finance PLC is a key player in the country's Non Bank Financial Institutions sector with a network of 30 branches in principal cities and towns, powered by a dynamic team of 597 employees. Incorporated in 2005 as a specialized leasing company, we transformed to become a full service finance company in 2013, remaining a 100% owned subsidiary of Sampath Bank PLC throughout our journey.

Rating: Issued by Fitch Ratings Lanka

National Long Term Rating: A- (lka)

Outlook: Stable

Last Revision: June 2018

Key Numbers

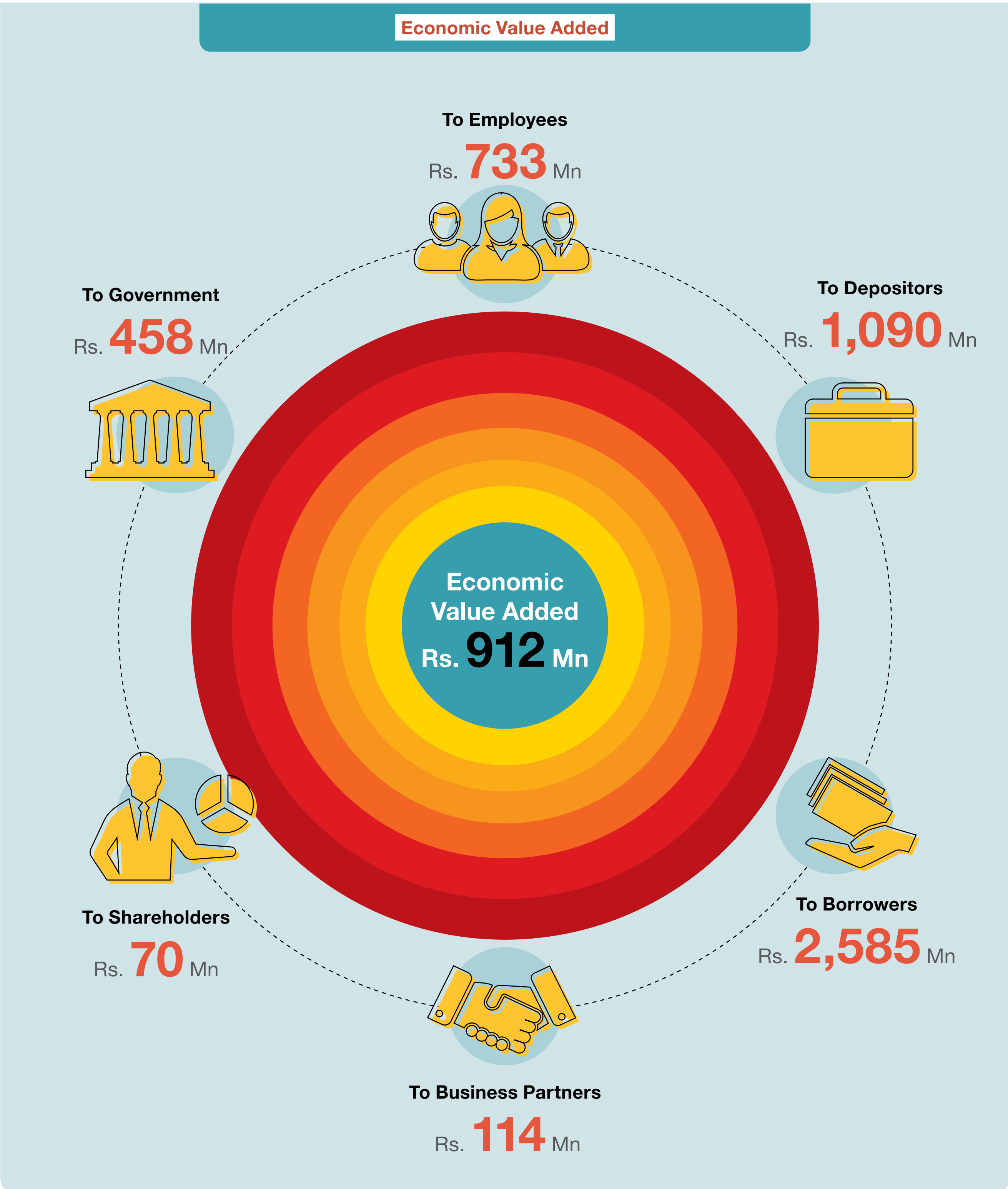
Profit After Tax	Total Assets	Interest Earning Assets	Deposits
Rs. 517 Mn	Rs. 36,166 Mn	Rs. 34,785 Mn	Rs. 9,672 Mn

Comprehensive Product Portfolio

Leasing	Loans	Micro Leasing	Gold Loans	Factoring

ECONOMIC VALUE ADDED

GRI 201-1



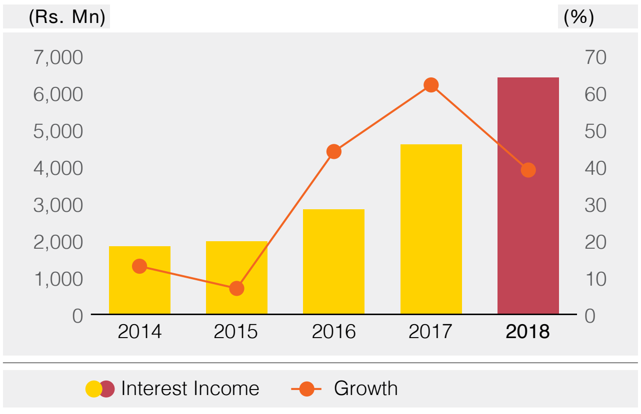
FINANCIAL HIGHLIGHTS

GRI 102-7

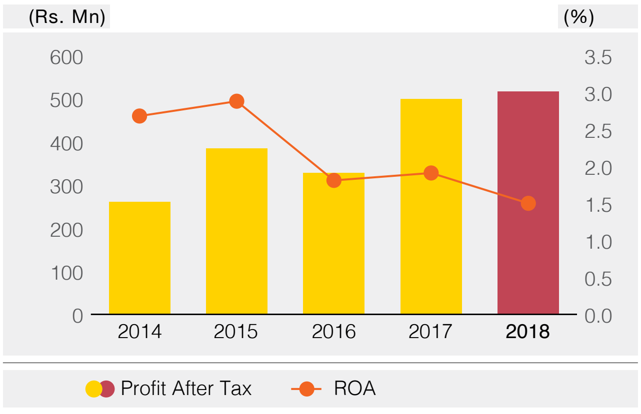
	2018	2017	Change(%)
Financial Performance (Rs.Mn)			
Interest income	6,396	4,599	39.1
Net interest income	2,716	1,835	48.0
Total operating income	3,283	2,301	42.7
Operating expenses,credit loss expense and taxes on financial services	2,450	1,516	61.6
Net profit before taxation	834	785	6.2
Tax expense	317	286	10.8
Net profit after taxation	517	499	3.5
Financial Position (Rs.Mn)			
Due to other customers	9,672	9,334	3.6
Total lending portfolio after credit loss expense	33,013	27,313	20.9
Total equity(Capital and reserves)	3,541	2,478	42.9
Total assets	36,166	29,811	21.3
Profitability (%)			
Return on assets	1.50	1.91	(21.5)
Return on equity	16.84	23.05	(26.9)
Cost to income ratio	40.46	45.56	(11.2)
Investor Information (Rs.)			
Earnings per share	8.52	8.70	(2.1)
Net assets value per share	55.68	44.43	25.3
Dividend per share	0.50	1.25	(60.0)
Dividend payout ratio (%)	5.87	13.98	(58.01)
Regulatory Ratios (%)			
Core capital ratio (Tier I)	9.40	9.44	(0.4)
Total capital ratio (Tier I+ Tier II)	12.21	14.16	(13.8)
Liquid assets ratio	7.68	7.75	(0.9)

	2018	2017	2016	2015	2014
Financial Achievements (%)					
Return on average assets	1.50	1.91	1.81	2.87	2.53
Return on average equity	16.84	23.05	18.35	25.91	21.83
Growth in profit after tax	3.54	52.43	-14.89	47.79	17.74
Growth in assets	21.32	43.38	42.02	40.52	15.94
Cost to income ratio	40.46	45.56	52.78	49.21	45.73
Capital adequacy ratio					
Tier I	9.40	9.44	10.62	12.25	13.95
Tier I + Tier II	12.21	14.16	13.93	18.34	20.92

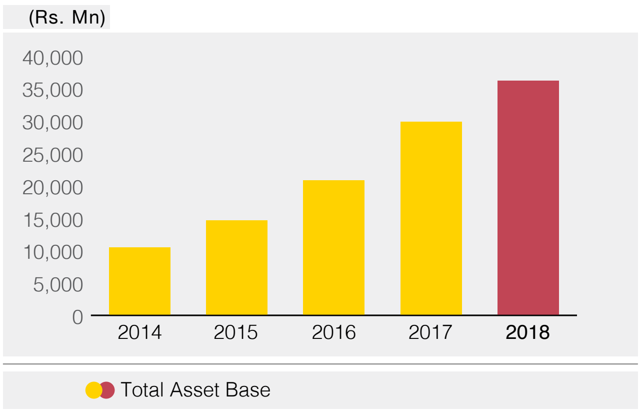
Interest Income and Growth



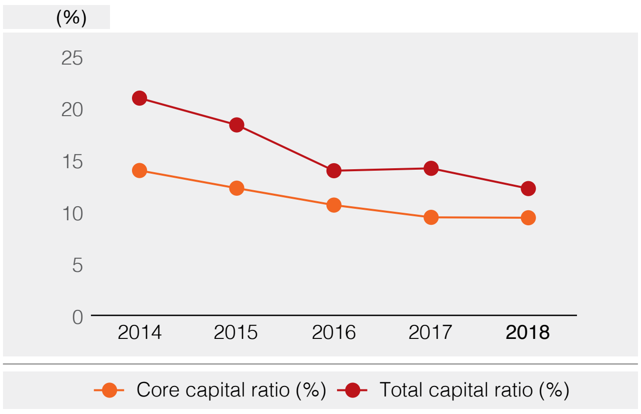
Profit After Tax and ROA



Total Asset Base



Capital Adequacy Ratio



INTEREST INCOME (Rs. Mn)

2018 **6,396**

2017 **4,599**

COST TO INCOME RATIO (%)

2017 **45.56**

2018 **40.46**

TOTAL ASSETS (Rs. Mn)

2018 **36,166**

2017 **29,811**

NET ASSETS VALUE PER SHARE (Rs.)

2018 **55.68**

2017 **44.43**

NON-FINANCIAL HIGHLIGHTS

Social & Relationship Capital

	2018	2017
Customers		
Interest to Depositors (Mn)	1090.19	708.14
Access Points (Branches)	30	26
Business Partners	114.13	96.78
Government		
Taxes Paid (Mn)	644.02	538.9

Human Capital GRI 102-7

Non-Financial Indicator	2018	2017
Total Employees	597	540
New employees	74	231
Attrition Rate (%)	23%	16%
Return to work after maternity	100%	100%
Total training hours		
Male	10962.54	11,378
Female	5399.46	4,208
Skill Development Programmes	118	112
Percentage of Employees receiving performance evaluations	100%	100%

Manufactured Capital

	2018	2017
Fixed assets NBV (Mn)	615.40	455.14
Depreciation & amortisation (Mn)	66.45	56.06
Fixed Assets - Additions (Mn)	141.96	68.45
Investments in Technology (Mn)	89.74	5.99

Natural Capital GRI 302-1, 3, 4

Non-Financial Indicator	2018	2017
Energy Consumption (Units)	995,274	928,381
Energy Intersity Per Employee	1,667	1,719
Paper Recycled (Kg)	829	2,101

ABOUT THE REPORT

GRI 102-50,52

We present our fifth integrated annual report providing a comprehensive but concise review of our business performance for the financial year ended 31st December 2018, our 14th year in operation. It provides an overview of the business model of the Company, our strategy, governance and performance of the Company with a view to upholding the trust and confidence of our stakeholders.

Our Integrated Annual Report has been prepared in compliance with regulatory requirements, standards and frameworks given below:

GRI 102-12,54

Regulatory Requirements	Voluntary Frameworks
• Companies Act No.7 of 2007 • Finance Business Act No. 42 of 2011 • Finance Companies Direction No.03 of 2008 and the subsequent amendments thereto on Corporate Governance for Registered Finance Companies issued by the Central Bank of Sri Lanka • Continued Listing Requirement of the Colombo Stock Exchange • Sri Lanka Accounting & Auditing Standards Act No.15 of 1995 • Sri Lanka Financial Reporting Standards	• Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission Sri Lanka • Integrated Reporting Framework • GRI Standards "In accordance - Core"

SCOPE & BOUNDARIES GRI 102-46

The financial and non-financial information presented in this report pertain to Siyapatha Finance PLC and is derived from records maintained by the entity. We have provided industry benchmarks and country specific information where relevant to provide context to users of this report to gain further insight which have been obtained from publications or statistical tables of the Central Bank of Sri Lanka which are available to the public.

DATE OF MOST RECENT REPORT GRI 102-51

Annual Report of the year ended 31st December 2017.

FORWARD LOOKING STATEMENTS

This report includes forward - looking statements, which relate to the possible future financial position and results of Siyapatha Finance PLC, which can materially differ in consideration to risk and uncertainties. No obligation is undertaken to update or revise any of these forward-looking statements publicly, pertaining to the events or circumstances which may occur after the date of this report or in relation new or future information anticipated.

EXTERNAL ASSURANCE GRI 102-56

External assurance on the financial statements has been provided by External Auditors, Messrs. Ernst & Young, Chartered Accountants and their audit report is reproduced on page 139. They have also provided assurance on the non-financial information provided in the report and this report is reproduced on page 228 of this report.

CONTINUOUS IMPROVEMENT

Our report continues to evolve along with our knowledge and understanding of various aspects of reporting. It also drives changes in our internal reporting systems as we enhance the information available for decision making, facilitating optimum allocation of resources. Key changes to this year's report are as follows:

- Clear linking of strategy and KPIs strengthening the **strategic focus** of the report
- Enhance **connectivity of information** by signposting to key areas through the value creation model and strategy.
- Presentation is more **concise** with a reduction of 28 pages in comparison to the previous year.
- We continue to provide **comparable** information throughout the report using external sources.

For inquiries about this report, please contact: GRI 102-53

Head of Finance
Siyapatha Finance PLC
No 46/12, Nawam Mawatha
Colombo 02

Tel : 0117 605605
Fax : 0117 605606

MILESTONES

2005

Incorporation of the Company & obtained 'Specialised Leasing Company' status

Opening of branches in Kandy & Matara

2010

Appointment of New Corporate Management

2013

Received the 'Registered Finance Company' status

Rebranded as "Siyapatha Finance Limited"

Launch of Gold Financing business

2014

Appointment of New Chairman to Board of Directors

LKR Bn 1

Issuance of its first listed, rated, unsecured, subordinated, redeemable debentures to the value of LKR 1 Bn

2015

Changed the name as "Siyapatha Finance PLC"

Commenced Deposit Mobilization from the general public

2016

Appointment of New Chairman and Managing Director

Launch of Personal & Business Loans

Relocation of Negombo Branch.

2017

+2

Addition of two branches to the Branch network - Galle & Panadura

'Trust Assured'

Launch of first corporate campaign along with corporate logo and tagline 'Trust Assured'

LKR Bn 1

Issuance of rated, unsecured, subordinated, redeemable debentures to the value LKR 1 Bn

2018

+2

Appointment of Two Directors to the Board of Directors

Tier 1

Successful Rights issue to increase the Tier I Capital of the Company

+4

Addition of four branches to the Branch network - Kiribathgoda, Maharagama, Wattala & Hatton

= 18

Expanded the branch network to 18 Branches

= 24

Expansion of branch network to 24 Branches
Opened branches in Gampaha, Kalutara, Trincomalee and Wellawatte.

LKR Bn 2.5

Issuance of second listed, rated, unsecured, senior, redeemable debentures to the value of LKR 2.5 Bn

Relocation of Kurunegala Metro Branch

Taking initiatives to implement "Finacle Core Banking System" to become the first in the NBFI sector 2017

+2

Appointment of New Chairman and Two Directors to the Board of Directors

= 30

Branch network had expanded to 30 Branches

Construction of New Head Office building commenced

Delivering outstanding stakeholder value

GRI 102-14

Despite macroeconomic and competitive challenges, I am happy to announce that Siyapatha Finance PLC posted a health performance for 2018, which I believe testifies to the strength, management and operational efficiency of the business.

Q : HOW DO YOU DESCRIBE THE OPERATING ENVIRONMENT FOR THE YEAR?

A : I must admit it was quite a challenging year for Siyapatha Finance as was case for the entire NBFI sector. On our part, one of the main challenges we faced on the lending side was the stricter regulatory controls being imposed on the non-bank financial services sector. For instance, the ongoing revisions to the LTV ratio continued to impact our leasing business, while the CBSL's decision to place an interest rate cap on micro finance loans had a bearing on our ability to gain traction in that particular segment as well. In addition to these regulatory challenges, the weak economic conditions in the country coupled with adverse weather had a brought pressure on many key sectors of the economy in turn dampening the general credit appetite in the private sector.

Q : IN LIGHT OF THESE DEVELOPMENTS, WHAT WAS THE STRATEGIC FOCUS FOR SIYAPATHA FINANCE?

A : Given the challenges in our immediate operating environment we were compelled to revisit our lending strategies and opted for a prudent approach in the interest of maintaining overall portfolio quality. In this context, we focused on a selective lending strategy to grow the leasing portfolio and took steps to consolidate the factoring and micro finance portfolios in order to minimize the risk of NPA's. At the same time, recovery efforts were strengthened to curb NPL's. Meanwhile, seeing strong growth potential in the Gold Loan business, renewed emphasis was placed on deepening the penetration across the island.

We were also quite aggressive in our deposit mobilization activities, but found severe competition within the NBFI sector to be quite a challenge.

Another key priority was complying with the CBSL's new capital adequacy limits for NBFI's, which we were able to do thanks to the Rs. 250 Mn and Rs. 400 Mn capital infusion made by our parent - Sampath Bank PLC in January 2018 and November 2018 respectively.

Q : HOW SUCCESSFUL WERE THESE EFFORTS IN ACHIEVING THE DESIRED RESULTS?

A : Despite macroeconomic and competitive challenges, I am happy to announce that Siyapatha Finance PLC posted a health performance for 2018, which I believe testifies to the strength, management and operational efficiency of the business. Total deposit base grew by Rs. 338 Mn thus ensuring we have a strong base from which to lend. Our total assets for the year ending 31st December 2018 grew to Rs. 36.17 Bn, up from Rs. 29.81 Bn in the previous year. The loan book grew by 20.87% year on year, a considerable achievement amidst tough conditions. Meanwhile, NPL's increased from 2.91% in 2017 to 7.57% in the year under review, as subpar economic performance had a cascading effect on several key sectors of the economy. Consequently, our profit growth for the year was restricted due to higher impairment costs, with profit after tax growing only marginally over the previous year to reach Rs. 516.52 Mn in 2018. Nonetheless, I am happy report that our capital base remains strong with capital adequacy limits as at 31st December 2018 well within CBSL requirements.

Q : WHAT WERE THE MAJOR OPERATIONAL PRIORITIES FOR 2018?

A : Changes to our structural capability and processes across our key distribution channels with a view to expanding our reach continued to be a high priority for the business. To ensure our customers have access to products and services to meet their exact need, throughout 2018, we continued to focus on providing outstanding customer service, and quality, competitively priced products delivered through robust and efficient business systems, as well as knowledgeable and committed people.

Given our increasingly complex operating environment, efficient and effective risk management was also considered a critical priority. Throughout 2018, we continued to work diligently to identify, analyze and manage the current and emerging risks within the business. Meeting our regulatory and other compliance obligations is an important part of this framework.

Q : WHAT ARE YOUR EXPECTATIONS FOR THE COMPANY, GOING FORWARD?

A : Seeing that our strategic plan has delivered positive results so far proves that we are on the right track. While an economic revival will certainly boost the prospects of the Company, I remain skeptical of it materializing in the coming year. Hence, we will continue to further refine our strategies to become more dynamic and improve the scalability of our business even in tough times. Going forward, we expect to focus on customer growth as a means or driving new business in our key target markets. Continuous and ongoing process improvements and investments in digital technology that better deliver on the future needs and expectations of our customers will therefore be our main priority. Essentially our aim is to ensure that our customers remain at the heart of every business decision we make in the years ahead.

Board changes

I am pleased to welcome Mr. Rushanka Silva and Mr. Janakan Selvaratnam, both of who were appointed to the Siyapatha Board as Non Executive Directors with effect from 01st June 2018 and 18th December 2018 respectively.

Mr. Parakrama Maithri Asoka Sirimane resigned from his position as a Non Executive Director on 15th October 2018. I thank him for the valuable service rendered by him over the past 8 years and wish him well in his future endeavors.

Appreciations

To conclude, I wish to express my sincerest appreciation to my colleagues on the Board for their support and enthusiastic participation in all Board matters. It is with great pride that I acknowledge the efforts of our Managing Director and his team, including senior management and all Siyapatha employees who have worked tirelessly to ensure the Company succeeds despite all odds. A special word of thanks also to Team Sampath for their commitment to Siyapatha.

I would also like to thank the Governor and officials at the Department of Supervision of Non- bank Financial Institutions of the Central Bank of Sri Lanka, the officials at the CSE and the SEC for the support and corporation extended to us at all times.

I take this opportunity to thank all Siyapatha customers, and other stakeholders for their unstinted support extended to us over the years. It is your trust that gives us the confidence to scale even greater heights in the future.

Channa Palansuriya
Chairman

28 February 2019

Empowering people, businesses & communities

Managing Director's Review

Financial year 2018 was another successful year for Siyapatha Finance PLC despite the macroeconomic challenges faced by the industry. Clear strategic direction well supported by the team enabled us to continue our growth trajectory in 2018 increasing our asset base by 21.32% to Rs. 36.17 Bn outpacing the NBFI industry growth rate of 5.63%.

Financial year 2018 was another successful year for Siyapatha Finance PLC despite the macroeconomic challenges faced by the industry. Clear strategic direction well supported by the team enabled us to continue our growth trajectory in 2018 increasing our asset base by 21.32% to Rs. 36.17 Bn outpacing the NBFI industry growth rate of 5.63%. Growth was funded mainly by deposits, borrowings, debentures and equity funds optimizing net interest earnings through careful management of cost of funds resulting in liabilities increased by 19.37% to Rs. 32.63 Bn. Net interest income increased by Rs. 2.7 Bn recording 48% growth over the previous year due to the prudent ALCO management.

Shareholders' funds recorded an increase of 42.88% to Rs. 3.54 Bn reflecting an increase of Rs. 1,062 Mn in comparison to the previous year mainly attributed to capital infusion done by the parent company, Sampath bank through Rights issues and enhanced retained earnings thereby maintaining minimum capital required by the Company by 2021, as per the direction of the Central Bank of Sri Lanka.

EXTERNAL ENVIRONMENT & CHALLENGES

The performance of Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) slowed down significantly during 2018 due to low credit growth, declining profitability increasing nonperforming loans and stringent provisioning policy due to the adaptation of SLFRS 9 accounting standards. The slowdown in the sector was also a result of moderate economic growth and the impact of natural calamities, such as floods and drought conditions that prevailed in 2017 and the first half of 2018. Policy measures taken to curb excessive demand for vehicle imports and the adverse movement of exchange rates also impacted the sector significantly.

Several regulations were introduced to strengthen non-bank financial institutions during 2018. A financial customer protection framework was introduced to protect customer interests and to strengthen customer confidence in the sector.

A new capital adequacy framework for LFCs and SLCs was implemented with a view to fostering a strong emphasis on risk management and to encourage ongoing improvements in the risk assessment capabilities of the sector.

OVERALL PERFORMANCE

We recorded 37.45% growth in our revenue from Rs. 5.07 Bn in 2017 to Rs. 6.96 Bn in 2018 mainly contributed by income from stronger increase in leasing portfolio supported by the growth in the gold financing portfolio. We recorded Profit before Tax (PBT) of Rs. 833.79 Mn and Profit after Tax (PAT) of Rs. 516.52 Mn compared with Rs. 785.24 Mn and Rs. 498.86 Mn in the previous year respectively.

Our net interest income (NII) grew by 47.99% from Rs. 1.83Bn to Rs. 2.72 Bn from the previous year. Timely re-pricing of assets and liabilities and effective management of funding bases improved the NIM from 7.01% in 2017 to 7.86% in 2018. Our ROA and ROE were recorded at 1.50% and 16.84% respectively thereby recording highest contribution to the group profits out of the subsidiaries of the Sampath Bank Group.

As a measure to reaffirm our ability to withstand fluctuations in business and reduce our vulnerability in adverse business cycles to our strategy, we have been adopting a strategy of retaining profits which has had a positive impact. This strategy additionally supported the capital infusion from parent and has enabled us to maintain our capital adequacy ratios well above CBSL's statutory minimum requirements. Our Capital Adequacy Ratios were 9.40% and 12.21% for Tier 1 and Total Capital respectively, which are well above the regulatory minimum thresholds of 6% and 10%.

ADVANCES PORTFOLIO

The loans and advances grew by 20.87% from Rs. 27.31 Bn to Rs. 33.01 Bn during the financial year. The growth levels were mainly attributable to the Rs. 5.73 Bn increase in the leasing portfolio and increase in gold loan portfolio by Rs. 985 Mn during the year.

Our timely decision to maintain a higher composition of fixed interest related asset backed portfolio as well as variable interest related loan portfolio was achieved through our aggressive marketing endeavors, offering effective solutions based on the customers' unique needs and the timely processing of the facilities within the expectations of the customers well above the industry standards.

Factoring portfolio witnessed a decline of Rs. 567 Mn in year 2018 mainly due to conscious decision to concentrate more on the other lending products considering the adverse macroeconomic conditions prevailed in the market.

We are investing consistently in our people development initiatives which will lead Siyapatha to greater heights and gear us to offer financial solutions moving away from a conservative product centric approach.

The Sri Lankan economy faced heightened challenges in 2018, emanating mainly from the global economic, financial and geo-political developments that adversely affected the external sector. There were also several domestic challenges including political uncertainties, especially during the last quarter of the year, which amplified challenges to overall macroeconomic stability. Sub-par economic growth continued in 2018 following subdued growth in 2017. All these factors have contributed to deteriorate the credit quality in the market and NPL ratios of the industry went up in year 2018. Our gross and net NPL ratios deteriorated from 2.91% to 7.57% and 0.55% to 2.54% respectively during 2018, compared to the previous year.

COST TO INCOME

A healthy cost to income ratio of 40.46% prevailed during the Financial Year 2018, another milestone achievement, which is a significant improvement from 45.56% the previous year. This positive reduction is mainly attributed to the reduced cost of operations emanating from rationalization of cost of existing branches along with our special cross functional team's efforts of reviewing cost containment activities to minimize wastage whilst improving overall productivity. Our strategy on eliminating stationery costs by moving towards online processing and e-channel communication substantially reduced costs while improving the effectiveness of timely decisions.

FUNDING BASE

Our funding base comprises of borrowings from banks, deposits from the public and debentures. Since becoming a licensed finance company, we commenced mobilizing deposits from the public in 2015. We strike a balance between the public deposits and bank borrowings in order to maintain the overall cost of funds at minimum with a view to improve the net interest margins of our operation. For the year under review, the main funding source was bank borrowings.

BRANCH EXPANSION

During the year, we expanded our geographical footprint by opening 4 new branches at strategic locations, majority being placed in the western province where break even period is comparatively lower. However, our aggressive branch expansion plans were somewhat slowed down due to the factors stemming from the external environment. Our prudent planning and execution in capital expenditure on new branch improvements minimize the impact on the cost income ratio.

TECHNOLOGY PLATFORM

The Company is in the process of implementing a comprehensive core banking system - Finacle to build up a strong IT platform. Thus, the Company will be able to transform itself as a robust IT driven solution provider to extend more service benefits to our customers.

Through our elevated IT platform, we will be able to seamlessly integrate our services across channels and provide a wide cross section of products to our customers with quick turn-around time. Embedding all back-office functions on the said platform would ensure more control over business processes and significant improvement in branch productivity while effectively reducing the cost of human resources.

CORPORATE SOCIAL RESPONSIBILITY

As a finance company with a network of 32 branches, we always believe in community engagements where we share our success with local communities by actively participating in socio economic development activities. In addition to supporting economic development activities by empowering entrepreneurs by adopting environmental friendly lending practices, branch managers are engaged in various social activities under the guidance of the CSR Steering Committee. This included helping the flood victims, supporting the annual religious ceremonies, supporting school development activities and helping in organizing and funding events for differently able communities.

We maintain a closer relationship with all major universities of the country by offering internships for their students reading for various degree programs up to a period of six months, offering them the opportunity to learn the dynamics of the real business environment and be familiar with work practices. These training opportunities helped them practice what they learn from their study programs.

In addition, we launched another CSR project with the objective of minimizing road accidents with Sri Lanka Police conducting an education program on road safety mainly focusing on the motor cycle riders on account of the unprecedented increase in the fatal road accidents.

RISK MANAGEMENT AND COMPLIANCE

The Company continued to strengthen the its risk management and governance framework in Financial Year 2018 in line with the expectations of the regulators to ensure the going concern and the sustainability.

Considering the challenging macro environment that prevailed in country during the year, integrated approach taken by the Company in managing overall risk in the ensured that interest of all stake holders were secured.

Timely taken risk mitigating initiatives in terms of credit risk, operational risk and market risk ensured that adverse effects of potential risk events were removed or reduced.

POWERED BY PEOPLE

On our journey towards becoming the "Preferred employer" , Employer of choice" and to be the most innovative and trusted premier financial services provider, our team's dedication, competency, and professionalism support to generate greater values to our stakeholders and sustainability of the Company.

With the introduction of the tagline "Trust Assured", we are much obliged to position ourselves with greater responsibility to be able to reflect the highest standards in our behavior and professional conduct of our team and our learning and development programs are structured catering to these needs.

Our talented, passionate and dedicated team, are the roots of our success. We are in the process of streamlining the business models and re-engineering processes to optimize the synergies to ensure the efficient and agile organizational performance is in line with strategic business plan. Over the years, we have strengthened our team with a diverse mix of professionals and vibrant young individuals, with varied professional backgrounds, expertise in financial , banking and other sectors to help the Company to be competitive in the market . Our team's commitment and hard work was reflected in the increase of productivity, products 'quality and higher number of innovations. Our satisfied employees form positive reference to the employer and thus increase its attractiveness for potential job seekers and strengthen its competitive position in the market.

Strengthening the capabilities of each individual employee is an important part of corporate growth. To that end, we are creating opportunities and environments locally and offshore where employees can develop their knowledge, skills and capabilities to demonstrate leadership, possession of specialized skills, and ability to accept and lead reforms. We are investing consistently in our people development initiatives which will lead Siyapatha to greater heights and gear us to offer financial solutions moving away from a conservative product centric approach.

Our 360-degree performance appraisal system ensures that the staff performance is monitored and accurately captured. A performance based rewards system is in place to encourage and motivate the team to ensure steadfast achievement of set targets

New technologies and a workforce that is evolving as Millennials come of age are rapidly changing the business landscape. We believe that information technology (IT) is a key driver for sustainable business development. Our new business model and as part of HR strategy, we focus on directly impacting corporate strategic goals and customer service through technology. In order to improve the effectiveness of the team, we introduced new HRIS system to monitor the performances.

HEAD OFFICE BUILDING PROJECT

In April 2018, we commenced our Head Office Building project to construct a state of the art eighteen storey iconic building to house Siyapatha. We completed initial preparationary work including the piling in February 2019 and awarded the contract for the civil construction. Civil construction works to be commenced in early March 2019.

A NOTE OF APPRECIATION

My sincere gratitude goes out to the loyal customer base for their continued patronage and we look forward to serving them with dedication.

I wish to express my sincere thanks to the Board of Directors for its strategic leadership and I value the wise counsel and leadership of the Board of Directors led by Chairman, Mr. Channa Palansuriya and the Chairs of the respective Board Sub Committees.

Sincere appreciation is extended to the Chairman and Board of Directors of Sampath Bank PLC who have been a great pillar of support in our journey. The Governor of the Central Bank, the Director and team of the Supervision Division of the NBFIs of the Central Bank of Sri Lanka has always extended their guidance and advice which is greatly valued. Our business partners consisting of bankers, consultants, suppliers play an integral role and we look forward to a mutually rewarding partnership. To all the stakeholders of the Company, I wish to offer my sincere appreciation in partnering with us.

Last not by least, I take this opportunity thank team Siyapatha lead by the management team for your untiring efforts in achieving the corporate objectives of the Company despite the many challenges.

Saman Herath
Managing Director

28 February 2019

Driving excellence, positioned to grow

Incumbent Managing Director's Message

We will commence a multipronged approach to growth as we seek to enhance our relevance to customers through an expanding portfolio of financial services and also grow our footprint to enhance our reach and financial inclusion.

It is indeed an honour and privilege to lead this young company to greater heights in the coming years as I take the baton from Mr. Saman Herath who has ably steered it to its current position in an intensely competitive market. A growing domestic franchise, strong affiliations and a sound financial position provides a solid launching pad for our growth aspirations. It will be my responsibility to provide leadership to the dynamic team at Siyapatha Finance PLC with the guidance and counsel of an eminent Board of Directors to steer the company to realise its strategic goals. As Mr. Saman Herath's message provides a narrative of the performance of the company, I have focused on the way forward for Siyapatha Finance PLC.

WAY FORWARD

Our aspiration is to be a "One Stop Shop" for our clients with wide variety of financial services under Siyapatha Finance. Accordingly, we will commence a multipronged approach to growth as we seek to enhance our relevance to customers through an expanding portfolio of financial services and also grow our footprint to enhance our reach and financial inclusion.

We look to grow our branch network to 40 branches in 2019 extending our portfolio to introduce microfinance to rural markets to support their socioeconomic progress by inculcating saving habits and improving their lifestyle. Our heritage, affiliations with our parent and the business model enables us to compete effectively in delivering growth in this manner.

Our plans include expansion of our services to introduce Siyapatha/Lankapay/JCB ATM/Debit card to Siyapatha Clients with a view of providing fast, reliable, secure and convenient service to the clients. We will also leverage group synergies by facilitating deposits to Siyapatha Savings Accounts through Sampath Bank cash deposit machines island-wide which will enhance the number of customer touchpoints. We are also reviewing plans to decentralize micro leasing processes to enhance the turnaround time of facilities, enabling us to compete effectively.

Implementation of the Finacle Core Banking System, which was a first for a finance company in the country, enables us to improve our service levels and cost efficiencies. As the first company in the Finance sector last year, we successfully moved to the Finacle Core Banking System which has assisted us in creating an unified Application Systems Platform for streamlining the services on our core banking products. This year, we are going further in that path on migrating our Leasing system and Factoring operations to the Finacle Platform. Moreover, we have scheduled a series of IT-related enhancements in 2019 in regard to the automation of both the in-house and field-level operations which will certainly add value to our business strengths and carry our frontline to the doorstep of our customers.

OUR STRENGTH IS OUR PEOPLE

Our culture is fostered by our strong corporate values and a team spirit that has been carefully nurtured over the years. Our values drive our internal and external relationship and ensure that our business operations are conducted in an ethical and professional manner.

Siyapatha employee experience is focused on developing solutions at the workplace and driving excellence through leadership, innovation and engagement, building a learning environment for our people. The Human Resource policy of Siyapatha focuses on sustainable and profitable growth across the organization by inculcating a performance driven learning culture with a customer centric business model.

A diversified team comprising both seasoned and youthful employees forms a talent pool of skills and attributes that can power our growth. Our growth plans provide opportunities for many to align their personal and career goals, facilitating realization of their aspirations.

Our plans for the future include higher levels of employee engagement and welfare activities to strengthen the team spirit and maintain a healthy work life balance. As we promised, our main focus is to make Siyapatha a great place to work with happy and engaged employees who feel supported by the company providing a more robust service to all stakeholders,.

UPHOLDING VALUES

Businesses thrive when they have high levels of community engagement and are socially responsible corporate citizens. Siyapatha will continue its approach to sustainability and stakeholder engagement with a comprehensive programme of activities that will address the material issues within communities we operate in. A sustainable business model supports our growth, delivering value to key stakeholder and facilitating our growth.

I wish to thank the Board who have communicated their expectations and support for the growth plans outlined above. I look to their support in delivering on the strategic goals agreed upon for the year that has commenced. I also take this opportunity to commend Mr. Saman Herath who has guided this Company over the past three years and wish him success in his future endeavours. I look to the fullest support from my team to deliver ambitious plans as we commence what promises to be an exciting journey.

To our loyal customers, I extend my sincere appreciation of their patronage and look to their continued fruitful engagement as we grow together.

Ananda Seneviratne
Managing Director

26 March 2019

Management Discussion & Analysis

A future full of promise

OUR BUSINESS MODEL

GRI 102-2

We make money by providing finance to support the socioeconomic progress of our customers and also offering investment products to support their wealth management needs. Our business model graphically depicted below describes how we utilize and transform our stock of capitals to deliver value to shareholders.

Our Inputs

Financial Capital
page 32

Social & Relationship Capital
page 36

Manufactured Capital
page 42

Human Capital
page 44

Intellectual Capital
page 56

Key Business Lines

Deposits

We mobilise fixed deposits of varying tenors to finance lending activities through our branch network. Customers are paid interest on their deposits which vary with the period for which they are invested with us.

Leasing

We offer a wide range of Finance leasing and Hire Purchase solutions for a diversified range of customer segments to support lifestyle, business and other aspirations. Customers pay monthly installments which comprise interest and capital over a predefined period. Initial installments are weighted with interest while latter installments are weighted to capital as the loan balance decreases.

Gold

We enable customers to convert gold to cash for urgent personal or business needs. The articles are redeemed in lump sums or installments which include both interest and capital.

Loans

Personal and business loans are given to customers on varying terms and conditions for legitimate purposes. Both the purpose and the customer are evaluated to determine the terms and conditions which include the duration, interest rate and collateral among others.

Factoring

We purchase account receivable from businesses at a discount and advance up to 80% of their value supporting cashflow needs. A wide range of options facilitate debt management by our specialised team and processes.

Enablers

Corporate Governance

Compliance

Risk Management

Organization Culture

Finance

Performance & Talent Management

Internal Audit

Brand & Market Development

Legal

Value Delivered to Stakeholders in 2018

Depositors

Rs. 1,090 Mn Paid as Interest

Other Customers

Rs. 31,101 Mn Disbursed

Employees

Rs. 733 Mn Renumeration, Rewards & Other Benifits

Shareholders

Rs. 517 Mn Profit After Tax

Rs. 70 Mn Dividend Paid

Government

Rs. 458 Mn In Taxes

RESPONDING TO OUR STAKEHOLDERS

GRI 102-40, 42, 43, 44

We engage with our stakeholders using multiple channels, developing mechanisms and strong relationships that enable us to assess their concerns.

The table below provides a summary of our engagement and concerns identified throughout the year.

Customers

We attract customers through promotional activities across multiple platforms/channels on a regular basis

Engagement Mechanisms to assess concerns:

- Multi layered relationship management
- Customer Feedback Survey
- Customer Complaint Mechanism

Investor

As a 100% owned subsidiary, our interactions with the investor are frequent and includes representation on the Board

Engagement Mechanisms:

- 13 Board Meetings
- Quarterly financial statements
- Annual Report
- Annual General Meeting

Employees

An inspired team propels our growth

Engagement Mechanisms:

- Annual Employee Survey
- An open-door policy
- Annual Formal performance appraisals,
- Regular meetings
- Communication of company performance

Other Providers of Capital

Institutional lenders facilitate our growth by providing loans

Engagement Mechanisms:

- Regular meetings including top to top meetings
- Annual Report & Interim Financial statements

Business Partners

Business partners include dealers in motor vehicles who refer customers, loyalty partners who provide discounts to clients and suppliers

Engagement Mechanisms:

- Relationship management
- Feedback
- Visits

Regulators

We engage with government agencies to facilitate compliance with regulatory requirements

Engagement Mechanisms:

- Meetings
- Visits to premises
- Filing of returns/reports

Community

As a responsible corporate, we strive do more with less, operating a sustainable business. We also invest in the communities we operate in to support their wellbeing.

Engagement Mechanisms:

- Engagement with local communities through participation in social and cultural activities
- CSR Projects

GRI 102-40, 42, 43, 44

Concerns	How we addressed/managed concerns	Reference
Concerns: ◆ Interest rate charged/ paid ◆ Other terms and conditions of lending ◆ Financial performance & stability	**How we addressed concerns:** ◆ Financial stability ◆ Rating revised upwards in 2018 ◆ Product portfolio ◆ Streamlined processes ◆ Service excellence and turnaround times ◆ Expansion of customer access points	Refer Social & Relationship Capital Report on page 36
Concerns: ◆ Earnings & Dividends ◆ Growth prospects ◆ Environment & Social impact ◆ Governance ◆ Share price and liquidity	**How we managed concerns:** ◆ Growth of business portfolios ◆ Improved productivity and cost efficiencies ◆ Adherence to governance policies and processes ◆ Risk Management ◆ Financial stability	Refer Investor Information Report on page 58
Concerns: ◆ Remuneration ◆ Employee benefits ◆ Conducive workplace ◆ Training & Development ◆ Career progression	**How we managed concerns:** ◆ Benchmarked remuneration and benefits to industry stats ◆ Fair and transparent performance appraisal system ◆ Employee engagement initiatives	Refer Human Capital Report on page 44
Concerns: ◆ Profitability ◆ Interest cover ◆ Growth ◆ Stability ◆ Liquidity ◆ Timely repayments ◆ Compliance with debt covenants	**How we managed concerns:** ◆ Timely repayment of capital and interest ◆ Monitoring compliance with debt covenants ◆ Timely submission of financial information ◆ Effective meetings	Refer to Financial Capital Report on page 32
Concerns: ◆ Increase business ◆ Service excellence for their customers ◆ Timely payments	**How we managed concerns:** ◆ Regular meetings/visits to identify concerns ◆ Growth of business ◆ Timely payment	Refer Social & Relationship Capital Report on page 36
Concerns: ◆ Compliance with regulations ◆ Timely payments ◆ Timely filing of returns	**How we managed concerns:** ◆ Timely regulatory reporting ◆ Timely make regulatory payments ◆ Effective compliance function ◆ Rectifying regulatory concerns	Refer Corporate Governance Report on pages 78 to 108 and Investor Information Report on page 58
Concerns: ◆ Negative impacts of our business ◆ Support for capacity building, charitable and cultural activities	**How we managed concerns:** ◆ Managing our carbon footprint ◆ Donations to strategic philanthropic activities	Refer Social & Relationship Capital Report on page 36 and Natural Capital Report Page 54

STRATEGY

GRI 103-2,3

Material issues identified as critical, having a high or significant impact on the business growth of Siyapatha Finance PLC were taken into consideration in developing the corporate strategy summarized below.

Vision

To be the most innovative and trusted premier financial services provider.

Mission

To provide flexible and creative solutions to customers and generate greater values to our stakeholders while assuring corporate governance through an empowered professional team.

Strong Foundations

Our Values ▶ Corporate Governance ▶ Risk Management ▶ Compliance ▶ Culture

Strategic Pillars

	Business Growth	Asset Quality	Cost Efficiency	Inspired Employees	Information Technology
Key Areas of Focus	Accessibility & Convenience Excellence in Customer Service Group Synergies Balanced growth	Strengthen the Evaluation Process Enhanced Monitoring of facilities Centralising of Approvals	Increased Automation Rationalising Operational Processes Outsourcing	Be the Preferred employer Talent retention Talent Development	Implementation of Finacle Enhanced Network Security Digital Marketing Expansion
Key Performance Indicators & Our Achievements	Operating Income growth 42.68% Customer feedback score Portfolio growth by 20.87% Increased Leasing concentration by 4.79%	Non Performing Loans increased by 4.66% Impairment charge increased by 250.48% Gross non performing ratio less than industry average	Cost to Income Ratio reduced by 5.10% ROA reduced by 0.41%	Training Hours increased by 4.98% Remuneration, Rewards & Incentives growth by 15.93%	Timely delivery Revenue growth by 37.45%

DETERMINING MATERIAL ISSUES

GRI 102-46,47

We identify our material issues using inputs from our stakeholder engagement, strategy and a critical evaluation of our business model. Key factors impacting our performance and our ability to create value to the Company or the stakeholders are identified as Material Issues. We also use the GRI Standards as a reference point to ensure we cover key economic, social and environmental factors to ensure our list is comprehensive.

The list of material issues was then prioritized to determine the level of reporting required in our Annual Integrated Report by determining the relevance of each to the stakeholder and the Company using the grid below.

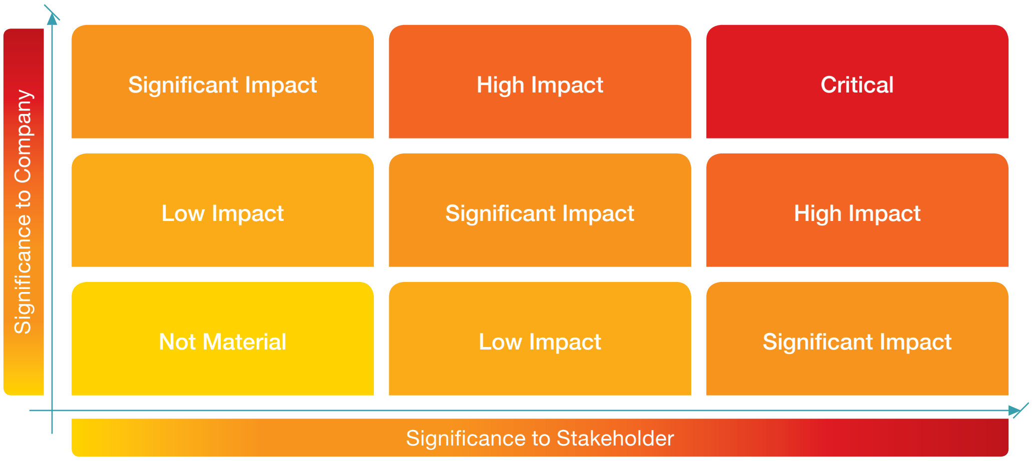
Key Performance Indicators identified for material issues are monitored throughout the year, with responsibilities assigned to relevant Heads of Department, to facilitate progress towards achievement of the objectives.

New To Our List

- Customer Satisfaction

Combined Issues

- Talent Management combines Employee Relationships, Staff Recruitment & Retention and Employee Engagement
- Corporate Governance combines Anti-Corruption and Business Continuity Planning



Critical	High Impact	Significant Impact
Customer Satisfaction	Brand equity	Green Lending
Corporate Governance	Customer Access	Local Community Relations
Financial Stability	Turnaround Time	Green Office
Profitability	Financial Inclusion	
Talent Management	Training & Development	
Risk Management	Customer Privacy	

Determining Material Issues

GRI 102-46, 47, 49 | 103-1

As Siyapatha Finance PLC is a single entity operating in Sri Lanka and as such, the boundary for all material topics covers all operations of the entity within the country.

2017	2018	GRI Reference
High	**Critical**	
Customer Convenience (High)	Customer Satisfaction	Includes GRI 418
Marketing & Labelling (High)		
Managing complaints (High)		
Anti-corruption practices (Medium)	Corporate Governance	
Profitability & Financial Performance (Hign)	Financial Stability	Includes GRI 201
	Profitability	
Employee Relationships (Medium)	Talent Management	Includes GRI 401, 405
Recruitment & Retention (Medium)		
Employee Engagement (Medium)		
Business Continuity Planning (H)	Risk Management	N/A
	High	
Brand Equity (High)	Brand equity	N/A
Customer Access (High)	Customer Access	N/A
Speedy & Efficient Service Levels (High)	Turnaround Time	N/A
Promoting financial inclusivity (Medium)	Financial Inclusion	N/A
Training & Development (Medium)	Training & Development	GI 404
Customer Privacy (High)	Customer Privacy	GRI 418
	Significant	
Promoting environmentally friendly lending & business practices (Medium)	Green Lending	N/A
	Green Office	GRI 302
Community Development (Medium)	Local Community Relations	GRI 413

Marketing and labelling, market presence, labour/ management relations and occupational health and safety topics were material in year 2017 where as same were not material in year 2018.

GRI 102-46 | 103-1

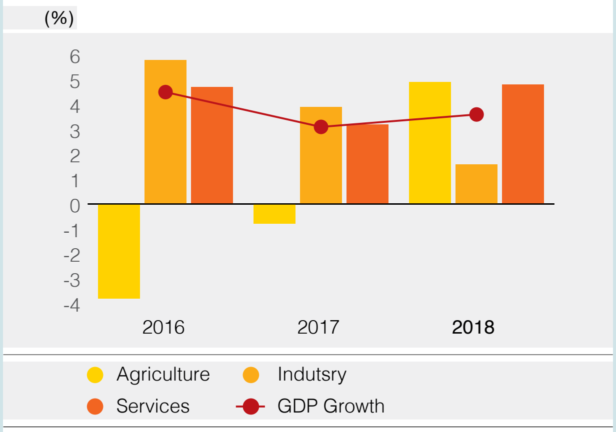
Rationale
Topics have been made more relevant to our business model, taking a holistic view.
Moved higher in priority due to regulation of industry
Profitability and stability were separated in view of the need to address the two issues separately
Topics have been combined and moved higher in priority in recognition of the relationships between the topics
Enlarged scope to cover overall Risk Management
Change in terminology to sharpen focus
Moved up in priority to sharpen focus on topic
Profitability and stability were separated in view of the need to address the two issues separately
Change in terminology to sharpen focus

OPERATING ENVIRONMENT

2018 was a challenging year for the Non-Banking Finance Sector as subdued economic growth combined with political and policy uncertainties impacted growth and performance . The Non-Banking Financial sector continued to provide access to finance through product diversification and strengthening of risk absorbing abilities.

Economic indicators Key

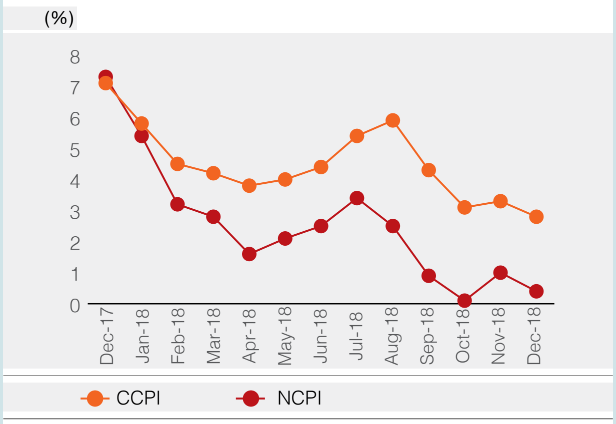
Annual GDP Growth Rate



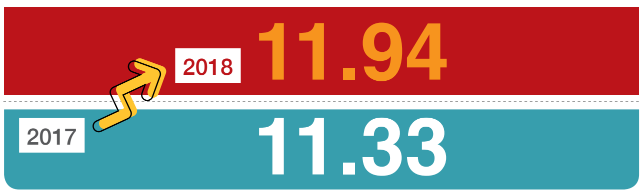
Source : CBSL

* First six months of 2018

Inflation: CCPI and NCPI YoY % Change



AWPLR (%)



SRI LANKAN ECONOMY

The Sri Lankan economy recorded a modest growth of 2.9%, year-on-year, during the third quarter of 2018. The main contributor for the growth during the beginning was the agricultural sector with the service sector taking over the lead from third quarter of 2018. The agriculture sector recorded positive growth after two consecutive years of negative growth due to favourable weather conditions. Services sector growth was supported by growth of the financial services sector due to expansion in private credit and introduction of new products. Performance of the industrial sector declined due to reduced activity in the construction industry. The triumphant restoration of EU-GSP+ reaped only an increase of 5.8% in export revenues while import expenditure increased by 10.9% during the same period as a result of the surge in the import of fuel, vehicles and textiles.

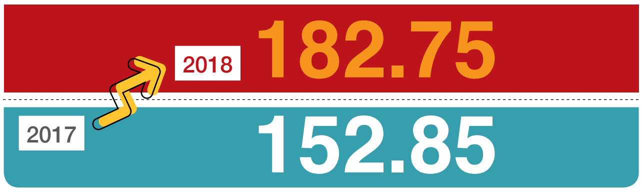
Headline inflation remained in low single digits as core inflation also remained low at 3.1% as at the end of 2018. Recent downward adjustments to fuel prices and selected administratively determined prices, as well as the reduction of Special Commodity and telecommunication levies, along with the ongoing recovery in the agriculture sector promoted the current single digit inflation.

Augmentation in import expenditure resulted in an expansion in the trade deficit coupled with a slowdown in worker remittances and Rupee depreciation. Measures were taken to arrest the situation by curbing imports of motor vehicles and non-essential goods which impacted NBFI sector growth.

Foreign investment outflows surpassed inflows which were very marginal during the latter part of 2018. Sri Lankan Rupee depreciated by 15.9% against the US dollar at the end of the year, pressurised due to widening trade deficit, tight conditions in the global markets and excessive speculation in the domestic market. Meanwhile, gross official reserves amounted to US dollars 7.0 billion at end November 2018, providing an import cover of 3.7 months.

The Monetary Board continues to maintain the current monetary policy along with the Standing Deposit facility rates and Standing Lending facility rates to further stabilize the overall economic conditions and domestic financial markets in the backdrop of increased private sector credit as well as continued pressure on external reserves. Interest rates remained high during the year due to liquidity constraints in the market.

EXCHANGE RATE (Rs./ USD)

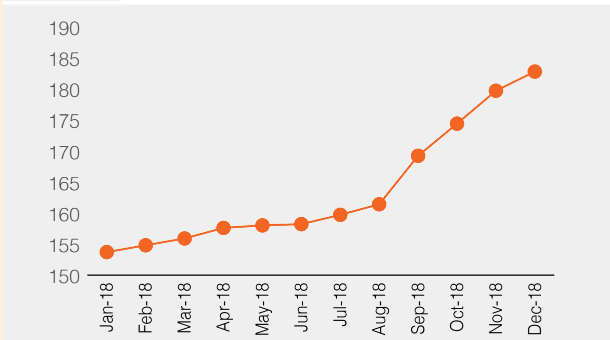


Performance

Sri Lankan Economic Performance

Exchange Rate Movement

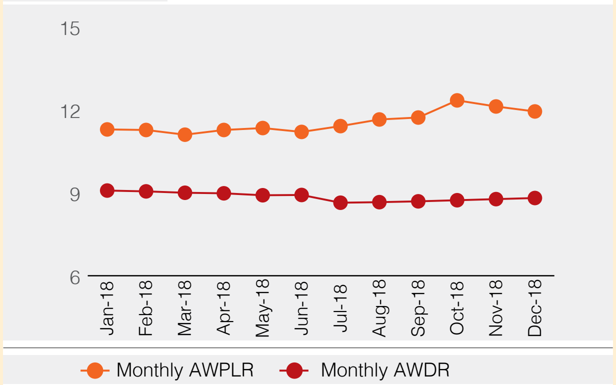
USD/Rs



Source : CBSL

Movement in Lending and Deposit Rates

(%) per annum



In December 2018, three major rating agencies down graded Sri Lanka's sovereign rating on the premise of heightened political uncertainty and concerns of a possible monetary slippage.

Outlook

The current projections show that inflation, on average, will remain below 5% in 2019 and stabilise in the range of 4% -6% thereafter with appropriate policy adjustments. However, the fiscal climate will remain uncertain with heavy debt repayments commencing from 2019 to 2022. Leading indicators and current projections suggest that Sri Lanka's real economic growth will remain below potential of 6% - 8% in 2019 as well, with low foreign investment in flows, tightening monetary conditions and fluctuating exchange rates. Continued low economic growth re-emphasises the need for implementing broad based structural reforms without further delay.

NON - BANKING FINANCIAL INDUSTRY SECTOR (NBFI)

Performance of the Non-Banking Financial Industry Sector, which includes Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs), decelerated as a result of moderate economic growth, policy changes and high interest rates that prevailed during the year.

The NBFI sector caters to seven million customers in the form of 60% borrowers and 40% depositors, funded mainly through public deposits (approximately 45%-56%), bank borrowings (approximately 32%-35%) and shareholder's capital infusion (approximately 8%-12%). It consists of 43 listed entities and 85% of the industry is dominated by 20 players with the balance 15% shared by the remaining 32 players. Total asset position declined in a significant manner by 2.9 % to Rs. 1.39 Trillion in the first half compared to a growth of 4.9% in the corresponding period of 2017. Loans and advances were the main contributor to this growth, expanding by 5% during the first half of 2018 stymied by a challenging business environment and high interest rates. Loans and Advances to the private sector and State owned enterprises grew during the period while lending to the Central Government decreased during the period. Credit was mainly concentrated amongst consumption (19.7%), wholesale & retail trade (16.1%), construction (13.9%), manufacturing (10.2%) and agriculture, forestry & fishing (8.3%) sectors.

Despite satisfactory capital and liquidity levels, asset quality and profits witnessed a degeneration with an increase in non-performing assets. CBSL's initiatives to revive frail financial companies and resolution of insolvent companies enabled the NBFI sector to perform. Meanwhile, the number of branches of non-bank financial institutions increased indicating an expansion in financial accessibility.

Rs. 16.6 billion was paid as direct taxes in 2017 by the industry. Alongside the above contribution to the nation, the industry has made an enormous impact in the living standards of the people and per capita income of the country.

THE CAPITALS REPORT

Our Capitals Report provides insights in to how we managed our capitals during the year to drive our performance and deliver value to our stakeholders.

Financial Capital

Comprises the net assets of the company which support our ability to generate sustainable value

Social & Relationship Capital

Relationships with our key stakeholders

Human Capital

Our team

Intellectual Capital

Our franchise, tacit knowledge of the people and systems and processes

Manufactured Capital

Primarily comprises our premises and investments in IT systems

Natural Capital

Materials and Energy used by us in operating our business

UNDERSTANDING OUR TRADE OFFS

We need to invest in managing our capitals and as resources are finite, we have to optimise our resource allocation resulting in trade offs between capitals.

Financial Capital and Social & Relationship Capital

Financial capital formation is carefully balanced with value delivered to depositors and financing customers to facilitate long term sustainability of the business. The Asset & Liability Committee carefully assesses market factors, customer concerns and our own business needs to determine competitive pricing that drives growth while delivering value to customers and shareholders.

Financial Capital & Human Capital

The HR function facilitates balancing the inevitable trade offs between value delivered to our employees and financial capital formation. The philosophy that a motivated and capable team is vital to our growth and long term financial capital formation ensures that we invest in enhancing the capabilities of the team and retaining them through competitive rewards and remuneration. Strong governance processes ensure a fair balance between the investment of financial capital in management of human capital.

Financial Capital & Intellectual Capital

We continuously invest in Information Technology to strengthen and streamline processes facilitating growth through capability and competitive advantages through process efficiencies and service excellence. Additionally, we invest financial capital in developing a strong domestic franchise through advertising and other brand building activities. These typically absorb financial capital and trade offs between these capitals is assessed through our procurement processes reinforced by a delegation of authority and oversight by the Board.

FINANCIAL CAPITAL

Siyapatha Finance PLC delivered a Profit After Tax of Rs. 517 Mn reflecting resilience of our business model as we recorded profit growth of 3.54% in a year when the NBFI earnings declined by 17.24%. Asset growth of 21.32% outpacing industry growth of 5.63% supported Net Interest Income growth of 47.99% which enabled us to absorb the impact of SLFRS 9 as we moved in to an expected loss model and increased impairment charges due to increased NPLs.

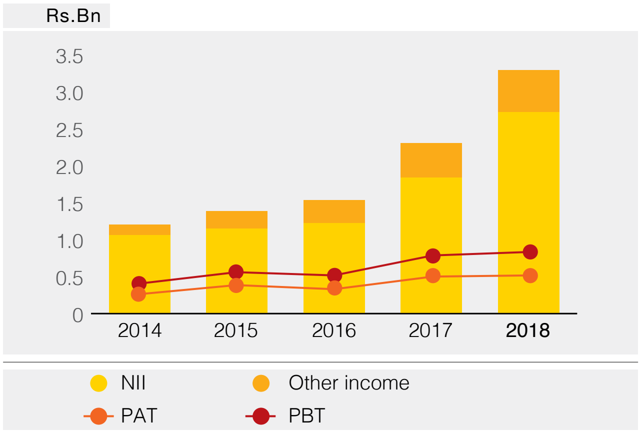
	2018 LKR Mn	2017 LKR Mn	YOY Change %	Industry Growth %
Net interest income (NII)	2,716	1,835	47.99	5.98
Other income	567	466	21.80	11.88
Total operating income	3,283	2,301	42.68	7.45
Credit loss expense on financial assets and other losses	830	237	250.48	91.75
Operating expenses	1,328	1,048	26.73	1.55
Operating profit before taxes on financial services	1,125	1,016	10.73	
Profit before tax (PBT)	834	785	6.18	(8.02)
Profit after tax (PAT)	517	499	3.54	(17.24)
Total assets	36,166	29,811	21.32	5.63
Total liabilities	32,625	27,332	19.37	5.26
Total borrowings from banks and issued debt	21,713	16,767	29.50	17.12
Depositors' funds	9,672	9,334	3.63	4.39
Total shareholders' funds	3,541	2,478	42.88	8.25

	2018	2017
Earnings per share (EPS) - (LKR)	8.52	8.70
Return on equity (ROE) - (%)	16.84	23.05
Pre-tax return on capital employed (ROCE) - (%)	2.39	2.75
Debt / equity - (Times)	8.86	10.53

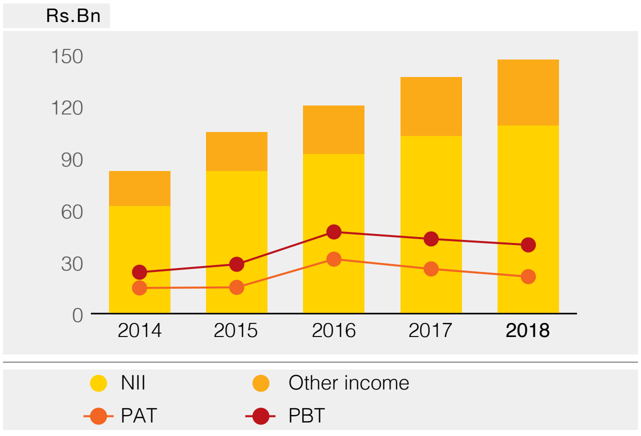
Please refer pages 58 to 60 for market / shareholder information.

INCOME STATEMENT ANALYSIS

Total Operating Income & Profitability - Siyapatha Finance PLC



Total Operating Income & Profitability - NBFI Sector

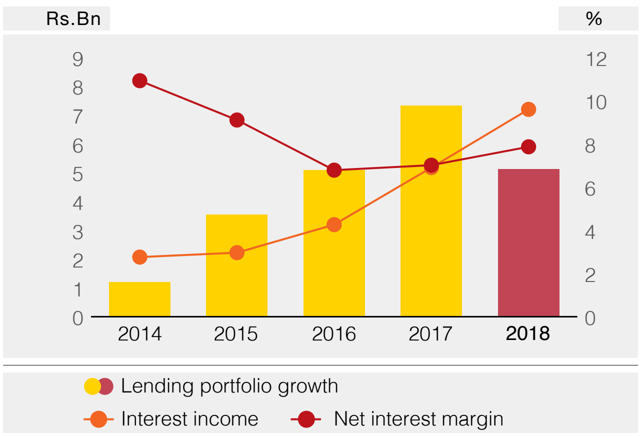


Siyapatha Finance performance vis a vis the industry is commendable as earnings growth has outpaced the industry which has recorded an overall decline. It is noteworthy that the Company financial statements have been adjusted for impairments as well due to the difference in the financial year whereas the industry is yet to complete the cycle.

Net Interest Income (NII)

Profitability of the entity relies on NII which accounts for 82.72% of total operating income. NII increased by 47.99% to Rs. 2.71 Bn supported by strong growth in the leasing portfolio growth, comparing favourably with industry NII growth of 5.98%. Management of cost of funds in a high interest rate regime and careful pricing of risk supported growth of Net Interest Margins from 7.01% to 7.86% as shown in the adjacent graph.

NII Drivers



Other Income

Net fee and commission income contributes 8.49% to total operating income with Other Operating income contributing the remaining 8.80%. Net fee and commission income increased by 14.55% during the year supported by documentation charges and insurance commission.

Credit Loss Expense

Adaption to the IFRS 9 accounting standard resulted in an increase in impairment provisioning by 250.48% with an absolute value of Rs. 830 Mn in comparison to the Rs. 237 Mn in 2017. Out of the total provisioning figure, 35.57% is attributable to the factoring portfolio followed by the leasing portfolio by 34.55% and personal, business & revolving loan portfolio by 25.77%. Despite the stringent policies and processes adopted on the loan approvals and disbursements, the NPL ratio increased from 2.91% in 2017 to 7.57% in 2018, against a NBFI industry average of 7.72%. While industry performance on Impairment Charges has increased by a mere 91.75%, we believe that this will rise sharply with the results for the quarter ending 31st March 2019 as the majority of the NBFI sector complete their financial years and provisions are scrutinized with greater attention on audit. Adverse weather conditions effecting the agricultural sector lease portfolio coupled with the straitened economic conditions and uncertain policy contributed to an increase in the NPL ratio.

Operating Expenses

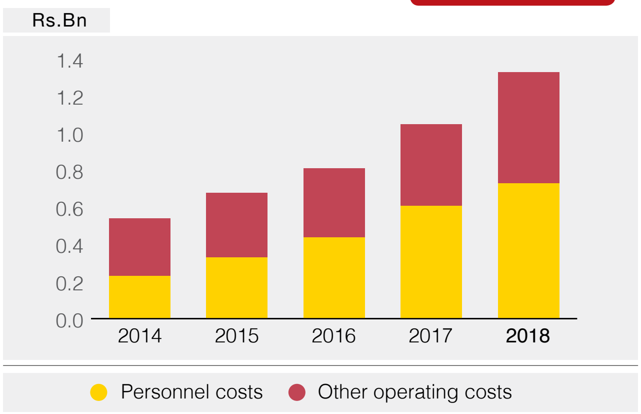
Operating expenses amounted to 40.46% and 54.14% of Total Operating Income and Net Operating Income respectively in 2018 compared to 45.56% and 50.78% for 2017. Operating expenses increased by 26.73% to Rs.1.32 Bn. Personnel expenses account for 55.20% of total operating expenses and amounted to Rs. 733 Mn growth of our team, development initiatives and increased remuneration. Other Operating expenses grew with our footprint and inflation by 36.23% to Rs. 595 Mn.

Profitability & Taxation

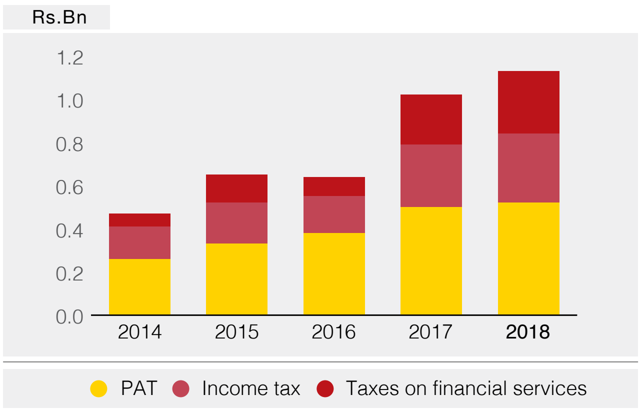
Profit before taxes on financial services increased by 10.73% to Rs. 1.12 Bn despite increases in impairment charges and increased operating expenses. Taxes on financial services amounted to Rs. 291 Mn resulting in a profit before tax of Rs. 833 Mn which is an increase of 6.18% over 2017. Income tax amounted to Rs. 317 Mn as the effective tax rate increased from 36.47% in 2017 to 38.05% in 2018. This was mainly due to increased disallowable expenses and a decline in other allowable credits which offset the tax effect of losses claimed of Rs.127Mn. Income Tax and Taxes on financial services amounted to 54.09% of Profit before taxes on financial services. Consequently profit after tax increased by 3.54% to Rs. 516.52 Mn resulting in a Earnings Per Share of Rs. 8.52.

Operating Expenses

Rs. 1.32 Bn 2018



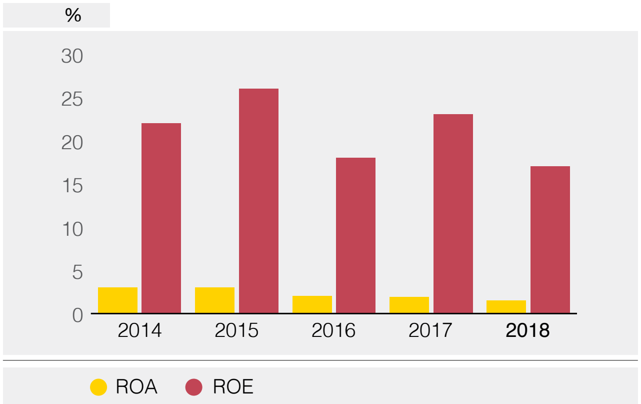
Distribution of Profit Before VAT & Income Tax



Return on Assets (ROA) and Return on Equity (ROE)

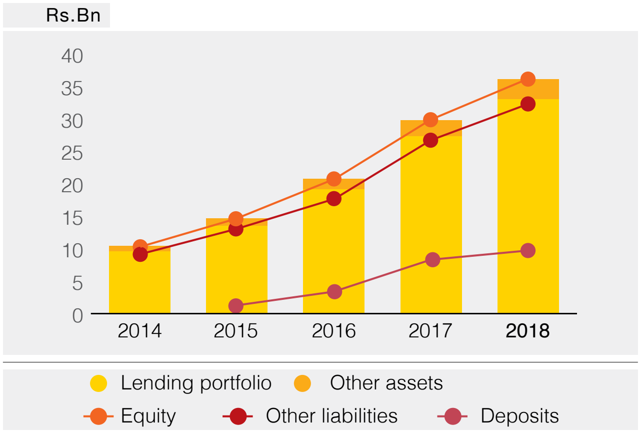
ROA declined from 1.91% in 2017 to 1.50% as a result of the increase in the total asset base with a 28.82% increase in lease receivables and ROE decelerated with enhanced equity due to the rights issue and script dividend. ROA and ROE are also effected with the reduced net income in line with the high credit loss expense on financial assets.

ROE/ ROA

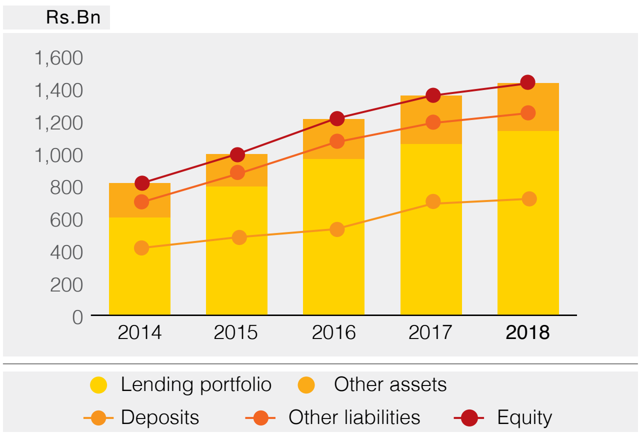


ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

Asset & Liability Growth : Siyapatha Finance PLC



Asset & Liability Growth - Industry

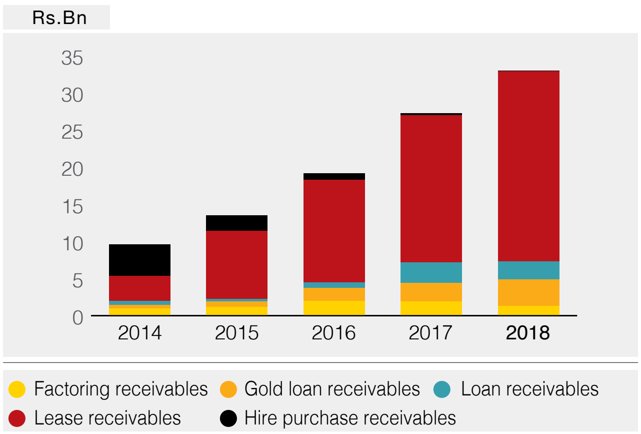


Total Assets

Total assets grew by 21.32% to Rs. 36.17 Bn supported by strong growth of the leasing portfolio which increased by 28.82% to Rs. 25.60 Bn. The lending portfolios of Siyapatha account for 91.28% of Total Assets with the Leasing portfolio accounting for 70.79%. CAGR of the lending portfolios remains high at 34% despite a challenging landscape. Expansion of the leasing portfolio is commendable given the policy changes over vehicle imports which resulted in industry growth of only 14.68% for leasing. Focused lending strategies to grow our customer base through new initiatives including digital based approaches and sustaining the current customer base through providing ancillary services, supported growth. In addition, cross selling among the business segments supported the business acceleration drive.

It is evident that the Company's main reliance and focus is on growing the leasing portfolio, which attracts higher margins backed by tangible and liquid security. Factoring, personal loans and gold loans are in a marginal growth mode complementing the leasing portfolio while hire purchase is curtailed gradually with the focus on high yielding products.

Lending Portfolio Growth



Asset Portfolio Mix

Siyapatha Finance PLC's forte remains in providing leasing facilities. Leasing portfolio accounts for Rs. 25.60 Bn, 70.79% of the total asset portfolio, which is an increase of 28.82% in comparison to 2017 while factoring and personal, business & revolving loan portfolios reduced by 29.87% and 8.93% respectively, owing to the subdued domestic economic conditions.

Gold Financing portfolio continued to be supported significantly at Rs. 3.55 Bn growing by 38.44% during 2018. Contribution to the total lending portfolio from Gold Financing increased to 10.75% from 9.38% from 2017.

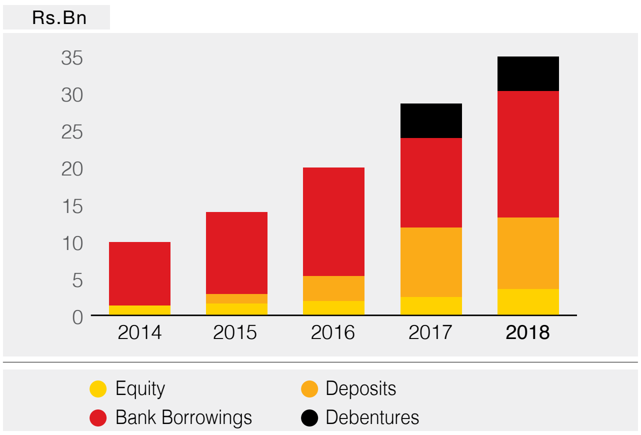
Funding Growth

The deposit base has grown to Rs. 9.67 Bn since our transformation to a Finance Company in 2015 in a significant manner. Our growing domestic franchise was supported by the strength of the parent company and a sound rating of A- (lka) with a stable outlook. Deposit growth in 2018 was disappointing at 3.63% in 2018 marginally below the industry growth rate of 4.39% as we balanced our cost of funds with debt as deposit rates increased during the year as the NBFI sector competed with the Banking sector for funds. Rates offered by banks attracted depositors as the NBFI industry was also affected by the failure of industry players eroding customer confidence in NBFI institutions. Deposits account for 26.74% of Total Liabilities & Equity at the end of 2018 compared to 31.31% at the close of the 2017.

Debt issued & borrowed funds increased by 31.15% during the year to Rs. 21.39 Bn accounting for 59.15% of Total Liabilities & Equity as growth was funded mainly through borrowings which facilitated management of cost of funds. As debentures remained at Rs. 4.66 Bn, the increase in Debt Issued & Borrowed Funds was attributable to increased bank loans which grew by 43.60% to Rs. 16.73 Bn. Short term loans grew by 160.42% to Rs.4.12Bn while long term loans grew by 25.25% to 12.61 Bn reflecting our strategies to manage cost of funds in response to an uncertain operating environment.

Equity growth of 42.88% was supported by the rights issue and share application money which raised Rs. 650 Mn to strengthen the capital of the Company and a scrip dividend of Rs. 62.75 Mn. Consequently, our debt to equity ratio improved from 10.53 in 2017 to 8.86 in 2018 facilitating growth.

Funding Base



Net Asset Value per Share and Earnings per Share

Net Assets per share increased from Rs. 44.43 to Rs. 55.68 during the year as strong asset growth exceeded the increase in equity. Earnings per share declined marginally from Rs. 8.70 in 2017 to Rs. 8.52 in 2018 due to the increase in equity which is expected to resume its upward trend from 2019.

Dividends

Dividends per share increased from Rs. 1.21 in 2017 to Rs. 1.25 which was paid as a scrip dividend, facilitating value to shareholders and capital formation for growth plans of the company.

SOCIAL & RELATIONSHIP CAPITAL

GRI 102-2

This key capital comprises relationships with our customers, business partners and the communities we operate in. Our journey over the years has been enriched by their trust and confidence as we evolved to greater heights, becoming part of their success stories.

CREATING VALUE FOR CUSTOMERS

Our customers create value for us by placing deposits with us and also by paying interest on their borrowings. Likewise, we create value for them by paying competitive interest on their deposits with assured trust and on the other hand by providing finance for their business and personal needs with personalized service for the Sri Lankans to improve their living standards. We also seek to enhance our customer value proposition through a diverse portfolio of wealth creation and financing products to cater to identified specific needs of customers and a continuing focus on customer convenience and service excellence from all the aspects.

Wealth Creation	Access to Finance	Customer Convenience
Deposit Products	Leasing /HP	Islandwide Branch Network
	Gold Loans	Door Step Service
	Loans	One Stop Shop
	Factoring	

Siyapatha Finance
FIXEDEPOSITS
The true stability in your life's journey

DEPOSIT BASE (Mn)

2018 **9,672**

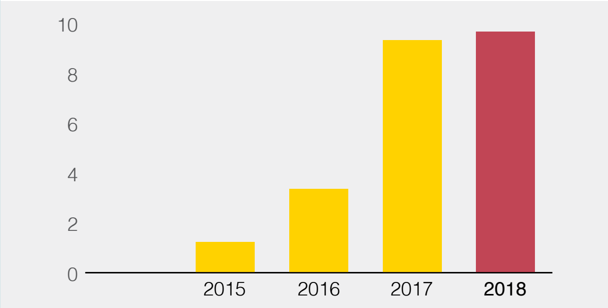
Wealth Creation

Our depositors have been a significant strength for the Company over the years, propelling our growth. Deposits grew by a modest 3.63% during the year. In terms of deposit mobilizing, we have adopted a dual strategy,namely attracting retail depositors & corporate deposits, out of which attracting retail customers were our main focus while keeping corporate deposits intact. For this task, the Company has launched promotional campaigns in Above the Line (ATL) with attractive interest rates offered premium to LCB's and par with LFC's. Accordingly, we paid Rs. 1.09 Bn for depositors during the year supporting their wealth aspirations as interest.

GRI 102-2

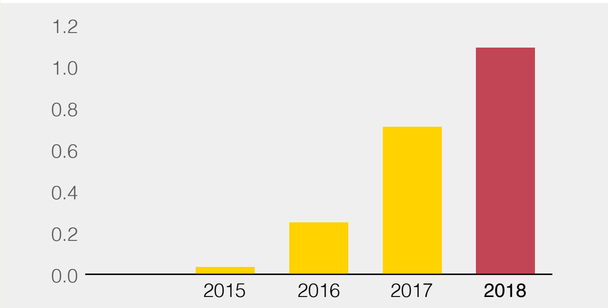
Value to Us

Deposits

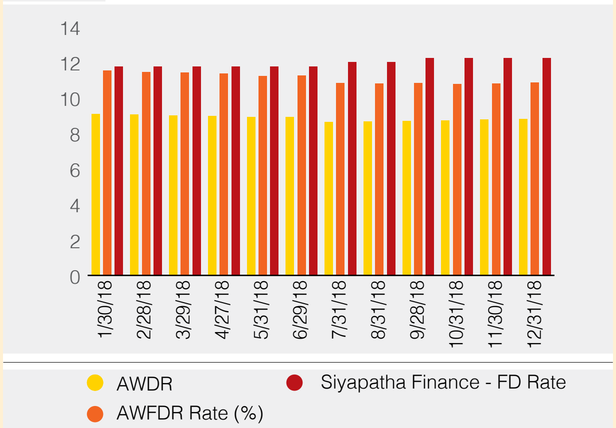


Value Created for Depositors

Interest paid to depositors



Attractive Rates



Access to Finance

As a finance company, we provide access to finance for a diverse group of customers who require finance for their business and personal growth aspirations. Accordingly, we have developed a portfolio of relevant products to suit their needs as given below.

A Relevant Product Portfolio

Leasing

lifestylease

A customized leasing solution for unregistered cars and vans to complement your cashflows.

BUDDY

Leasing solution for entrepreneurs who require small trucks coupled with ease of obtaining a facility with minimum documentation.

Agri

Ideal for leasing 4 wheel tractors and combined harvestors, this products offers fixed or seasonal rental patterns.

Aimed at the three-wheeler customer segment. This product affords minimum documentation and a quick credit turnaround time.

CASH

A refinancing solution for the customer who requires accommodation against vehicles that they currently use and own.

MOTOBIKE

Aimed at the two wheeler customer segment and product affords minimum documentation and a quick credit turnaround time.

GRI 102-2

A Relevant Product Portfolio

Other Financing Products

Gold Loan

Loans against gold and gold jewellery, with a variety of options for settlement. According to their needs on factors such as interest rate, tenor and part settlement with assurance of privacy and security of articles.

Business Gold Loan

Designed for entrepreneurs to fulfill their urgent cashflow requirements against the gold jewellery with a minimum interest rate and a streamlined process

Sfactor

We discount your account receivables providing 70%-80% upfront, supporting your cashflow and management of receivables through specialists in the field

Personal Loan

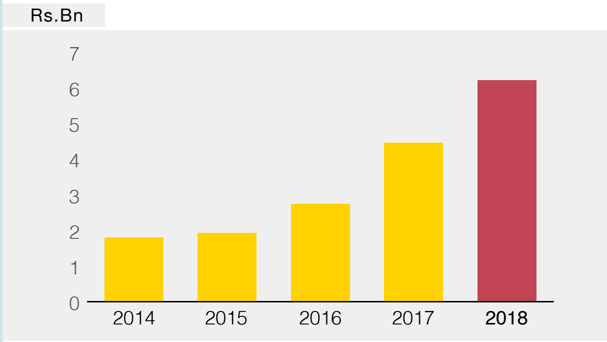
A flexible loan facility to support your aspirations to own a vehicle, study or travel overseas, purchase assets or celebrate an important milestone

Bizness Loan

Finance for your business based on your credit worthiness with or without security for cashflow needs, expansion, purchase of assets and other needs.

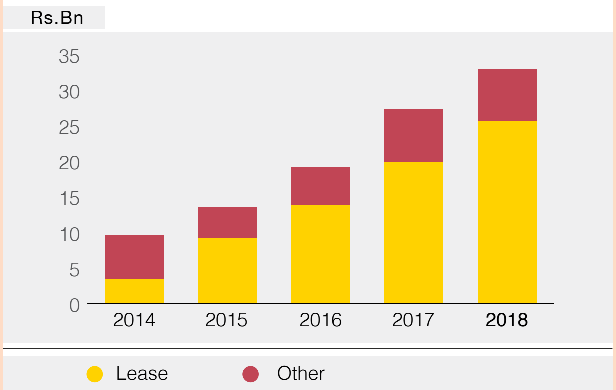
Value to Us

Interest Earned



Value Created for Customers

Portfollio



Customer Convenience

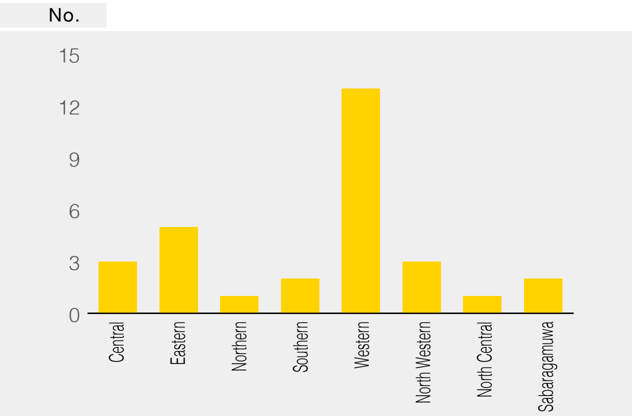
Customer convenience is key to increasing our relationships and retaining them. Accordingly, we invest in facilitating access to our services through multiple channels, enabling customers to connect with us on their preferred channel which could vary according to multiple factors ranging from age, workplace, employment, proximity to towns, access to technology and familiarity with technology.

Customer Touch points

Our branch network is a key channel for engagement and provides high levels of visibility as they are located in urban and suburban hubs of economic activity. We invested in growing our branch network, adding 4 new locations in Kiribathgoda, Maharagama, Wattala and Hatton, taking the total branches to 30. We also extended our customer service through Sampath Bank branches, leveraging group synergies.

Province	No. of Branches
Central Province	3
Eastern Province	5
Northern Province	1
Southern Province	2
Western Province	13
North Western Province	3
North Central Province	1
Sabaragamuwa Province	2
Total	30

Customer Touchpoints

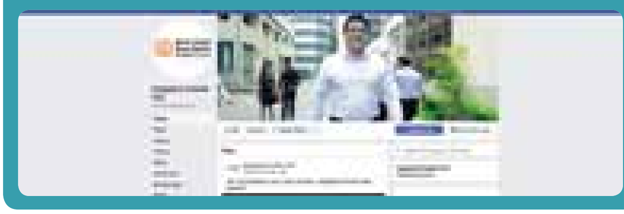


Digital Media Engagement

Increasing customer engagement with digital platforms has enabled us to cater to our millennial and digitally savvy customers through websites, social media, SMS alerts, Customer service hot lines etc. We have succeeded in engaging with our clients through these platforms, enhancing our relationships and connectivity with them while adding convenience to our customer value proposition.

We launched an online portal to facilitate vehicles buying and selling during the year, facilitating continuous upgrades for both existing, potential & customer retention. Customers are able to log in and seek informations on desired vehicles or sell their vehicles by publishing vehicle advertisement which will be an added advantage of connecting prospective buyers to leasing solutions. This initiative provides us with a significant competitive advantage over our peers and enables us to increase our online presence in a meaningful way, connecting to a wider digital community.

Facebook



Corporate Website

YouTube Channel

www.siyapathaauto.lk

Customer Satisfaction

Our dedicated "Customer Retention & Feed Back Collection Unit" views and monitors the processes in place to gather customer feedback as an invaluable tool to build rapport with our existing customers and also as a stepping stone to build new customer relationships. This is a key priority, driving our success and we are proud to have scored over 95 % in Net promoter score consecutively for 2017 & 2018.

Step 1
- Inception of relationship

Step 2
- Settlement of facility (Proposed)

Step 3
- Follow up

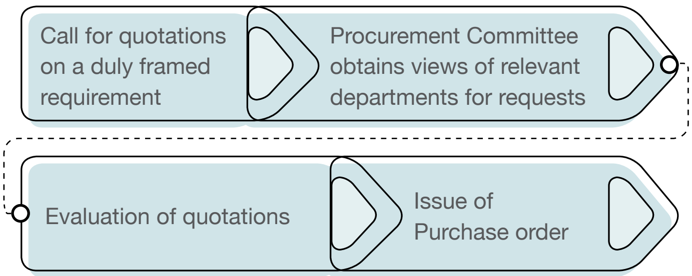
GRI 413-1

Information gathered includes levels of satisfaction, likelihood of recommending Siyapatha Finance to others, likelihood of doing business again and areas that need improvement.

SUPPLIERS GRI 102-9 | 103-2,3

We work with a number of suppliers to ensure smooth operations throughout the year. Transparent processes and relationship management facilitate cost efficiency and service excellence. We added substantial amount to our suppliers who provided us with a variety of goods and services in 2018.

Process of selecting suppliers



Type of Suppliers	
Business Promotion	85
Logistics	11
Engineering	77
IT services	9
General Maintenance	25
Total	207

Siyapatha Finance is having both local and Foreign suppliers.

REGULATORS

As a licensed finance company in Sri Lanka, our activities are being closely monitored by the Central Bank of Sri Lanka along with CSE.

MEMBERSHIP OF ASSOCIATIONS

Siyapatha Finance PLC is a member of the following associations and to works together with peers to develop areas of mutual interest:

- Leasing Association of Sri Lanka
- Finance Houses Association of Sri Lanka
- Employees' Federation of Ceylon
- Credit Introduction Bureau of Sri Lanka

TOTAL NUMBER OF SUPPLIERS (No.)

207

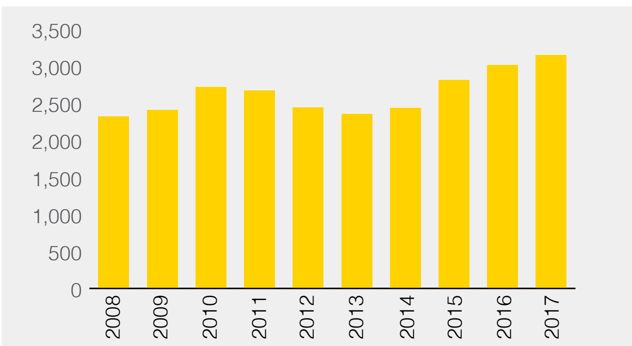
COMMUNITIES GRI 103-2,3

As a responsible corporate citizen, Siyapatha Finance engages in supporting communities to address issues that affect them. We considered a number of potential projects to add value to the community with no direct or indirect gain to the company. As 80% of our business arise from financing of vehicles, we were drawn to a project to reduce the fatal vehicle accidents in the country.

Number of fatal accidents and road accidental deaths of Sri Lanka

Year	Fatal Accidents	Critical Accidents	Minor Accidents	Damages Only	Deaths	Total
2008	2,176	4,941	11,288	11,459	2,328	29,864
2009	2,263	5,379	10,945	14,507	2,413	33,094
2010	2,579	6,124	12,560	16,390	2,721	37,653
2011	2,498	6,965	13,196	17,599	2,677	40,258
2012	2,317	7,209	14,680	17,939	2,444	42,145
2013	2,190	6,870	13,525	15,292	2,362	37,877
2014	2,260	7,071	12,784	13,854	2,440	35,969
2015	2,601	8,185	13,595	13,726	2,817	38,107
2016	2,838	8,932	14,050	13,380	3,020	39,200
2017	2,964	8,666	13,102	12,866	3,153	37,598
2018.10.31					2,590	28,965

Accidental Deaths from Road Accidents



Source: Police traffic division data as at 31st October 2018.

GRI 413-1

During the year, we worked together with Sri Lanka Police to educate drivers on the main causes of accidents, common mistakes made by drivers and how to prevent them. In its first year, we were able to educate 409 drivers. We plan to continue this programme in 2019 and have dedicated 1% of our profit after tax for this project.

The programmes conducted are given below.

Project nature	Project & Location	Number of participants (Drivers)
Educating drivers	Project 01 & 02 Police City Traffic Division - Colombo	113
		150
	Project 03 Nugegoda Police Division	146
Total number of drivers educated		409

MANUFACTURED CAPITAL

GRI 103-2,3

Our Manufactured Capital plays a key role in developing our franchise and connecting with customers through our branch network and online presence. Both support our growth aspirations facilitating scalability in operations and service excellence which provides a key competitive advantage.

	2018 Rs.'000	2017 Rs.'000	% of Total NBV 2018	% of Total NBV 2017
Net Book Value				
Freehold Land	353,750	283,000	58%	62%
Fixtures, Furniture & Equipment	118,679	112,076	19%	25%
IT Equipment	38,364	43,936	6%	10%
Capital Work in Progress	104,609	16,128	17%	3%
Total NBV	615,402	455,140	100%	100%
Investments during the year				
Fixtures, Furniture & Equipment	46,622	32,088		
IT Equipment	6,853	20,236		
Capital Work in Progress	88,481	16,128		
	141,955	68,452		

Freehold land accounts for 58% while Fixtures, Furniture & Equipment account for 19%. Investments during the year were primarily for the Head Office building currently under construction in Colombo 08 and the Fixtures, furniture and equipment were for the new branches.

CONSTRUCTION OF HEAD OFFICE

A notable mile stone for the Company in 2018 was the commencement of construction of the new building, which will house our head office. Strategically located in Colombo 08, we envisage this new building, once completed, to be a land mark in the locality whilst providing a range of conveniences for our customers.

Comprising a basement, two mezzanine floors, 14 floors dedicated to office-spaces and a roof terrace, the building will be the flagship of the Company's operations. The design of the building incorporates energy efficiency features. The interior uses cutting edge technology to ensure optimal performance and has a warm and welcoming ambience providing a conducive working environment for our staff. The construction is expected to be completed by year 2020.

BRANCH NETWORK

Our branch network enables us to reach customers in 30 locations which are key hubs of economic activity. Premises reflecting our brand enable customers to come in and transact with our professional staff, building relationships, trust and confidence.

Moreover, they are assured of privacy and confidentiality as the layout of the branches facilitate these key concerns of our clients. Four new branches were added during the year at Kiribathgoda, Maharagama, Wattala and Hatton as we invested Rs. 27.5 Mn in ensuring the premises provided a conducive environment for our employees and customers to transact business.

IT PLATFORM

The IT platform of the Company plays a pivotal role as the back bone of the Company's operations. The robust IT platform and the Application Systems are aligned with the Company's business strategy to accelerate service delivery and to generate valuable information and data to support decision making based on the identification of opportunities and risks. This is reflected in the steps taken by the Company to upgrade the Navision General Ledger System to its latest version and the implementation of the Finacle Core Banking System in 2018. The latter is a significant step forward for Siyapatha in realizing its customer-oriented efforts towards facilitating all services from a single service point.

The security of IT systems is a key consideration in our technology transformation as we are responsible for safeguarding our information assets and ensuring customer privacy. Hence, the IT infrastructure has been subjected to regular vulnerability assessments by TechCert Sri Lanka to ensure the integrity and safety of our IT Systems. The membership with FINCSIRT Sri Lanka has also assisted the Company in obtaining early warnings on system security threats and in applying speedy corrective measures.

	Branch Location	Address
1	Head Office	No.46/12, Nawam Mawatha, Colombo 2
2	Matara	No.5B, Hakmana Road, Matara
3	Kalutara	No.169,169/1/1, MainStreet, Kalutara
4	Wellawatte	No.226, Galle Road, Wellawatte
5	Galle	No.27, Old Matara Road, Pettigala Watte, Galle
6	Panadura	No.414, Galle Road, Panadura
7	Kurunegala Metro	No.36, Negombo Road, Kurunegala
8	Kurunegala	No.254C,Colombo Road, Kurunegala
9	Anuradhapura	No.213/4, Maithreepala Senanayaka Mawatha, Anuradhapura
10	Vavuniya	No.156, Bazaar Street,Vavuniya
11	Kegalle	No.137, Kandy Road,Kegalle
12	NuwaraEliya	No.28, Kandy Road, NuwaraEliya
13	Sainthamaruthu	No.1610, MainStreet, Sainthamaruthu
14	Kalmunai	No.172/4,Batticaloa Road, Kalmunai
15	Batticaloa	No.257,259,Trinco Road,Batticoloa
16	Trincomalee	No.273/A, 273/1/1, Central Road, Trincomalee
17	Negombo	No.287, Main Street, Negombo
18	Gampaha	No.3A, Mangala Road, Gampaha
19	Peliyagoda	No.304, Negombo Road, Peliyagoda
20	Kuliyapitiya	No.50/52, Kurunegala Road, Kuliyapitiya
21	Katugasthota	No.274/A, Katugasthota Road, Kandy
22	Kandy	No.192/1/1,Kotugodella Street,Kandy
23	Ampara	No.32,DS Senanayake Street,Ampara
24	Nugegoda	No.189, Stanley Thilakarathne Mawatha, Nugegoda
25	Rathnapura	No.186, MainStreet, Rathnapura
26	Avissawella	No.20, Rathnapura Road, Avissawella
27	Kiribathgoda	No.211/1/1, Kandy Road, Kiribathgoda
28	Maharagama	No.137, Piliyandala Road, Maharagama
29	Wattala	No.540, Negombo Road, Wattala
30	Hatton	No.07, Circular Road, Hatton

Four new branches were added during the year at Kiribathgoda, Maharagama, Wattala and Hatton as we invested Rs. 27.5 Mn in ensuring the premises provided a conducive environment for our employees and customers to transact business.

GRI 102-6

HUMAN CAPITAL

Our employees propel our growth and are the primary creators of value for us. A holistic employee value proposition enables us to manage this vital capital, creating tangible value and supporting their career aspirations. Growth of our team by 57 members and a retention rate of 76.6% bear testimony to high levels of employee engagement, and 48 promotions during the year bear testimony to value delivered to them. Recognition from the World HRD Congress in India for the Best Employer Brand and Best Leadership Programme affirm our commitment to excellence in managing talent.

CREATING VALUE FOR EMPLOYEES

GRI 103-2,3 | 404-1,3

Human Capital	2018	2017
Total workforce (employees only)	597	540
Total Recruitments (including replacements)	204	231
Retention Rate	76.6%	84.0%
Gender Diversity (Males to Females)	70%:30%	73%:27%
Training & Development Cost	3,371,014	3,424,046
Average Hours of Training per employee	27.41	28.86
Training coverage of employees	100%	80%
Injury rate (number of injuries per 100 employees)	-	-
No. of employees receiving performance reviews (%)	100%	100%

Focused efforts by our Human Resources (HR) team to attract, inspire, develop and retain people has made Siyapatha a stimulating workplace with a mentoring culture. Siyapatha fosters a learning environment which allows people to grow and become knowledge-focused while enabling competent professionals to pursue their career goals. Our policies ensure that rewards are aligned to performance and high performing employees are retained in the long-term with opportunities for growth.

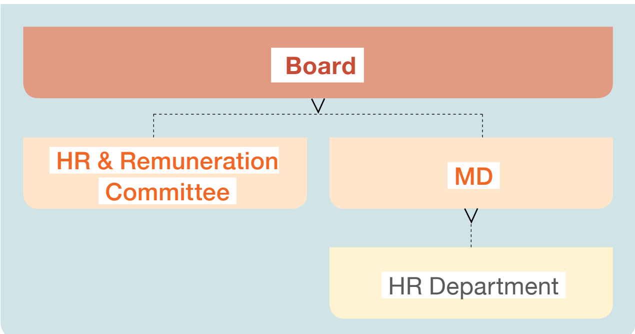
"Ensure the competent and capable human resources to meet the strategic goals and operational plans of the organization - the right people with the right skills at the right time. Keep up with social, economic, legislative and technological trends that impact on human resource management".

Extract from HR Policy

Our employee value proposition embedded in the HR Strategic Plan is summarised below.

Goal 1	Goal 2	Goal 3	Goal 4	Goal 5
Talent for Organization sustainability a) Talent Attraction b) Talent Retention	Talent Development	Organizational Excellence	Value Based Culture	HR Visibility

GOVERNANCE AND POLICIES



Siyapatha Finance is cognizant of its responsibility to promote inclusive and productive employment in an environment conducive to the employees dignity, health and safety. A strong governance structure facilitates balancing the interests of our employees with the interests of other stakeholders and the business plans of the organization.

A comprehensive HR policy framework outlines the Company's approach to managing Human Capital in 16 guidelines while the Code of Ethics communicates the employees' rights and obligations. The policies are formulated with reference to regulatory enactments and international best practice and enshrine the principles of equal opportunity.

The Company complies with the International Labor Standards, the Universal Declaration of Principles of Human Rights and the Shop and Office Act No. 15, 1954 and has in place firm measures to safeguard human rights within the organization.

Disciplinary action processes ensure that due process is followed in accordance with the laws and with the guidance of the Employer Federation of Ceylon, which handles all the Company's employee relation concerns.

The Board, HRRC and the MD regularly assess the progress and effectiveness of the HR Function who are responsible for implementing the HR strategy as described above.

HR Policy Coverage

Recruitment

- Recruitment Policy
- Bonus Policy
- Promotion Policy
- Remuneration & Benefits Policy
- Medical Reimbursement Policy
- Staff Vehicle Lease Policy

Engagement

- Grievance Handling Policy
- Death Donation Policy
- Distress Loan Policy

General

- Leave & Attendance Policy
- Employee Exit Policy
- Occupational Health & Safety Policy
- Training Policy
- Transfers , Secondment & Job Rotation Policy
- Dress Code Policy
- Disciplinary Policy

STRONG HR PROCESSES

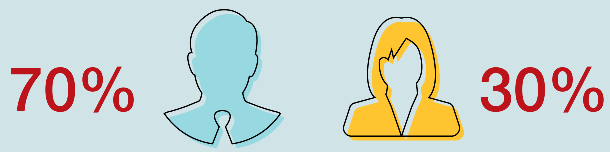
A fully fledged cloud-based future ready HRIS solution was launched in 2018 to support best in class HR practices within a sound HR governance framework to leverage HR as a competitive advantage. It is integrated to our business platform and covers all essential HR Operational and Strategic functions such as Employee Information Management, Time and Attendance, Absence Management and Benefits Management in the first phase and Strategic Modules in the second phase.

CODE OF ETHICS

The Company revisited and re-launched the Code of Conduct which defines our core ethical values and articulates a high standard of business conduct which all employees are required to observe. It ensures compliance with the laws of the country and moving beyond legal and regulatory requirements to international best practice and observance of sound social values. Throughout this Code, adequate guidance is provided to assist employees cultivate sound ethical behaviours and supports decision making on foreseeable situations. This Code was hosted in our HRIS portal, and the Company Intranet and all the employees are mandated to keep abreast of the revisions.

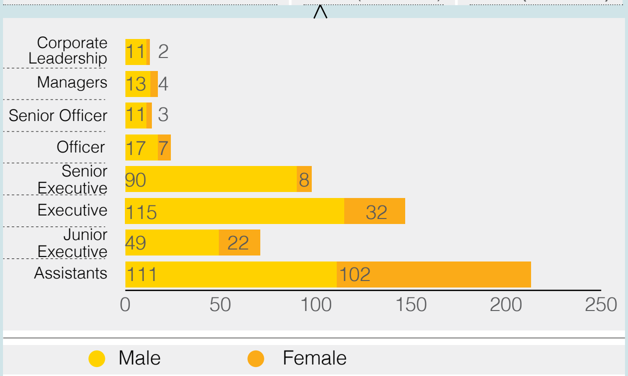
TEAM PROFILE GRI 102-8

	Male	Female
Full-Time employees	417	180
Part-Time employees	-	-



Employee Category by Gender

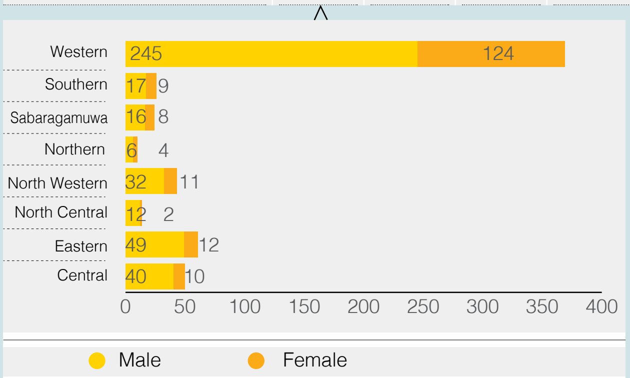
Grade	Female	Male
Corporate Leadership	2 (0.34%)	11 (1.84%)
Managers	4 (0.67%)	13 (2.18%)
Senior Officer	3 (0.50%)	11 (1.84%)
Officer	7 (1.17%)	17 (2.85%)
Senior Executive	8 (1.34%)	90 (15.08%)
Executive	32 (5.36%)	115 (19.26%)
Junior Executive	22 (3.69%)	49 (8.21%)
Assistants	102 (17.09%)	111 (18.59%)



This depicts our gender diversity initiatives and availability of talent pools. On a positive note there is gender representation at all levels but it is countered by talent leakage at Junior Executive, Executive and Senior Executive categories.

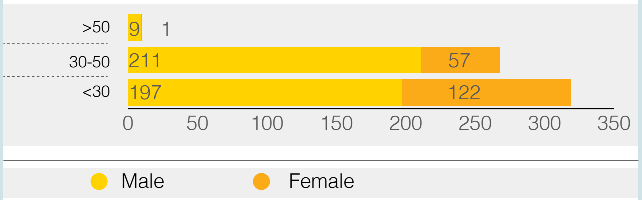
Geographic Distribution by Gender

Region	Permanent		Temporary	
	Male	Female	Male	Female
Western Province	245	124	-	-
Central Province	40	10	-	-
Eastern Province	49	12	-	-
Northern Province	6	4	-	-
Southern Province	17	9	-	-
Sabaragamuwa Province	16	8	-	-
North Central Province	12	2	-	-
North Western Province	32	11	-	-

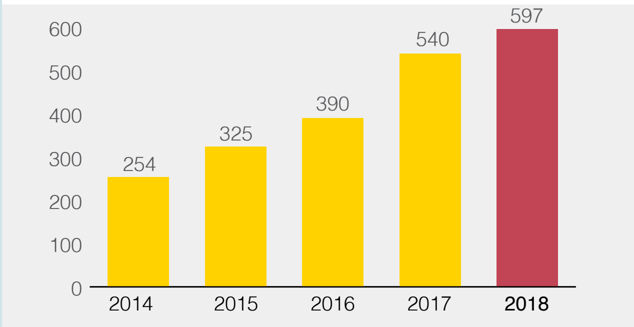


The geographic distribution by gender reflects the paucity of female talent pools for customer facing roles outside the Western Province.

Age distribution by gender



A Growing Team



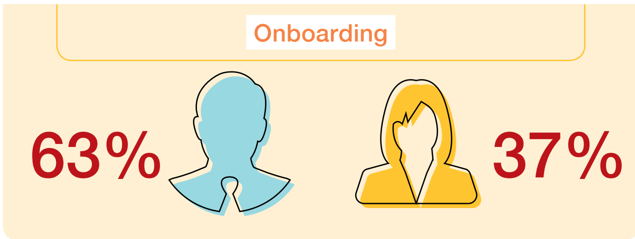
Employee Category by Age

GRI 405-1

Age Group	30<		30-50		50>	
Grade	Female	Male	Female	Male	Female	Male
Corporate Leadership			2 (0.33%)	4 (0.67%)		7 (1.17%)
Managers			3 (0.50%)	13 (2.17%)	1 (0.16%)	
Senior Officer	-	-	3 (0.50%)	10 (1.67%	-	1 (0.16%)
Officer	-	-	7 (1.17%)	17 (2.84%	-	-
Senior Executive	-	10 (1.67%)	8 (1.34%)	80 (13.40%)	-	-
Executive	10 (1.67%)	46 (7.70%)	22 (3.6%)	68 (11.39%)	-	1 (0.16%)
Junior Executive	16 (2.68%)	40 (6.70%)	6 (1%)	9 (1.50%)	-	-
Assistants	96 (16.08%)	101 (16.91%)	6 (1%)	10 (1.67%)	-	-
Grand Total	122 (20.43%)	197 (32.99%)	57 (9.54%)	211 (35.34%)	1 (0.16%)	9 (1.50%)

ONBOARDING

Our team expanded during the year by 57 to support growth of our footprint and to meet planned growth in 2019. We recruited a total of 204 employees of which 80.88% were absorbed in to the workforce maintaining a healthy direct to the indirect ratio of 1 : 0.26.



RECRUITMENT GRI 401-1

Category	Gender		Age Group			Province		
	Male	Female	<30	30-50	>50		Male	Female
Assistants	62	56	117	1	-	Central	10	4
Junior Executive	35	10	36	9	-	Eastern	14	6
Executive	18	8	12	14	-	North Central	5	2
Senior Executive	10	-	3	7	-	North Western	11	4
Officer	2	-	-	2	-	Nothern	1	2
Senior Officer	-	-	-	-	-	Sabaragamuwa	4	3
Managers	1	2	-	2	1	Southern	4	3
Corporate Leadership	-	-	-	-	-	Western	79	52
Total	128	76	168	35	1	Total	128	76

As an equal opportunity employer, we recruit employees based on objective criteria applied in a consistent manner to select the candidate best suited for the role. Further, we collaborated with universities and professional bodies to gain access to skilled talent pools, attracting them with competitive offers of employment. We also recruited school leavers who will be trained on the job providing them with opportunities to earn, learn and train simultaneously. Siyapatha Finance has also implemented policies against child labour and forced labour which are strictly complied with.

Our recruitment process carefully balances the requirements of job vacancies with employee aspirations and capabilities. Wherever, possible the Company promotes internally as our talent development programmes facilitate career progression, preparing them to take up new job responsibilities. In accordance with our policies, all new job openings are initially published internally to encourage employees to step up to new roles and apply for the positions, motivating and inspiring other employees.

DIVERSITY & INCLUSION GRI 103-2,3

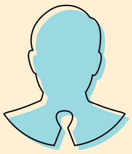
Our HR Guiding Principles support diversity and inclusion, We treat employees and potential employees equally, filtering based on skills, competencies, perceived integrity etc., without discriminating on factors such as age, gender, religion or caste. All employees have equal opportunity to progress in their careers with the Company and many avail themselves of development opportunities provided as part of our talent development initiatives.

Initiatives to improve gender diversity within the team led to the recruitment of 76 females during the year accounting for 37% of total recruitments which is marginally above that of the female economically active population of 35.3%[1]. This has supported movement of our percentage of female employees which improved from 27.2% in 2017 to 30% in 2018. Cultural factors including perceptions on the role of women and protective mindsets prevent them from stepping up to customer facing roles involving traveling. Consequently, many are employed in supporting roles which enables them to balance their priorities.

[1] Sri Lanka Labour Force Survey, 3rd Quarter 2018

DEVELOPING TALENT

Total Training Investment	LKR (000)	Increment	
Year 2015	1,760		
Year 2016	2,400	640	36%
Year 2017	5,145	2,745	114%
Year 2018	7,775	2,630	51%

63%   37%

DEVELOPING TALENT PIPELINES

GRI 103-2,3 | 404-2

A wide range of training and development opportunities to enhance employee soft and technical skills are made available after critically evaluating the organizational-level, departmental-level and individual-level training and development needs. During the year under review, the Company conducted 118 training programs providing a total of 16,362 training hours to employees which amounted to 27.41 training hours per employee. Of these 22.7% were training sessions aimed at employee soft skills development and 77.3% training were conducted for the development of employees' technical skills.

The training investment per employee for 2018 amounted to Rs. 5,646. Considering the cadre composition of the Company, male employees have received a higher number of training opportunities compared to female employees.

Average Training Hours By Employee Category and Gender

GRI 404-1

Employee Category	Hours
Assistant	33.86
Junior Executive	27.75
Executive	25.52
Senior Executive	19.65
Officer	16.50
Senior Officer	28.07
Managers	22.26
Corporate Leadership	**28.42**

Gender	Hours
Male	26.3
Female	29.9

Internal Training

Many of the Company's training sessions are conducted internally by Managers and other employees who have been well trained. On-the-job training and job rotation are also methods employed to train newly recruited employees and those who are being groomed for promotions. In the year under review, 23 employees were cross- trained within the organization as internal resource persons and have successfully conducted internal training programs related to technical expertise, operational knowledge and the corporate value system.

Being the first Financial Institute to implement the Finacle system, our IT Team was trained by an Indian team on its operations. Thereafter, a series of training was conducted by the IT team to the employees of Siyapatha encouraging a team of internal trainers within the organisation.

External Training

The Company also sends employees on external training programs providing them with an opportunity to build their personal and professional networks and gain an in-depth understanding of new technologies, best practices and current trends in the industry. Siyapatha regularly sends employees on training workshops conducted by City and Guilds, the Central Bank of Sri Lanka, CIMA Sri Lanka Division, the Institute of Chartered Accountants of Sri Lanka, IPM, the British Council, AAT Sri Lanka and other professional bodies. With the support of the parent company, Siyapatha initiated Speech Craft Programme for the staff under the guideline of the of Sampath Bank Toastmasters Club.

Induction Program

The Company conducts induction programs for new recruits to facilitate a smooth transition in to their roles and create awareness of our corporate values and culture. Conducted over a week, the program covers HR process operations, processes, systems, procedures and corporate values and ethics. Employees are also placed for on-the job training at the Head Office, at all departments and at branch level for them to get an overview of all critical business functions. New recruits are also given many networking opportunities with peers and the management to familiarize themselves with their teams and build team spirit. HR continues to evaluate an employee performance from the first day on the job through the 'Employee Activity Book'.

A re-orientation programme is conducted after 03 months to evaluate their adaptability towards the Companys' work environment and to create a platform for them to raise any concerns or to make any clarification.

Leadership Pipelines

Developing a high-quality leadership pipeline within the Company is a key priority for our growth aspirations. Accordingly, we have put in place many initiatives to build the required leadership pipeline. A progressive approach in developing successors and critical talents has been adopted with the Individual Development Plan (IDP) and Management Development Plans (MDP) being put in place.

MANAGING PERFORMANCE

The Company has in place a well-structured and transparent performance management mechanism to evaluate employee performance, enabling and motivating employees to work to the best of their abilities and knowledge, while supporting employees to meet their departmental goals and individual Key Performance Indicators (KPIs). Each category of employee is allocated different weightage for the key performance areas falling under organizational, financial, customer and operational excellence aligned to their job roles and responsibilities. Pre-defined competencies are also allocated to each employee category and grade based on the relevant weightage.

Performance appraisals are carried out semi-annually taking into consideration the result of their past performance together with their knowledge, skills, attitudes and competencies. Results of the performance appraisal process facilitates providing feedback to employees in a structured manner, highlighting achievements and identifying areas for improvement. Employee career progression is linked to the Performance Appraisal process, inspiring employees to align their personal and career goals for mutual benefit and facilitating retention of critical talent.

In 2018, approximately 8% of employees received promotions with the Marketing Department and the Gold Financing Department recording the highest numbers. However, from a gender perspective, males received the most number of promotions of 73% compared to female employees.

In 2018, approximately 8% of employees received promotions with the Marketing Department and the Gold Financing Department recording the highest numbers. However, from a gender perspective, males received the most number of promotions of 73% compared to female employees.

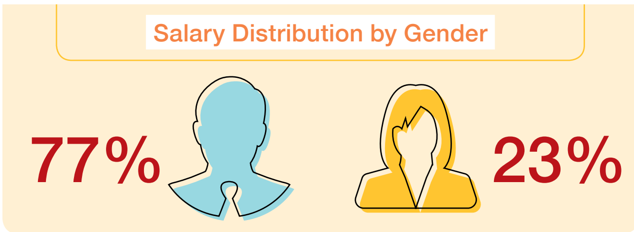
In addition to promotions, the performance management system facilitates new recruits to review their first twelve-month performance during their 01 year probation period with the Company. It is based on this review, that new recruits become eligible for confirmation of permanent employment with the Company. All the employees in the permanent cadre, who are employed full-time, receive regular performance and career development reviews according to the Company policy without discrimination on any grounds.

Siyapatha believes that performance-based recognition leads to;

- Become the preferred employer of choice/People Branding
- Motivate and retain high-level performers/ Recruitment Strategy
- Attract the best talent from the labour market/Talent Attraction
- Focus on external market competitiveness and the standardization of salaries with benchmarked Companies/Peer Comparison
- Maintain internal equity and streamlining the compensation system within the Company./HR Value Addition
- Recognize and reward employees' contribution to the organization and improvement of employee loyalty/ Rewards and Culture

Grade Wise Promotion

Grade	
Junior Executive	16
Executive	14
Senior Executive	8
Assistant Manager	10
Total	48



EMPLOYEE HEALTH & SAFETY GRI 103-2,3

The Company has in place a policy on the timely and regular review of health and safety procedures. The Health and Safety Committee is responsible for introducing new methods to upgrade employee health in relation to the work environment. As the Company operates within the service industry, there are no employees in occupational activities, which have a high risk of occupational diseases.

During the period under review, two employees involved with recovery duties met with road accidents during working hours. The Company met the medical expenses incurred for medical treatment by both of them, in entirety through the insurance scheme and the necessary sick leave was granted to them till full recovery, without any loss of pay.

REMUNERATION GRI 405-2

The remuneration for key management personnel is decided by the Board of Directors of the Company, as per recommendations by the HR & Remuneration Committee. Further, the committee advises the management of the Company on all aspects of HR functions, including the revision of staff salaries and any significant organizational changes needed for effective management of salary and compensation.

Our remuneration policy ensures fair and equitable treatment to all employees irrespective of gender.

Grade	Male	Female
Assistant	1	0.87
Executive	1	0.26
Junior Executive	1	0.41
Manager 01	1	0.00
Manager 02	1	0.58
Officer	1	0.39
Senior Executive	1	0.06
Senior Officer	1	0.22

Salary Distribution Ratio: The total cadre male to female salary distribution ratio is 1: 0.29.

EMPLOYEE BENEFITS GRI 401-2

Employee benefits which are given to employees with permanent contracts of employment are as follows:

- E-Medicine, doctor consultation facility via online
- Distress loan facility
- Death donation scheme
- Hospitalization cover
- The Staff vehicle lease scheme
- Staff loan scheme
- Personal accident covers
- Special risk cover for the recovery officers
- Relocation expenses reimbursement
- Mobile expenses reimbursement
- Subscriptions payments

Parental Leave GRI 401-3

Siyapatha follows the Shop and Office Employees Act in determining the terms of maternity leave and related benefits to female employees. In compliance with the Act, female employees are entitled to 84 working days leave for childbirth and also encouraged to take two hours for feeding entitlement after returning from maternity leave. During the year under review, five employees took on maternity leave, corresponding to 8% of the total female employees. All employees returned to work marking a 100% retention ratio.

EMPLOYEE ENGAGEMENT

The Company places significant emphasis on nurturing a workplace conducive to the well-being of employees and forming relationships that last beyond employment. Accordingly, we encourage building harmony, fellowship and team spirit among teams by facilitating activities and events that employees can participate in. Mentoring, coaching and counselling sessions are also being conducted annually to assist employees to cope with the unexpected twists and turns of life.

A Board approved 'Stakeholder Communication Policy' is adopted by the Company and this ensures effective communication with our employees at all times. The Company's culture encourages open communication systems with employees, where top-down and bottom-up communication channels are effectively used. All strategic decisions are communicated to Corporate Management, and operational decisions/changes in policies are communicated to all employees as appropriate through the pre-designated communication channels of the Company.

We Care

The "We Care" concept, initiated by the HR Department is designed to engage HR as a Business partner and a change agent. It is made possible with Branch visits and discusses HR business involvement and addresses employee grievances; suggestions for upgrades and ways in which to motivate employees, as a method to reduce any common and recurring grievances reported by employees. Under the "We Care" concept, HR team has visited all the branches to facilitate employees to create a better working environment.

Engagement Activities

The Company annually organizes events and programs to celebrate the New Year; days of religious significance such as Vesak, Aluth Avurudu and Christmas; as well as sporting events such as cricket and volleyball tournaments, and Staff Get Together.

GRI 401-1

Grievances & Whistleblowing

An open door policy is adopted as the preferred method for employees to present their ideas and concerns to their line managers or the HR Department which has a dedicated Officer who is specially trained in counselling and handling all grievances in a strictly confidential manner. If issues require the attention of the Senior Management, the dedicated HR Officer deals directly with the respective Department Head or Senior Management member. Grievances that cannot be resolved in this manner are escalated for review by the Head of HR, Chief Operating Office or the Managing Director.

The few reported grievances during the year under review were duly addressed and provided with appropriate resolutions to close the recorded matters to the entire satisfaction of the grieved employees.

The Company also has a Whistle Blowing Policy under the purview of the Company Secretary. It is a structured mechanism, in place to ensure employees can address their concerns on employee rights, violation or misdeeds. The confidentially of issues raised under this policy remain strict and are maintained at the Board level.

The open-door policy maintained by the Company enables employees to freely exchange their views, ideas and grievances with the top management. The Company always encourages fair labour practices where it can create a win-win situation for both parties. As we provide our employees with benefits above and beyond the minimum statutory requirements, we have been able to maintain very cordial relations with our employees.

EMPLOYEE MOBILITY

The internal transfers of employees among departments and branches are undertaken based on business needs and employee requests. In many instances, internal transfers are facilitated to accomodate a request from employees based on their need to enhance the balance between their work life and family life. Internal transfer forms detailing all aspects of the transfer are available for use by employees. During the year under review, the Company facilitated 85 internal transfers/job rotations for the betterment of employees and organizational performance. Employee mobility leads to the development of a team culture which contributes to the enhancement of employee competencies while grooming them to become future leaders.

EMPLOYEE RETENTION

Siyapatha accepts and respects employees' right and freedom to change their jobs and careers. Accordingly, these require employees to provide one month notice period once the Company accepts their tendered resignation. As a result of market and industry fluctuations, as well as due to personal, family commitments, and higher education, 140 employees resigned from the Company providing the requisite notice during the year under review. Our employee turnover ratio was 23.4% in 2018, an increase of 7.4% compared to 2017.

ATTRITION

Category	Gender: Male	Gender: Female	Age Group: <30	Age Group: 30-50	Age Group: >50	Province	Male	Female
Assistants	49	26	73	2	-	Central	9	2
Junior Executive	11	3	1	-	-	Eastern	10	2
Executive	22	8	25	18	-	North Central	3	
Senior Executive	11	1	3	9	-	North Western	5	1
Officer	4	1	-	5	-	Nothern	1	
Senior Officer	2	-	-	2	-	Sabaragamuwa	3	1
Managers	-	1	-	1	-	Southern	5	1
Corporate Leadership	-	1	-	1	-	Western	63	34
Total	99	41	102	38	-	Total	99	41

WAY FORWARD HR PLAN 2020

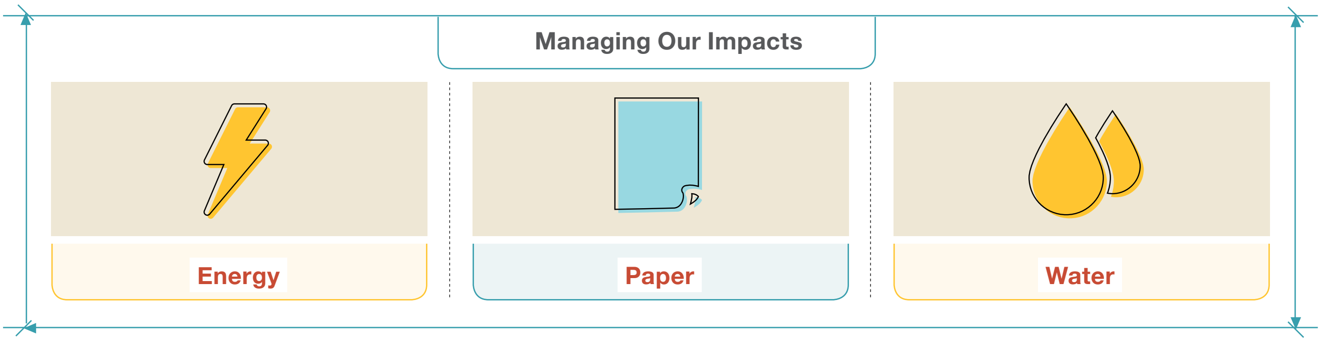
As the Company is optimistically looking forward to sustaining a strong growth momentum, HR as a key business partner will be fully focused in steering the agreed objectives, hand in hand with our valued team.

Our primary focus will be to create a leadership pipeline, succession planning mechanism, continuous learning and development covering all categories of staff and spearheading productivity improvements towards achieving greater excellence.

NATURAL CAPITAL

As a Finance Company, our direct impact on natural capital stems primarily from consumption of energy, paper and, to a lesser extent, water. An innate sense of corporate responsibility and awareness of the urgency to address climate change drives our management of natural capital with a view to minimizing our footprint.

Our Natural Capital management activities are graphically depicted below.



The management approach to each topic is to raise awareness, formulate policy for minimizing the impact and monitoring impact.

ENERGY MANAGEMENT GRI 103-2,3 | 302-1,3,4

Energy consumed by the Company consists of electricity, which is from the national grid, and fuel used by the Company-owned vehicles. With the expansion of business operation of the Company, acquisition of additional premises to accommodate the requirements of some of the Head office Departments were taken place during the year 2018 along with our presence in four new cities. Company has taken steps to monitor and control the expenses related business operation to greater extent, especially electricity and water, which in return we have been able to minimize the increase of expenses on such payments at an acceptable level. Further with the proposed expansion to the Branch network an increase in energy consumption is expected.

Moreover, it supports our strategic goal of improving our cost efficiencies and we are inspired to redouble our efforts to further reduce consumption as we believe these initiatives are initial steps and that there is more that can be done.

Our Natural Capital management activities are graphically depicted below.

Reduce energy usage

- Introduced LED lightings to branches
- Replaced 500w flasher lights with 50w LED flood lights
- Air conditioners are set at 24oC across all locations
- Introduced bamboo blinds to branches to reduce heat emanation reducing air conditioning use
- Monitoring consumption

Engaging employees

- Regular programmes to raise awareness of the need to reduce energy
- Poster campaigns on key messages
- Appointing energy saving champions to ensure lights are switched off at departments and branches

Formulating policy

- We are formulating an energy management policy to be implemented across all locations in a holistic manner

Paper

Our initiatives to reduce paper are multi-faceted as we need to reduce consumption, ensure that it is recycled and any waste that cannot be recycled is disposed in a responsible manner.

Paperless Office

- Moving from paper based processes to electronic processes
- E-statements for customers
- High levels of automation including approvals and communications
- E-banking and e-statements for utilities
- Streamlining of processes

Reduce, Re-use and Recycle

- Reducing budget for paper consumption
- All printers are double sided printers
- Employees encouraged to use both sides of papers
- Partnering with Geocyc to recycle used paper
- Providing bins at all locations for recycling

Policies & Awareness

- Increasing awareness through targeted programmes
- Poster campaigns
- Development of a holistic policy

The partnership with GEOCYC (Private) Ltd to recycle all used and discarded paper resulted in the recycling of 829 kg of waste paper and earned Rs. 9,395.00 in 2018.

GRI 102-11

Approach to Managing Natural Capital

In order to protect the environment the precautionary approach is widely applied. Where there are threats of serious or irreversible damage, lack of full scientific certainly shall no be used as a reason for postponing cost-effective measures to prevent environmental degradation.

Being responsible entity precautions are taken to large extent in developing new products and carrying out campaigns while less impact to environment (i.e. instead of brochure campaigns SMS is used to educate customers). Further lending appraisals are considered with minimum impact to the environment comply to regulatory requirements at all times.

INTELLECTUAL CAPITAL

Comprising intellectual property and organizational capital, Intellectual Capital plays a key role in facilitating the synchronised management of the other capitals. It is a key competitive advantage and increases in significance with our growth.

Intellectual Property
- License to operate as a Finance Company
- Software Licenses

Organisation Capital
- Tacit Knowledge
- Organisation Culture
- Business Processes & Management Systems
- Brand & Reputation

LICENSE TO OPERATE

Commencing our journey as a specialized leasing and factoring company in 2005, we have acquired the license to operate as a fully fledged Finance company from the Central Bank of Sri Lanka in 2013 under the Finance Business Act of 2011. This is perhaps the most vital capital of the Company as our ability to operate depends on this. Significant resources are devoted to safeguarding our ability to operate under the license including a compliance function to ensure compliance with the legislative and regulatory requirements and systems and processes to facilitate regulatory reporting.

SOFTWARE LICENSES

Our software licenses provide a platform for conducting business and facilitate efficiency, scalability and service excellence. Collectively, the software licenses are reflected in our financial statements as Intangible Assets at a Net book Value of Rs. 83.97 Mn as they are written off over a period of 4 years. We invested Rs. 89.74 Mn during the year in acquiring software licenses mainly for Finacle and the HRIS system which will provide a significant competitive advantage as increased automation with streamlined processes support higher levels of service excellence to our customers and employees.

TACIT KNOWLEDGE OF OUR PEOPLE

The Company has acquired a wealth of experience, knowledge and expertise in the financial services sector over its 14-year journey. It is reflected in our performance which outpaces industry growth and the long service periods of our people who now serve as mentors and evangelists with our culture. A Board comprising of industry leaders and professionals with high repute provide strategic guidance and oversight to our performance. A Corporate Management team of professional of good standing with relevant skills and experience in the financial services industry provide a core of knowledge that propels our growth. They are supported by a young and inspired team of aspiring professionals who are eager to prove themselves in a dynamic field under the mentorship and guidance of the Corporate Management Team.

INVESTMENTS IN TECHNOLOGY (Rs. Mn)

89.74

ORGANISATION CULTURE

Carefully nurtured by successive Boards and Corporate Management Teams, our culture is a key capital that defines our attitudes and behaviours. Articulation of our vision, mission and values, a comprehensive policy framework and a Code of Ethics support the evolution of our organization culture. Additionally, our culture of learning and coaching reinforce the desired behaviours on a day to day basis. High levels of risk awareness are also carefully nurtured through a comprehensive technical training programme. These are complemented by soft skills development programmes to nurture a service oriented dynamic culture to support achievement of our strategic goals.

BUSINESS PROCESSES & MANAGEMENT SYSTEMS

Efficient business processes facilitate client satisfaction which is our highest ranked material topic, supporting delivery of our strategic goals. Management systems facilitate oversight to ensure compliance and monitor performance of both financial and non-financial aspects. These two aspects are vital for performance and play a key role in driving performance, although oft underestimated. They are also a source of competitive advantage as they support the performance of a dynamic team with the necessary processing capability, approvals and information in a timely and cost-effective manner.

BRAND & REPUTATION

As a subsidiary of Sampath Bank PLC, we were admittedly at an advantage from inception due to its strong domestic franchise and the identification in our name as Sampath Leasing & Factoring Company Ltd. While able to stand on our own for some time, we continue to enjoy this advantage although we have differentiated ourselves with a name change and our own identity in 2013 as Siyapatha Finance. Our own brand has gained significant visibility with the growth of our footprint and our transformation to a fully fledged Finance company. Careful management of public relations, transparency and equity in conduct of our business and strategic marketing has added lustre to our brand and reputation which is nurtured and cherished at all levels of the organization.

Our own brand has gained significant visibility with the growth of our footprint and our transformation to a fully fledged Finance company.

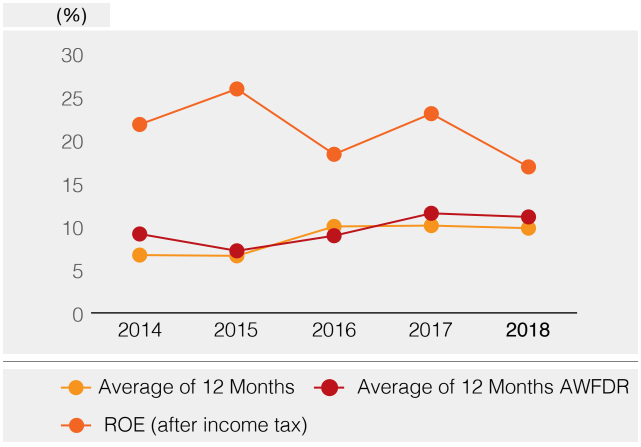
INVESTOR INFORMATION

1. VALUE CREATION FOR SHAREHOLDERS

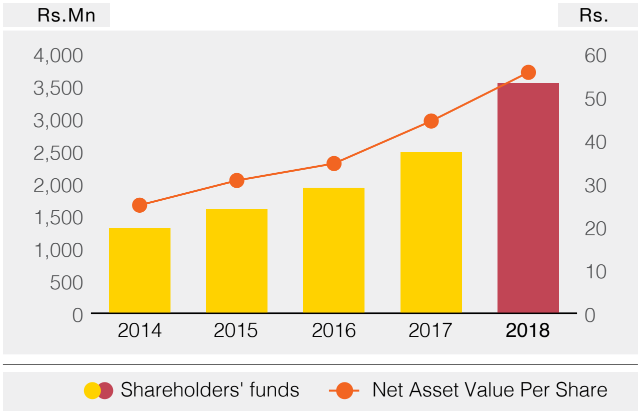
	2018	2017	Change %
Profit for the year (Rs.Mn.)	516.52	498.86	3.54
Earnings per share (Rs.)	8.52	8.70	(2.07)
Shareholders funds (Rs.Mn.)	3,540.99	2,478.29	42.88
Net asset value per share (Rs.)	55.68	44.43	25.32
Dividend declared per share (Rs.)	0.50*	1.25	(60.00)

** The Board of Directors have recommended a scrip dividend of Rs. 0.50 per share on 72,687,298 ordinary shares,totaling to Rs. 36.34 Mn subject to approval of Shareholders of the Company.

Company's ROE & Market Interest Rates



Shareholders' funds & Net Asset value per share



02. INFORMATION ON SHARES

Stated Capital as at 31 December 2018 was represented by the number of shares in issue as given below.

	As at 31 December 2018		As at 31 December 2017	
	Number	Rs.	Number	Rs.
Ordinary Shares	63,596,388	948,666,116/-	55,777,146	635,916,827/-
Total	63,596,388	948,666,116/-	55,777,146	635,916,827/-

SHAREHOLDER INFORMATION

Shareholders' list as at 31 December 2018

	Name	No. of Shares	%
1	Sampath Bank PLC	63,596,381	100.00%
2	Mr. C. P. Palansuriya	01	0.00%
3	Mr. W. M. P. L. De Alwis	01	0.00%
4	Dr. H. S. D. Soysa	01	0.00%
5	Mr. Y. S. H. R. S. Silva	01	0.00%
6	Mr. P. S. Cumaranatunga	01	0.00%
7	Ms. Aroshi Nanayakkara	01	0.00%
8	Mr. S. Sudarshan	01	0.00%
		63,596,388	100.00%

Public Holdings

The percentage of ordinary shares held by the public as at 31 December 2018 was 0%.

Directors'/ CEO's Holding in Shares as at 31 December 2018

Name	Position	No. of Shares
Mr. C. P. Palansuriya	Chairman	01
Dr. H. S. D. Soysa	Director	01
Mr. W. M. P. L. De Alwis	Director	01
Mr. P. S. Cumaranatunga	Director	01
Ms. Aroshi Nanayakkara	Director	01
Mr. Y. S. H. R. S. Silva	Director	01

03. DISTRIBUTION OF SHARE OWNERSHIP

	12/31/18				12/31/17			
shares	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
1 - 1,000	7	87.50%	7	0.00%	7	87.50%	7	0.00%
1,001 - 10,000	-	0.00%	-	0.00%	-	0.00%	-	0.00%
10,001 - 100,000	-	0.00%	-	0.00%	-	0.00%	-	0.00%
100,001 - 1,000,000	-	0.00%	-	0.00%	-	0.00%	-	0.00%
over 1,000,000	1	12.50%	63,596,381	100.00%	1	12.50%	55,777,139	100.00%
	8	100.00%	63,596,388	100.00%	8	100.00%	55,777,146	100.00%

RECORD OF SCRIP ISSUES

Year	Issue	Basis / Proportion	No. of Shares Issued	Consideration per share (Rs.)	Consideration to Stated Capital (Rs.Mn.)	Reason for Issue
2016	Final Scrip Dividend for 2015	1 for 32.31	1,624,726	35.54	57.75	Increase Stated Capital
2017	Final Scrip Dividend for 2016	1 for 32.75	1,652,420	39.63	65.49	Increase Stated Capital
2018	Final Scrip Dividend for 2017	1 for 35.54	1,569,242	44.43	69.72	Increase Stated Capital

RECORD OF RIGHTS ISSUE-2018

Year	Issue	Basis /Proportion	No. of Shares Issued	Price per share (Rs.)	Consideration to Stated Capital (Rs.Mn.)
2018	Rights Issue 2018	40 for 367 held	6,250,000	40.00	250

RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS OF THE COMPANY (DISCLOSURE AS PER SECTION 9 OF THE CSE LISTING RULES)

None of the transactions carried out by the Company with the Related Parties have exceeded the aggregate monetary value of 10% of the shareholder's equity of the Company or 5% of the total assets of the Company as at 31 December 2018.

04. INFORMATION ON LISTED DEBENTURES

(i). Market Values

	Highest (Rs.)		Lowest (Rs.)		Period End (Rs.)	
	2018	2017	2018	2017	2018	2017
Debentures -2014/2019	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded
Debentures-2016/2019	100.50	99.30	99.50	98.00	99.70	98.70
Debentures-2016/2021	Not Traded	100.00	Not Traded	100.00	Not Traded	100.00
Debentures-2017/2022	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded

(ii). Interest Rates

	2018		2017	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Debentures -2014/2019	8.90%	8.90%	8.90%	8.90%
Debentures-2016/2019	13.00%	13.00%	13.00%	13.00%
Debentures-2016/2021	13.50%	13.50%	13.50%	13.50%
Debentures-2017/2022	12.50%	12.50%	12.50%	12.50%

(iii). Interest rates of comparable Government Securities

	2018	2017
6 months treasury bill	10.02%	9.22%
1 year treasury bill	11.01%	9.89%
5 year treasury bond	11.56%	9.97%

(iv). Current Yield & Yield to maturity

	2018		2017	
	Current Yield (%)	Yield to Maturity (%)	Current Yield (%)	Yield to Maturity (%)
Debentures Issued-December 2014 5 year Fixed rated(8.90% p.a. payable annually)	8.90%	Not Traded	8.90%	Not Traded
Debentures Issued-September 2016 3 year Fixed rated(13.00% p.a. payable annually)	13.00%	13.14%	13.00%	13.78%
Debentures Issued-September 2016 5 year Fixed rated(13.50% p.a. payable annually)	13.50%	Not Traded	13.50%	13.43%
Debentures Issued-October 2017 5 year Fixed rated(12.50% p.a. payable annually)	12.50%	Not Traded	12.50%	Not Traded

(v). Ratios

	2018	2017
Debt to Equity Ratio (Times)	3.38	4.95
Interest Cover(Times)	1.23	1.28
Quick Asset Ratio (%)	88.44%	99.74%

Stewardship

The promise of continuity

BOARD OF DIRECTORS

1

Mr. Channa Palansuriya

Chairman

Non-Independent
Non-Executive

2

Mr. Prasantha Lal De Alwis

Deputy Chairman

Independent
Non-Executive

3

Mr. Saman Herath

Managing Director

Executive

4

Dr. Dilanjan Soysa

Senior Director

Independent
Non-Executive

5

Mr. S Sudarshan

Group Company Secretary

6

Mr. Tharaka Ranwala

Director

Non-Independent
Non-Executive

7

Mr. Janakan Selvaratnam

Director

Non-Independent
Non-Executive

8

Ms. Aroshi Nanayakkara

Director

Independent
Non-Executive

9

Mr. Sumith Cumaranatunga

Director

Independent
Non-Executive

10

Mr. Jayantha Gunawardena

Director

Independent
Non-Executive

11

Mr. Rushanka Silva

Director

Non-Independent
Non-Executive

MR. CHANNA PALANSURIYA

Chairman / Non-Executive Non-Independent Director

Appointed to the Board on 20th May 2014 as the Chairman (Non Executive Non-Independent) of Siyapatha Finance and was reappointed as the Chairman of the Company on 15th November 2017.

Qualifications, Skills & Experience

Earned a Masters in Business Administration from the Open University of Malaysia and has gained over thirty years of extensive experience in the Apparel sector by heading the Orit Group of Companies and through continuous leadership given to other companies in the Apparel Industry. Further, he has a wide experience in Government Administration by being a Board member of the BOI for ten years. He has won awards such as Asia Pacific Outstanding Entrepreneurship Award in 2013, Sri Lankan Entrepreneur of the Year in 2002 and the Silver Award of the National Chamber of Exporters of Sri Lanka for the Garment Extra Large category in 2004.

Current Appointments

Director of Braybrooke Residential Properties (Pvt) Ltd and Executive Committee Member of Joint Apparel Association Forum (JAAF)

Previous Appointments

Chairman of Sampath Bank PLC, Chairman of Orit Apparels Lanka (Pvt) Ltd, Chairman of Orit Trading Lanka (Pvt) Ltd, Chairman of Style Kraft Sportware (Pvt) Ltd, Deputy Chairman of Sampath Bank PLC, Chairman of GC Lanka Clothing (Pvt) Ltd till 2013, Deputy Chairman of National Livestock Development Board, Board member of Board of Investment Sri Lanka, Board member of Sri Lanka Institute of Textile and Apparel, Chairman of Apparel Exporters' Association during period 2006-2008.

Membership of Board Sub-Committees

Presently, he serves as a member of the Board Nomination Committee and Board Building Committee.

MR. PRASANTHA LAL DE ALWIS

Deputy Chairman (Non-Executive Independent Director)

Appointed to the Board on 25th February 2011 and subsequently appointed as the Deputy Chairman to the Board on 15th November 2015.

Qualifications, Skills & Experience

Mr. Alwis has been an Attorney-at-law since 1983 and holds LL.B and LL.M in Law from University of Colombo. He was a former State Counsel at the Attorney General's Department and was appointed as a President Counsel in November 2012. He also obtained a Diploma in Marketing from the Chartered Institute of Marketing UK.

Mr. Alwis is a Certified National Trainer in Human Resource Management of the Junior Chamber International and visiting lecturer of Faculty of Law, University of Colombo, Kotalawala Defence University and APIIT Law School.

Current Appointments

He currently serves as a Director of Softlogic Holdings, Coral Sands Hotel (Pvt) Ltd, SC Securities (Pvt) Ltd, Ananda Drama Company - a Company Limited by Guarantee, Alethea International School and Alethea School.

He was appointed as Honorary Consul of Seychelles in Sri Lanka in October 2013. He is also a Member of Incorporate Council of Legal Education, Board of Management Centre for Human Right Development - University of Colombo and Law Faculty Board of University of Colombo. He is presently Commander of St. Johns Ambulance Brigade.

Previous Appointments

Mr. Alwis was a Director of Sampath Bank from January 2002 to January 2011. He continues to be an Advisor to the Board of Sampath Bank since January 2011. He was a member of the Consumer Affairs Authority, Board of Sri Lanka Foreign Employment Agency and Official Language Commission in Sri Lanka.

Membership of Board Sub-Committees

He is the Chairman of Board Integrated Risk Management Committee and holds memberships in Board Audit Committee, Board Corporate Governance Committee, Board Related Party Transaction Review Committee, Board Nomination Committee and Board IT Committee.

MR. SAMAN HERATH

Managing Director (Executive Director)

Appointed to the Board on 5th April 2016 as an Executive Director. Retired as the Managing Director on 28th February 2019.

Qualifications, Skills & Experience

Mr. Saman Herath is an experienced banker with 35 years' worth of experience. Beginning his banking career at Commercial Bank in 1981, he later joined Sampath Bank PLC as an Executive in the Finance Division in 1987. Mr. Herath worked his way up the proverbial ladder of the bank's hierarchy until he reached the position of Senior Deputy General Manager of Corporate Banking from which he retired in June 2015. A result oriented person, Mr. Herath contributed largely to the development of Sampath Bank. He is a fellow Member of the Chartered Institute of Management Accountants of UK (FCMA, UK) and a Chartered Global Management Accountant (CGMA). Mr. Herath is also an Associate Member of the Institute of Bankers, Sri Lanka and holds a number of qualifications including, a Diploma in Credit Management from the Institute of Bankers, a Certificate in Asset and Liability Management from the Postgraduate Institute of Management and has also completed a number of courses in General and Strategic Management conducted by institutions such as The National University of Singapore.

Previous Appointments

Following his retirement he took up the position of Head of Branches at Nations Trust Bank. He was also a Director of Sampath Information Technology Systems Ltd, a fully owned subsidiary of Sampath Bank and a Director of Lanka Swift User Group (Guarantee) Ltd.

Membership of Board Sub-Committees

He currently serves as a member of the Board Integrated Risk Management Committee, Board Credit Committee, Board Related Party Transactions Review Committee, Board Corporate Governance Committee and Board Building Committee.

DR. DILANJAN SOYSA

Senior, Non-Executive Independent Director

Appointed to the Board on 01st January 2011

Qualifications, Skills & Experience

Dr. Soysa obtained his Bachelor of Science Degree (B.Sc.) with first class honours in Chemistry from the University of Ceylon, Colombo and Masters (M.A) and Doctoral Degrees (PhD) in Chemistry from the University of Southern California, Los Angeles, USA.

Current Appointments

Currently, he serves as a Director of STK Engineering (Private) Limited, STK Developers (Private) Limited, STK Properties (Private) Limited, STK Quickshaws (Private) Limited and Shalsri Investments (Private) Limited.

Previous Appointments

Dr. Soysa started his working career as an Executive Officer at Grindlays Bank PLC. He has held several key corporate positions which include Management Consultant, Development Financial Corporation of Ceylon Limited and Citi Bank.

In the field of leasing, he was involved in starting operations in 1983 at Mercantile Lloyds Leasing Limited from where he retired as Deputy Managing Director in 2000. He then joined Commercial Leasing Company Limited as General Manager/CEO in 2002 and served in that position until his retirement in 2010. He served as a Director of Packserve (Private) Limited.

Membership of Board Sub-Committees

Presently, holds the Chairmanship of the Board Credit Committee and the Board Nomination Committee and memberships of the Board Audit Committee, Board HR Remuneration Committee.

MR. THARAKA RANWALA

Director (Non-Executive Non- Independent)

Appointed as a Director to the Board on 28th July, 2015.

Qualifications, Skills & Experience:

Mr. Ranwala is the Senior Deputy General Manager (Consumer Banking) of Sampath Bank PLC responsible for overseeing the areas of the entire retail banking business of the Bank including the Branch network.

He has over 16 years experience in the Banking Industry in roles of increasing responsibility in Retail Banking and Marketing. During this period, he had exposure in Credit Card, Branch Banking, Brand Management, Corporate communications, Market Development, CSR, Consumer and International Marketing.

Mr. Ranwala is a Fellow of CIM (UK) and a member of SLIM. He possesses a postgraduate Diploma in Marketing (CIM - UK) and is a Chartered Marketer. He is also a Certified Professional Marketer (CPM) of the Asia Pacific Marketing Federation. He has won numerous awards both locally and internationally which includes the "Brand Leadership Award in 2006" and the Marketing Professional of the year in 2014' at the CMO ASIA Global Brand Excellence Awards.

Current Appointments

Mr. Ranwala is the President of the International Advertising Association (IAA) Sri Lanka and also a Board Member of the CSR Sri Lanka (Guarantee) Limited, which is the apex body for promoting CSR initiatives in Sri Lanka. Mr. Ranwala is the Assessor and Evaluator of CSR 2.0 of CSR International.

Previous Appointments

Mr. Ranwala commenced his career as a Marketing Officer at Metropolitan Computers (Pvt) Ltd in 1992, following to the position of Assistant Marketing Manager in 1996. Thereafter, he served as the Business Development Manager at DFCC Bank from period 2005-2006. He then joined as the Head of Marketing at Sampath Bank PLC and is presently holding the position of Senior Deputy General Manager -Consumer Banking.

Membership of Board Sub Committees

Serves as a Member of the Board Credit Committee.

MR. SUMITH CUMARANATUNGA

Non-Executive Independent Director

Appointed to the Board on 30th October 2017

Qualifications, Skills & Experience

Mr. Palavinnege Sumith Cumaranatunga was formerly Chairman & Managing Director of the David Pieris Group of Companies, where he served for 30 years and 9 months - 24 years as a Director and 2 years prior to that as General Manager.

He retired as Chairman on 31st March 2016, having joined as an Accountant on 01st July 1985. During his tenure, the organisation transformed from a relatively small business unit in a single location, to one of the most profitable, professionally managed conglomerates in Sri Lanka, with an island-wide reach and a consistent track record of exceptional performance, successfully overcoming numerous challenges. Mr. Cumaranatunga is a Chartered Management Accountant (ACMACGMA), a Certified Practising Accountant (CPA) and a Member of the Chartered Institute of Marketing (DipM MCIM).

Current Appointments

Presently, he serves as Chairman of Suvimie Associates, an export oriented company

Previous Appointments

Mr. Cumaranatunga commenced his career as an Executive at Ceylon Shipping Lines in 1981. Thereafter, he joined Richard Pieris & Company as the first Accountant of Richard Pieris Motor Company (subsequently David Pieris Motor Company) in 1985. During his career, Mr. Cumaranatunga was extensively involved strategically and operationally, in the disciplines of finance & accounting, sales & marketing, information communications technology and operations.

Membership of Board Sub Committees

Serves as Chairman of the Board Audit Committee, Board Human Resources and Remuneration Committee and Board Related Party Transaction Review Committee. As a member of the Board Integrated Risk Management Committee, Board Corporate Governance Committee, Board Nomination Committee and the Board Building Committee.

MS. AROSHI NANANYAKKARA

Independent Non-Executive Director

Appointed to the Board on 06th November 2017

Qualifications, Skills & Experience

Ms. Aroshi Nananyakkara is the CEO of the Global Consulting Company and a dynamic leader in the fields of Strategic Planning, HR and Risk Management having gathered extensive experience though her 20 plus years in multinationals as well as some of Sri Lanka's prominent blue chip companies.

Ms. Nananyakkara holds a BSc. from the prestigious Massachusetts Institute of Technology (MIT), Boston, USA, in addition to an MSc. from the London School of Economics (LSE), UK. She also holds ACMA and CGMA from the Chartered Institute of Management Accountants (CIMA), UK.

Her wide consulting experience covers design and implementation of merger strategies in the financial services sector with a view to enhancing inorganic growth. She has assisted several prominent companies across a range of sectors - from manufacturing to the service industry - in setting strategy for the future, in transforming the company's vision into achievable milestones for its staff and in the formation of Strategic HR units. Ms. Nananyakkara's expertise in corporate training has been leveraged by leading organizations in banking, manufacturing and service sectors. She delivers transformative leadership boot camps, corporate strategy setting workshops and soft skills training in addition to her popular 'super-woman' programme. She is an IFC certified trainer and an International Coach Federation (ICF) certified executive coach providing coaching to many in the corporate sector.

She was a member of the "University & Higher Education Steering Committee" of the National Human Resource Development Council of Sri Lanka and has authored the Corporate Governance section of the "Handbook of Good Governance for Chairmen & Boards of Directors of Public Enterprises," the first copy of which was presented to the Prime Minister of Sri Lanka, the Hon. Ranil Wickremasinghe on 5th December, 2017. She is also featured in the CIMA CGMA C-Suite program brochure, one of the two members featured out of the passed finalists. She has also been an HR advisor to the Ceylon Chamber of Commerce (CCC) as well as the Colombo Stock Exchange (CSE). She is the current Vice President and incoming President (2020) of the Rotary Club of Colombo, the first and one of the largest Rotary Clubs in Sri Lanka. Educational Counsellor, Massachusetts Institute of Technology (MIT), USA.

Current Appointments

She is an Independent Non-Executive Director of Sampath IT Services (Pvt) Ltd (another fully owned subsidiary of Sampath Bank) and of FINTEK Managed Solutions (Pvt) Limited (fully owned subsidiary of Gestetner PLC). She is a Director of the Sri Lanka Institute of Directors and chairs their Education Services and Women on Boards initiatives.

Previous Appointments

Ms. Nanayakkara commenced her career as a Corporate Banker, first, at ABN AMRO Bank NV and later at Deutsche Bank AG Sri Lanka. Moving from banking into HR, she joined Eagle Insurance (then, a subsidiary of the Ceylon Tobacco Company) handling Human Resource Development and Strategic Planning for the company. During her tenure, she had the opportunity to steer the company's human resources through two major strategic changes - one when Eagle merged with the Zurich Financial Services Group and secondly, when Eagle was strategically aligned to the NDB Banking Group. She rose up in the corporate ladder to join the Delmege Group as Group Director Human Resource Development while also serving as a Board Director of its subsidiary, Delmege Interior Décor (Pvt) Ltd.

She shifted fields to join Sri Lanka's largest apparel group, the Brandix Group, as their Chief Risk Officer overlooking the functions of internal audit and compliance. Her final role at Brandix was as CEO of Brandix Hangers (Pvt) Ltd.

Membership of Board Sub Committees

Chair of the Board Governance Committee as well as a member of the Board Audit Committee, Board Credit Committee, Board Risk Committee, Board HR & Remuneration Committee and the Board Related Party Committee.

MR. RUSHANKA SILVA

Non Independent Non Executive Director

Appointed to the Board on 1st June 2018

Qualifications, Skills & Experience:

Dedicated professional with a solid background in Management Accounting, Marketing and Sales.An Associate Member of the Chartered Institute of Management Accountants UK (ACMA).Strategic and creative thinker who has proven his ability to develop strong client relationships quickly and promote teamwork efficiently and a leader with a rich mixture of experience and successes in the business world, having completed his secondary education at Trinity College, Kandy. Holds a Masters in Business Administration from University of Western Sydney, Australia. An alumnus of Harvard Business School (USA).

Current Appointments

Non-Independent Non-Executive Director of Sampath Bank PLC, Managing Director of Indra Traders (Pvt) Ltd, Director of Indra Motor Spares (Pvt) Ltd, Indra Property Development (Pvt) Ltd. Director of Indra Hotels & Resorts Kandy (Pvt) Ltd, Chairman of Braybrooke Residential Properties (Pvt) Ltd. Non-Executive Director of Sampath Centre Limited.

Previous Appointments

Non-Independent Non-Executive Director of Serendib Finance Limited

Membership of Board Sub Committees

Member of the Board IT Committee.

MR. JANAKAN SELVARATNAM

Non Independent Non Executive Director

Appointed to the Board 18th December 2018

Qualifications, Skills & Experience

Mr. Janakan Selvaratnam's career spanning 25 years with Citibank N.A., Sri Lanka was as Vice President, Head of the Local Corporate Bank & Public Sector for the bank's Sri Lankan franchise. His exposure has been in managing client portfolios in corporate, multinational, non-banking financial sector and public sector segments. He was a member of the Bank's Management Committee, Credit Committee etc. The scope of his responsibilities included the heading of businesses in a highly performance driven culture, strategic & business planning, corporate governance & compliance, market evaluation and commercializing of business units, development and marketing of products for increased wallet share capture of identified segments, credit & risk management and managing people, their development & training. He was instrumental in leading a key change management project for the bank.

He possesses widespread experience working with risk management, legal teams, product groups and regulators at all levels within and outside the country.

Mr. Janakan Selvaratnam holds a Post Graduate Diploma in Business Administration from University of Wales (PRIFYSGOL CYMRU).

In the last two and half years, he has engaged in business development and consultancies in the Banking, Non-Banking Financial Institution, Insurance Brokerage and Corporate sectors.

Current Appointments

Mr. Janakan Selvaratnam, currently acts as a consultant to Sampath Bank PLC's Board Credit Committee. His main role is the provision of advisory services on credit risk evaluation & approval, credit quality expansion and corporate bank strategy.

Previous Appointments

Mr. Selvaratnam commenced his career as a Relationship Manager in Corporate Banking at Citibank N.A., Sri Lanka in 1990. He has held several key corporate positions which include Head of Sales and Marketing and Vice President, Head Local Corporate Bank and Public Sector at Citibank N.A until 2015. Thereafter, he served as the Consultant on Risk Management for the Banking sector at Richard Pieris Finance PLC and as the Consultant to the Joint Managing Director at Foresight Insurance Brokers (Pvt) Ltd. He then joined as the Consultant to the CEO & Board of Directors during period 2017-2018.

MR. JAYANTHA GUNAWARDENA

Non-Executive Independent Director

Appointed to the Board on 29th January 2019

Qualifications, Skills & Experience

Mr. Gunawardena holds a Diploma in Bank Management and AIB Sri Lanka Part I offered by the Institute of Bankers of Sri Lanka.

Previous Appointments

Mr. Jayantha Harischandra Gunawardena had a distinguished career at Standard Chartered Bank, Colombo holding number of senior managerial positions such as Imports Manager, Exports Manager, Manager Trade Services, and senior Treasury Dealer.

He has extensive knowledge and experience in Trade Services (International Operations), Treasury Operations, Retail Banking Operations, Corporate Credit, Internal Control and Inspection and Credit Administration spanning over 23 years at Standard Chartered Bank. At the time of his early retirement from the bank, he was working as the Manager Quality Control and Operational Risks where he was mainly responsible for maintaining a stronger Control environment in the Bank and further acting as the Anti-Money Laundering monitoring officer monitoring/ reporting of suspicious transactions to the Financial Intelligence Unit of the Central Bank of Sri Lanka. Subsequent to his retirement from the Bank, he joined Ms. Ernst & Young Chartered Accountants, Colombo in the year 2001. At Ernst & Young, he was designated as the Investigation Manager, who was a key person involved in investigations and External /Internal Audits related to complex areas such as Treasury Operations, Trade Services and Retail and Corporate Banking Operations in leading licensed Commercial Banks of Sri Lanka such as People's Bank, Bank of Ceylon, Commercial Bank of Ceylon PLC, Sampath Bank PLC, National Savings Bank, NDB Bank, Merchant Bank of Sri Lanka and People's Merchant Bank. Further, he was also responsible for carrying out Corporate Governance compliance Audits for several years at a number of leading Licensed Commercial Banks and Registered Finance Companies as required by the CBSL directions.

Membership of Board Sub-Committees

He holds memberships of Board Audit Committee, Board Integrated Risk Management Committee, Board Corporate Governance Committee, Board Related Party Transactions Review Committee and Board Nomination Committee.

MR. ANANDA SENEVIRATNE

Managing Director (Executive Director)

Appointed to the Board on 1st March 2019 as the Managing Director (Executive)

Qualifications, Skills & Experience

Fellow member of the Institute of Charted Accountants of Sri Lanka, a graduate in Business Administration from the University of Sri Jayawardenapura and a Masters Degree in Business Administration from the University of Colombo. Holds over 36 years of working experience in various local and international institutions.

Chairman of Leasing Association of Sri Lanka from 2016 to 2018. At the same time, he was a Board Member of the Credit Information Bureau of Sri Lanka (CRIB) and David Pieris Global Ventures (Pvt) Ltd.

Previous Appointments

Mr. Seneviratne served 17 years at Nestle Lanka Limited, from May 1991 to June 2008, in various senior managerial levels. He commenced as the Head of Internal Audit and remained at that position until 1995. In 1995, he moved to the Financial Accounting Department as Head of Financial Accounting. In 1999, he transferred to Nestle Middle East as the Business Excellence Manager, returned to Sri Lanka in 2002 and took up the position of Head of Procurement. In 2008, Mr. Seneviratne joined Loadstar (Pvt) Ltd as Director/General Manager of procurement until 2009.

His previous employment was at Assetline Leasing Company Limited, in the capacity of Director and Chief Executive Officer. He joined Assetline Leasing Company Limited in 2009 as Director Operations and was subsequently promoted as the Chief Executive Officer in 2015.

CORPORATE MANAGEMENT TEAM

Ananda Seneviratne
Managing Director

Rajeev De Silva
Chief Operating Officer

Rohana Dissanayake
Head of Deposits

Thilani Punyawansa
Head of Risk & Compliance

Nimal Luxshman
Head of Internal Audit

Mathisha Hewavitharana
Head of Branches

Prasad Udugampola
Head of Human Resources

Shajeewa Dodanwatte
Head of Lease & Loan Administration

Dushyantha De Silva
Head of Credit Administration

Ajantha Kumara
Head of Gold Financing & Micro Leasing

Saman De Silva
Head of Credit

Ruwan Wanniarachchi
Head of Finance

Damitha Girihagama
Head of Recoveries

OTHER KEY MANAGERS

Hisham Ziard
Senior Regional Manager - Credit

Thilak Adikari
Senior Regional Manager - Credit

James Peiris
Senior Manager - Corporate Business

Damith Shaminda
Senior Manager - Internal Audit

Sampath Himendra
Manager - Operations

Manjula Balasuriya
Manager - IT

Lakmini Perera
Manager - Factoring

Malaka Asiriwardhana
Manager - Credit Operations

Aruna Nawarathna
Manager - Recoveries

Lushan Perera
Manager - Branding

Kanil Perera
Manager - Deposits

Sampath Gunawardena
Manager - Administration

Udara Piyananda
Manager - Finance

Nelka Welianga
Manager- Legal

Gathara Chathudisi
Manager - Operations

Amila Liyanarachchi
Manager - Insurance

Anura Jayasinghe
Manager - Micro Leasing

Susantha Watudura
Manager - Post Credit

REGIONAL MANAGERS

Indika Rajapakshe
Regional Manager

Amila Kumara
Regional Manager

Bandara Medagoda
Regional Manager

Senarath Bandara
Regional Manager

Amila Bambarandage
Regional Manager

Manjula Jayathilaka
Regional Manager

BRANCH MANAGERS

Mohamed Primsath
Branch Manager - Sainthamaruthu

S M Faiz
Branch Manager - Kalmunai

Ashoka Rupasinghe
Branch Manager - Ampara

Bhathiya Asanka Kumara
Branch Manager - Kurunegala

Rasika Rathnayaka
Branch Manager - Katugasthota

T Prabakaran
Branch Manager - Batticoloa

Dinesh Eranda
Branch Manager - Trincomalee

Gayan Sampath
Branch Manager - Negombo

Sandaruwan Wijerathne
Branch Manager - Gampaha

Malaka Maddumage
Branch Manager - Kaluthara

Harsha Rathnayaka
Branch Manager - Head Office

Sandaruwan Somarathna
Branch Manager - Kurunegala Metro

Branch Managers

Anuradha Deshapriya
Branch Manager - Anuradhapura

Manoj Udayakumara
Branch Manager - Nugegoda

Rashmika Rajapakshe
Branch Manager - Wellawatta

L H M Dhanushka
Branch Manager - Awissawella

Rengan Balakrishnan
Branch Manager - Nuwaraeliya

Nuwan Amarasinghe
Branch Manager - Galle

Ananda Jayakody
Branch Manager - Kegalle

Rangika Lakmal
Branch Manager - Peliyagoda

Megavannan Jesinthiran
Branch Manager - Vauniya

Sameera Indrajith
Branch Manager - Rathnapura

Amitha Chandrasekara
Branch Manager - Kuliyapitiya

Andrew Newman
Branch Manager - Maharagama

Chamil Fernando
Branch Manager - Piliyandala

Prabhath Kariyapperuma
Branch Manager - Kiribathgoda

Padmakumara Rajapakshe
Branch Manager

Priyanka Kumara
Branch Manager - Panadura

Sumedha Bandara
Branch Manager - Hatton

Isuru Chandana
Branch Manager - Wattala

Dhanushka Dharmadasa
Branch Manager - Kandy

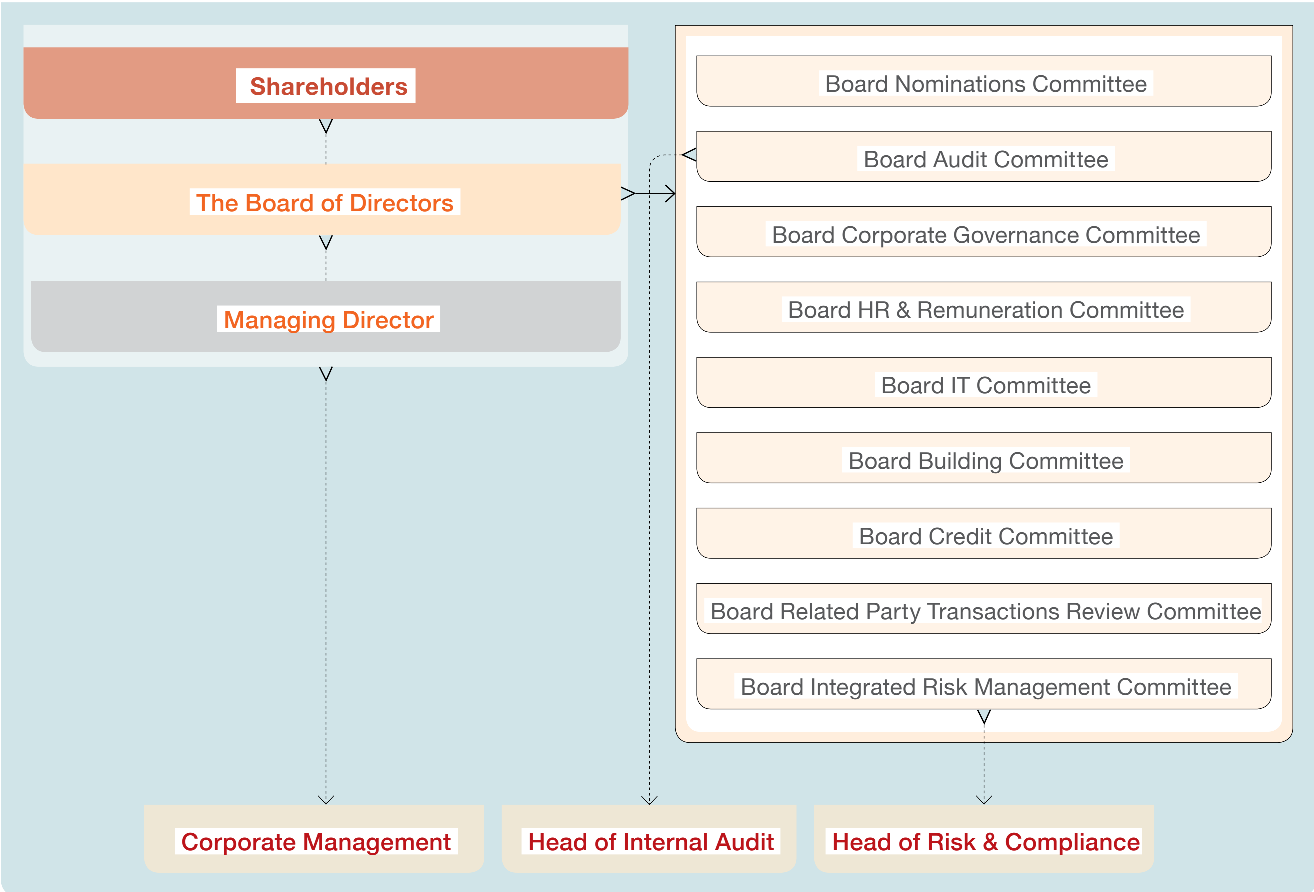
Janaka Vipula
Branch Manager - Matara

Vinoj Dharmarathna
Branch Manager - Chilaw

CORPORATE GOVERNANCE

Sound corporate governance balances the interests of the Company, stakeholders and society facilitating long term sustainable value creation. The Board takes responsibility for putting in a sound governance structure supported by a comprehensive policy framework and management information systems facilitating oversight of the affairs of the Company and objective decision making.

GOVERNANCE STRUCTURE GRI 102-18



The Board of Directors bears ultimate responsibility for the affairs of the Company and have set in place an appropriate governance structure to facilitate the discharge of its duties. Board Sub Committees assist the Board in its oversight functions in specialized areas or areas requiring significant attention. Accordingly, the Board Audit Committee and the Board Integrated Risk Management Committee have been appointed in line with the business requirements and in compliance with regulatory requirements. The other committees of the Board have been appointed in line with the business needs of the company. The reports of the Board Sub Committees on pages 117 to 126 set out the terms of reference and the work of the committees.

The Board appointed Chief Executive Officer is responsible for day to day management of the operations of the Company and is accountable to the Board. He is supported by key management personnel who collectively form the Corporate Management Team with responsibility for business lines or key support functions.

GOVERNANCE FRAMEWORK

Siyapatha Finance PLC Corporate Governance framework complies with the following regulatory requirements:

a. Companies Act No.7 of 2007

b. Finance Business Act No.42 of 2011

c. The Finance Companies Directions issued by the Central Bank of Sri Lanka for Registered Finance Companies in Sri Lanka including Direction No. 03 of 2008 and subsequent amendments thereto on Corporate Governance

d. Continuing Listing Rules of the Colombo Stock Exchange

Annual Report of the Board of Directors on the State of Affairs of the Company on pages 129 to 136 provides insights into how the Company complies with the requirements of the Companies Act. Compliance with the Direction No.3 of 2008 on Corporate Governance is set out on pages 78 to 108 providing an overview of the governance mechanisms in place at the Company.

The Finance Companies Direction No. 03 of 2008 and subsequent amendments thereto on Corporate Governance issued by the Central Bank of Sri Lanka for Registered Finance Companies in Sri Lanka.

Section	Corporate Governance Principle	Compliance
2. THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS		
2(1) (a)	Strategic objectives and corporate values	Board approved Strategic Business Plan for 2018-2020 are in place. The Board and the Management are well aware of the strategic objectives and organizational values since these have been communicated throughout the Company.
2(1) (b)	Overall business strategy of the finance company including risk policy, risk management procedures and mechanism with measurable goals	Board approved Strategic Plan for 2018-2020 and projected financial statements/budget for the year 2019 are in place. Risk Policy including risk management procedures, mechanisms have been approved by the Board in line with the Strategic Plan. The Board measures the corporate performance against the predetermined goals. Company's Strategic Plan 2018-2020 includes measurable goals for the next three years.
2(1) (c)	Managing the risks in the Company	There is a process in the Company where the Board members who are experienced leaders in the industry discuss new strategies of the Company, the risk arising out of new strategies and the ways and means to mitigate such risks. Further, effective oversight of the Company's risk management including the identification and assessment of the principal risks and overseeing the management of those risks are monitored by the Board Integrated Risk Management Committee (BIRMC). Board assesses the overall risk management of the Company through the minutes of the BIRMC submitted to the Board.
2(1) (d)	Effective Communication with stakeholders	A Stakeholder Communication Policy is in place and the Board of Directors, officers and employees comply with the Policy in order to ensure effective communication for the best interest of stakeholders.
2(1) (e)	Internal control systems and Management Information System	The Audit Committee assists the Board in assessing the adequacy and effectiveness of the internal controls and the financial reporting processes of the company. They are supported by the Internal Audit Department who carry out audits to assess the internal controls over financial reporting and management information systems. The Head of Internal Audit reports directly to the Board Audit Committee and administratively to the Managing Director (MD) facilitating exercise of independent judgement. Accordingly, the Board reviewed the adequacy and the integrity of the Company's MIS through the internal audit reports and Management Information Reports submitted by the Internal Auditors of the Company.

Section	Corporate Governance Principle	Compliance
2(1) (f)	Identification of KMPs of the Company	In line with the Central Bank requirements, the Board has identified all Heads of Departments of the Company as KMPs.
2(1) (g)	Authority and key responsibilities of the Board and Key Management Personnel	The general and statutory duties and responsibilities of the Board of Directors are set out in the Board approved Code for Board of Directors and Board Sub Committees. Job Descriptions of Key Management Personnel which includes the functions and responsibilities of the KMP have been approved by the Board. Areas of authority are covered under the Delegation Authority (DA) limits assigned for KMP.
2(1) (h)	Appropriate oversight of affairs of the Company by KMPs	In order to ensure management, development and effective performance of the Company, KMPs make regular presentations to the Board on matters under their purview.
2(1) (i)	Effectiveness of the Board of Directors' own governance practices	Siyapatha Finance has set up its own Board Nomination Committee, with a majority of Independent Non Executive Directors, who recommend names of individuals to be appointed as Directors to the Board of Siyapatha Finance PLC.
	Selection, nomination and election of Directors and Key Management Personnel	Appointment of KMPs is recommended by the Board HR & Remuneration Committee under the direction of the Board of Directors of the Company.
	Management of conflicts of interests	As per Company's Article 26, there is a requirement in place for the Directors to declare the nature of their interest. Directors' interests are disclosed to the Board and any Director who has a particular interest in matters set before the Board abstains from voting. Further, there is a Board approved conflict of interest policy for Directors in place.
	Determination of weaknesses and implementation of changes	Determination of weaknesses in Board of Directors' own governance practices and implementation of changes is addressed through the annual self-evaluation process of the Board members. Self evaluation forms for the year end 2018 have been obtained and a summary will be submitted to the Board.
2(1) (j)	Succession plan of the KMPs	The Company has established a one to one succession plan for all the KMPs approved by the Board.
2(1) (k)	Regular Meetings with KMPs	Managing Director and Chief Operating Officer are called for regular Board Meetings to review policies and monitor progress towards the corporate objectives. The other KMPs attend Board meetings on invitation and make presentations, which provide the opportunity to share their views and contribute towards the performance of the company.
2(1) (l)	Understanding the regulatory environment and the relationship with the regulators	All directions issued by CBSL have been presented to the Board members by the Company Secretary on a regular basis for their knowledge and guidance. The Head of Risk & Compliance submits a Compliance Certificate and Statutory Compliance report which contains the details of returns submitted to CBSL and to other Statutory Bodies, new regulations/statutes and their implications on the business, significant non-compliance events and compliance with regulatory requirements/returns. Thus, the Directors are conversant with the regulatory environment. Siyapatha Finance PLC Chairman, CEO meets the Governor of CBSL and the Director Non-Bank Supervision at the meetings held at CBSL evidence the relationship maintained with the regulator

Section	Corporate Governance Principle	Compliance
2(1) (m)	Hiring and oversight of external auditors	Company's Article 38(4) addresses the general procedure for the appointment of External Auditors by the shareholders. Further, as per the Terms of Reference (TOR), Board Audit Committee (BAC) has a process for this purpose and final approval is obtained from the Board. Rotation of the Audit Partner is monitored by the Company to maintain a high standard of transparency within the system. At the completion of his tenure the former Audit Partner retired and the current Audit Partner took over in 2016.
2(2)	Appointment of Chairman and CEO and their responsibilities	Board of Directors of Sampath Bank PLC recommends the name of Chairman to be appointed to the Company and the appointment of the MD is approved by the Board. Board of Directors of the Company has approved the functions and responsibilities of the Chairman keeping in line with good governance.
2(3)	Procedure for seeking Independent Professional Advice	A Board approved procedure is in place to enable Directors, upon reasonable request to seek independent professional advice in appropriate circumstances, at the Company's expense.
2(4)	Dealing with conflicts of interest	Under Company's Article 26 (1 & 5) Directors declare their nature of interest and abstain from participating at discussions and voting on any Board resolution in relation to a matter in which he/she or any of his/her close relation or an entity in which a Director has a substantial interest. Directors of the Company are independent from business transactions and have no personal connections with the Company's matters. They disclose their interest in the Affidavits and Declarations which are submitted to the regulator annually.
2(5)	Schedule of matters reserved for Board Decision	Board approved "Code for Board of Directors and Board sub Committees" is in place which defines the functions and matters specifically reserved for the Board.
2(6)	Solvency of the Company	Members of the Board are aware of the requirement to inform the Director of the Department of Non -Bank Supervision with regard to the situation of the Company where the Company is unable to meet its obligations and is about to become insolvent. Such a situation has not arisen during the year 2018.
2(7)	Publish Corporate Governance Report	Corporate Governance Report is set out on the pages 78 to 107 of Annual Report of the company.
2(8)	Scheme of self-assessment for Board	A procedure is in place for Annual self-assessments of Directors which provide an opportunity to discuss the findings that are made during the year. Self-assessment forms are obtained from the Directors annually by the Company Secretary and the summary of the self-assessment is submitted to the Board meeting enabling Directors to discuss relevant matters if any.
3. MEETINGS OF THE BOARD		
3(1)	Regular Board Meetings	Board Meetings for the year have been scheduled at the end of the previous year and an annual meeting calendar is submitted to the Board. Special meetings were conducted as and when required. Thirteen Board Meetings were held during the year under review. Board approved procedure is in place to minimize obtaining consent through circulation of written or electronic resolutions/papers other than those under urgent circumstances.
3(2)	Arrangements for Board Members to include proposals in the agenda	Board approved procedure is in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.

Section	Corporate Governance Principle	Compliance
3(3)	Notice of Meetings	Annual Board meeting calendar is scheduled at the end of the previous year enabling Board of Directors to attend meetings. As a practice, Directors are given notice of at least 7 days for regular Board Meetings under normal circumstances. All Board papers are circulated to Board members through the Board Pack on iPads and all current and previous Board minutes are archived on the system enabling Board members to access them at their convenience.
3(4)	Attendance of Directors	Board of Directors has fully complied with the requirement and each Director of the Board is well informed acquainted about their attendance. Company Secretary also monitors the attendance. During the year 2018 no Director has been absent from three consecutive meetings. Details of Directors attendance are set out on page 108 of the Annual Report.
3(5)	Company Secretary	The Board has appointed the Company Secretary who possesses the required qualifications as stated in the Companies Act No. 07 of 2007. The Company Secretary provides secretarial services to the Board and all Sub Committee meetings and carries out other functions specified in the statutes and other regulations. The Company Secretary ensures that the organization complies with relevant directions, legislation and regulation, and keeps Board members informed of their legal responsibilities.
3(6)	Preparation of Agenda	Company Secretary is responsible for the preparation of the agenda, in consultation with the Chairman.
3(7)	Access to advice and service for Company Secretary	Board approved procedure is in place to enable all Directors to have access to advice and services of the Company Secretary to ensure all Board procedures, applicable laws, rules, directions and regulations are followed
3(8)	Maintenance of Board Minutes	Company Secretary maintains the minutes of Board Meetings and other Committee Meetings with sufficient detail. Upon reasonable request, any Director can inspect the minutes. All Board papers are circulated to Board members through the Board Pack on iPads and all current and previous Board minutes are archived on the system enabling Board members to access them at their convenience.
3(9)	Minutes of Board Meetings	Company Secretary maintains the minutes with the following contents ◆ A summary of data and information used by the Board in its deliberations ◆ The matters considered by the Board ◆ The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; ◆ The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations ◆ Board's knowledge and understanding of the risks to which the Company is exposed and an overview of the risk management measures adopted ◆ The decisions and Board resolutions Minutes are under safe custody of Company Secretary.

Section	Corporate Governance Principle	Compliance
4. COMPOSITION OF THE BOARD		
4(1)	Composition of the Board	Board consists of nine Directors which is within the statutory range. Mr. C. P. Palansuriya (Chairman), Mr. K. M. S. P. Herath, Mr. P. M. A. Sirimane Resigned w.e.f 15.10.2018), Dr. H. S. D. Soysa, Mr. W. M. P. L. De Alwis, Mr. Tharaka Ranwala, Mr. Sumith Cumaranatunga , Ms. Aroshi Nanayakkara, Mr. Y. S. H. R. S. Silva (appointed w.e.f 01.06.2018) and Mr. J. Selvaratnam (appointed w.e.f 18.12.2018) are the Directors of the Company during the year 2018.
4(2)	Period of Service of Directors	There are no Directors who have exceeded 9 years of service at the Board during the year 2018.
4(3)	Number of executive Directors	The Single Executive Director is the MD. Mr. K. M. S. P. Herath has been appointed as the Managing Director of the Company w.e.f. 05.04.2016.
4(4)	Number of independent Non executive Directors	The Company has five Independent Non-Executive Directors up to 15.10.2018 and reduced to 4 thereafter, complied with the requirement. The composition of the Board of Directors is published on page 133 of the Annual Report
4(5)	Appointment of alternate Director	No such appointments occurred during the year 2018.
4(6)	Skills and experience of Non-executive Directors	All the Non-Executive Directors of the Company possess vast experience and skills in the relevant fields.
4(7)	Quorum for Board Meetings	Board approved procedure is in place which stipulates the number of members required to meet the quorum at a Board meeting to be not less than 50% of the total Directors of the Company and out of this quorum, at least one third should include Non-Executive Directors. Section 31 of the Articles of Association also states the requirement of the quorum, which has been complied with at all Board Meetings during the year 2018. A summary of attendance of the Directors at meetings is set out on page 108 of Annual Report.
4(8)	Composition of Board	Composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors has been disclosed on page 133 of the Annual Report
4(9)	Appointment of new Directors	Board approved procedure is in place for appointing new Directors. The Board Nomination Committee recommends names of proposed Directors to the Siyapatha Finance PLC Board.
4(10)	Appointment of Directors to fill casual vacancy	As per Company's Article 24 (2), the Board has power to appoint Directors to fill a casual vacancy which is subject to re-election by shareholders at the Annual General Meeting,
4(11)	Resignation and removal of Directors	Directors' resignation or removal and the reason for such resignation or removal are duly informed to the Department of Non-Bank Supervision of Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE).
5. CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS		
5(1)	Age Limit of a Director	None of the present Directors of the Company are above the age of 70 years.
5(2)	Directorships in more than 20 companies	As per declarations given by the Directors for 2018, none of the Directors holds office as a Director of more than 20 Companies.

Section	Corporate Governance Principle	Compliance
6. DELEGATION OF FUNCTIONS		
6(1)	Delegation of Authority	The Board may delegate the authority to make decisions to any Board Committee or to a Director or employee but monitors by means of reasonable methods the exercise of powers so delegated. This delegation is permitted under Company's articles 25(2) and under Section 186 of the Companies Act.
6(2)	Reviewing of delegation process	Board has reviewed the delegated authority limits to ensure that delegation is acted upon within the controls.
7. THE CHAIRMAN & THE CHIEF EXECUTIVE OFFICER		
7(1)	Roles of Chairman & CEO	The roles of the Chairman and MD are separated and not performed by the same individual.
7(2)	Appointing a senior Director where Chairman is non independent	The Chairman is a Non-Independent, Non-Executive Director. Therefore, Dr. H S D Soysa, an Independent Non-Executive Director has been appointed as a Senior Director to the Board. The designation of the Senior Director is disclosed on page 65 of the Annual Report.
7(3)	Identification and disclose relationship between Chairman, CEO and Board Members	The names of the Chairman and the Managing Director are published in the Annual Report and there is no financial, business, family or other material relationship between Chairman, Managing Director and Board members. A Board approved procedure is in place to monitor the relationship between MD and the Board of Directors and among the Board Members.
7(4)	Role of the Chairman	Chairman's key responsibilities and duties have been approved by the Board. Self-evaluation process of the Board ensures that the said requirements are fulfilled.
7(5)	Preparation of Agenda	Company Secretary prepares the agenda in consultation with the Chairman, as this function has been delegated to the Company Secretary by the Chairman.
7(6)	Ensure to Communicate to Directors the issues arising at board meetings	The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner
7(7)	Full and active contribution of Directors	The Chairman encourages all Directors to make a full and active contribution to the Board's affairs. Further, this is also evaluated through the Self Evaluation process designed for the Board of Directors.
7(8)	Effective contribution of non-executive Directors and constructive relationships between executive and non-executive Directors	Board consists of Non-Executive Directors and Executive Directors and they give their fullest and effective contribution to the Company while discharging their duties collectively. Chairman ensures that a constructive relationship exists between the Board members as a whole by providing an equal opportunity to all Directors to actively participate in the Board's affairs. Self-Evaluation process covers the contributions of both Executive and Non-Executive Directors.
7(9)	Refrain from direct supervision of KMPs and executive duties	Chairman does not engage directly or indirectly in supervision of KMPs and executive duties. MD is responsible for the day to day operations of the Company
7(10)	Effective Communication with shareholders	Since the Company is a 100% owned subsidiary of Sampath Bank PLC, effective communication is maintained with the Bank (Parent Company) through Chairman, Mr. C. P. Palansuriya and Mr. L. T. Ranwala who have been appointed to the Company's Board to look into the interest of the parent Company.
7(11)	APEX Executive of the Company	MD functions as the apex executive in charge of the day to day operations of the Company and he acts as a direct liaison between the Board and Management of the Company.

Section	Corporate Governance Principle	Compliance
8. BOARD APPOINTED COMMITTEES		
8(1)	Board sub committees, their functions and reporting	Board has established two Board Committees namely Board Audit Committee (BAC) and Board Integrated Risk Management Committee (BIRMC) as per the requirements of CBSL. Apart from the above two Committees, the Company has established seven more Board Sub-Committees, namely Board HR & Remuneration Committee, Board Corporate Governance Committee, Board Credit Committee, Board Related Party Transactions Review Committee and Board Nomination Committee, Board IT Committee, Board Building Committee. Company Secretary is the Secretary to all Board Sub Committees. He discharges his secretarial functions under the supervision of Chairmen of Committees. Performance, duties and functions of all Committees are been disclosed on pages 117 to 126 of the Annual Report. All minutes of the above Committee are submitted to the Board for their review.
8(2) AUDIT COMMITTEE (BAC)		
8(2) (a)	Chairman of the Audit Committee and qualifications of the Chairman	The Board appointed Mr. P. S. Cumaranatunga as the Chairman of the Board Audit Committee w.e.f. 01.06.2018. Mr. Cumaratunga is a Chartered Management Accountant (ACMA), a Certified Practicing Accountant (CPA) and a member of the Chartered Institute of Marketing (DipM MCIM). Mr. P. M. A. Sirimane who served as an Independent, Non-Executive Director and is a Fellow Member of ICASL was the Chairman of the Board Audit Committee until 31.05.2018.
8(2) (b)	Composition of the Committee	All members of the Board Audit Committee are Non-Executive Directors. Other members are Mr. P. M. A. Sirimanne (resigned w.e.f 15.10.2018), Dr. H. S. D. Soysa, Ms. A. Nanayakkara and Mr. W. M. P. L. De Alwis. All of them have expertise and knowledge in the fields of banking, finance, leasing, information technology etc.
8(2) (c)	Recommendations made by the Audit Committee	Audit Committee has made recommendations with regard to the following. ◆ The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes ◆ The implementation of the Central Bank guidelines issued to auditors from time to time; ◆ The application of the relevant accounting standards; ◆ The service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the Audit before the expiry of three years from the date of the completion of the previous term ◆ Implementation of the Whistle Blowing Policy within the Company
8(2) (d)	Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes	The BAC obtains representation from the External auditors on there independence and that the audit is carried out in accordance with the applicable standards and best practices.
8(2) (e)	Provision for Non-Audit Services by external auditors	Board approved policy on the engagement of an external auditor to provide non-audit service is in place.

Section	Corporate Governance Principle	Compliance
8(2) (f)	Nature and scope of the external audit	The Board Audit Committee has discussed and finalized the nature and scope of the audit, with the External Auditors in accordance with Sri Lanka Accounting Standards. The Audit Engagement Letter for the year ending 31.12.2018 is submitted to the BAC.
8(2) (g)	Review the financial information of the Company	Quarterly Financial Statements as well as year-end Financial Statements are circulated to the Audit Committee. A detailed discussion focused on major judgmental areas, changes in ◆ accounting policies, significant audit judgments in the Financial ◆ Statements, going concern assumption and compliance with ◆ Accounting Standards and other legal requirements takes place and required clarifications are obtained in respect of all areas before being recommended for Board approval.
8(2) (h)	Discussions with the External Auditor on Interim and final audits	The Board Audit Committee discusses issues, problems and reservations arising from the interim and final audits with the external auditors. During the year Committee has held two meetings with External Auditors, without the Executive Management being present, to discuss any matters (if any) the auditor may wish to discuss.
8(2) (i)	External Auditor's Management Letter and Management's response	Committee has reviewed the External Auditor's Management letter relating to the audit for the year ended 31.12.2017 and Management responses thereto.
8(2) (j)	Committee's responsibility with regard to Internal Audit Function	
	i) Review the adequacy of the scope, functions and resources of the internal audit department	Board Audit Committee has discussed the adequacy of the scope, functions and resources of the Internal Audit Department
	ii) Review the internal audit program and results of the internal audit process	The Audit Committee has reviewed and approved internal audit program. Internal Audit reports have been submitted to the Committee with the Management comments and action taken to rectify the issues have been reported and discussed at the BAC
	iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department	The Board Audit Committee has carried out the performance appraisal of the Head of Internal Audit for the year 2018.
	iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function	As recommended by the Board Audit Committee, the Service Contract of Head of Internal Audit has been extended during the year.

Section	Corporate Governance Principle	Compliance
	v) Appraisal of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning	There were no resignations of chief internal auditor, senior staff members of the Internal Audit Department or outsourced service providers during the year under review.
	vi) Independence of the audit activities, impartiality of the performance, proficiency and due professional care.	As per the organization chart of the Siyapatha Finance PLC the internal auditor reports direct to the BAC and the audit work has been performed with impartiality proficiency and due care.
8(2) (k)	Major findings and management response	The Committee oversees the major findings of any internal investigations and Management response thereto
8(2) (l)	Attendance at Audit Committee Meetings	Members of the Board Audit Committee, Managing Director, Head of Internal Audit, Chief Operating Officer, Head of Risk and Compliance, Head of Finance and representatives of External Auditors attend the meetings.
	External Auditors' meeting without the Executive Directors	Two meetings were held with the External Auditors without the Executive Management being present.
8(2) (m)	Authority, Resources and access to information of Board Audit Committee	The Board approved Terms of Reference is in place and it stipulates the required authority of the BAC. The BAC has the required resources and can access the information and if necessary, is also empowered to obtain external professional advice and to invite outsiders with relevant experience to attend meetings if necessary.
8(2) (n)	Regular Meetings of Board Audit Committee	Audit Committee calendar is scheduled enabling members to attend the meetings held quarterly. If necessary, Committee may decide to convene additional meetings. There were fifteen (15) Audit Committee Meetings held during the year 2018 including two meetings without the executive management.
8(2) (o)	Board Audit Committee disclosures in Annual Report	Activities of BAC, No. of meetings and attendance of BAC members have been published in the Annual Report on pages 108, 117 and 118.
8(2) (p)	Secretary of the committee	Company Secretary who is the Secretary of the Audit Committee maintains detailed minutes of meetings held.

Section	Corporate Governance Principle	Compliance
8(2) (q)	Whistle Blowing Policy	Board approved Whistle Blowing Policy is in place, enabling employees to voice their concerns over possible improprieties in financial reporting, internal control and other matters. No complaints were reported under the Whistle Blowing Policy during the year 2018.
8(3) BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)		
8(3) (a)	Composition of BIRMC	Committee consisted of five Non-Executive Directors. BIRMC consists of Key Management Personnel who supervise the credit, market, liquidity, operational and strategic risks of the Company, in addition to the Managing Director. The Committee closely works with Key Management Personnel and makes decisions on behalf of the Board on matters which are within their jurisdictions.
8(3) (b)	Assessment of Risk	BIRMC has an appropriate process to assess all risks including credit, market, liquidity, operational and strategic risks in the Company through appropriate risk indicators and management of information.
	In the case of subsidiary companies and associate companies, risk management shall be done, both on a finance company basis and group basis.	There are no subsidiaries or associate Companies of Siyapatha Finance PLC.
8(3) (c)	Review the adequacy and effectiveness of management level committees	In fulfilling its responsibilities, the Committee reviewed the adequacy and effectiveness of management Committees to manage risks within quantitative and qualitative risk limits. Assets & Liabilities Committee (ALCO) reports and Credit committee minutes are submitted to BIRMC. The Committee assesses the functional effectiveness via meeting minutes and the reports discussed therein.
8(3) (d)	Corrective action to mitigate risk exceeding prudential level	BIRMC regularly reviews the risk indicators which have gone beyond the specified quantitative and qualitative risk limits against the set limits.
8(3) (e)	Frequency of Meetings	The Committee meets at least quarterly, or more frequently as circumstances arise. BIRMC has held five meetings during the financial year 2018 and has assessed all aspects of risk management
8(3) (f)	Actions against officers who fail to identify risk	BIRMC is responsible for assessing different types of risk, to which the Company is exposed. At Siyapatha Finance PLC, risks are identified by the Integrated Risk Management Committee and as such, decisions are taken collectively.
8(3) (g)	Submission of Risk assessment report to the main Board	Board of Directors has ultimate responsibility in risk management of the Company. Therefore minutes of the BIRMC meetings are tabled at the subsequent Board meeting and the Chairman of BIRMC briefs the main Board, on significant issues and decisions taken up at the risk meetings, enabling the Board to make correct decisions.
8(3) (h)	Compliance Function	The Head of Risk and Compliance who has been identified as a KMP in the Company assesses the level of Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. Compliance Officer has obtained confirmations from all Department Heads to ensure compliance with approved policies/procedures of the Company.

Section	Corporate Governance Principle	Compliance
9. RELATED PARTY TRANSACTIONS		
9(2)	Identification of related parties and avoid conflict of interest	The Board is well aware of the requirement of identification of related party transactions and a Board approved Procedure on Related Parties and their transactions is in place which speaks on categories of related parties, and for the Company to avoid any conflicts of interest that may arise from any transaction of the Company.
9(3)	Types of related party transactions	There is a documented process approved by the Board which speaks on types of related party transactions, and for the company to avoid any conflicts of interest that may arise from any transaction with the related parties. All related party transactions have been disclosed in the Financial Statements. No accommodation has been granted to Directors and/or their close relatives during the year 2018.
9(4)	Avoid More Favourable Treatment	There is a documented process approved by the Board which clearly defines related party transactions to ensure that the Company does not engage in such transactions in a manner that would grant such related parties "more favorable treatment" than what is accorded to other constituents of the Company carrying out similar transactions with the company. Company has a detective system which has been developed in- house to monitor RPT transactions where the Company inputs details of NIC numbers of related parties and Business Registration numbers of related party concerns. During the year, the Company has initiated action to establish a process to extract RPT reports covering all products and check by comparing against the rates offered to prime customers relevant to that particular period and product and to ensure that there are no favourable treatments offered to such related parties than that accorded to other constituents of the Company carrying on the same business.
10. DISCLOSURES		
10(1)	a) Annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards	Annual Financial statements and periodical financial Statements are prepared in accordance with the applicable accounting standards.
	b) that such statements published in the Sinhala, Tamil and English Newspapers in an abridged form, in Sinhala, Tamil and English	Such statements are published in three Newspapers Sinhala, Tamil and English

<table>
<tr><th>Section</th><th>Corporate Governance Principle</th><th>Compliance</th></tr>
<tr><td>10(2) (a)</td><td>The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</td><td>This is been disclosed in the “Annual Report of the Board of Directors on the state of affairs of the Company” appearing on pages 129 to 136 of the Annual Report</td></tr>
<tr><td>10(2) (b)</td><td>Report by the Board of Directors on the internal Control mechanism of the company.</td><td>Effectiveness of the Company’s internal control mechanism has been certified by the Directors on pages 137 and 138 of the Annual Report under the heading “Directors’ Statement on Internal Controls over Financial Reporting.</td></tr>
<tr><td>10(2) (c)</td><td>Certification on the effectiveness of the internal control mechanism by external auditors</td><td>The Auditors’ certification on the effectiveness of the internal control mechanism has been obtained.</td></tr>
<tr><td>10(2) (d)</td><td>Details of the Directors including names and transactions</td><td>The names of the Directors are been set out on pages 64 to 69 of the Annual Report.

Transactions with the Directors during the year 2018 are as follows.
◆ Term Deposits Rs. 136,103,034/-
◆ Savings Deposits Rs. 52,217/-
◆ Interest on term/saving deposits Rs. 16,523,893/-</td></tr>
<tr><td>10(2) (e)</td><td>Directors’ fees and Remuneration</td><td>The fees & remuneration paid to Directors are been disclosed in Note 47 on page 217 of the Annual Report.</td></tr>
<tr><td>10(2) (f)</td><td>Accommodation granted for related parties</td><td><table><tr><th>Category of RPT</th><th>Net accommodation as at 31.12.2018</th><th>% of Capital Fund</th></tr><tr><td>Directors</td><td>-</td><td>-</td></tr><tr><td>KMP</td><td>3,650,000</td><td>0.11%</td></tr><tr><td>Relatives of Directors or KMP</td><td>-</td><td>-</td></tr></table></td></tr>
<tr><td>10(2) (g)</td><td>Aggregate values of remuneration paid for KMPs and aggregate values of transaction of the company with KMPs</td><td>Total value of short term employee benefits paid to KMPs (as per CBSL direction) during the year is Rs. 86 Million.
◆ Total accommodation granted Rs. 3.65 Mn
◆ Term depostis/ Saving deposits Rs. 14.39Mn</td></tr>
</table>

Section	Corporate Governance Principle	Compliance
10(2) (h)	Details of Compliance with prudential requirements, regulations, laws and internal controls and measures relevant to non compliance	Details of compliance & non-compliance would be highlighted in the 'Annual Report of the Board of Directors on the state of affairs of the company' on pages 129 to 136 of the Annual Report.
10(2) (i)	Non-Compliance Report	There were no regulatory and supervisory concerns in the Company's risk management or non compliance with the act, rules and directions that have been communicated by the Director of the Department of Supervision of Non Bank Financial Institutions.
10(2) (j)	The External Auditors' certification of compliance with the corporate governance direction. Certification of Compliance by External Auditors	The Board has obtained a factual finding report from the External Auditors over the compliance with Corporate Governance Directions.

THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2013 ISSUED JOINTLY BY THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA AND THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A. DIRECTORS			
A.1 THE BOARD			
The Board of Directors at Siyapatha Finance PLC (the "Company") represents professionals from different disciplines such as Legal, Marketing, Management, Finance, Engineering, Banking and they bring with them a wealth of business experience to provide leadership to the Company.			
A.1.1	Board meetings	Complied	Board meetings are planned well ahead and dates of the monthly meetings are finalized at the end of the previous year. Board meetings are mainly focused on reviewing the Performance of the Company and more on Strategic Planning and the Company's future directions. Key Officers in their monthly presentations to the Board, focus 100% on their performances and future plans to achieve the strategic goals. Special Board meetings are convened whenever necessary. These meetings ensure that prompt actions are taken to align the business processes to achieve the expectations of all stakeholders. During the reviewed period 13 Board meetings were held. Please refer 'Directors' attendance and Committee Memberships' table given in page 108 on the Annual report.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.1.2	Responsibilities of the Board	Complied	The Board while acting in line with the organization and the Group values is responsible for the formulation of a sound business strategy for the organization. The Management formulates a three year strategic plan which addresses the future challenges, which would be tabled, discussed and approved by the Board. During the last few years, the Board recognized the importance of Human Capital, and the grooming of the Corporate Management and individuals who are capable, talented with required skills, experience and knowledge to accept any challenges that the Company may face in the future. The Board would implement a succession plan, with a view to ensuring that the Company would have a strong successor to shoulder the responsibilities of the Company, if it becomes necessary. The Board takes necessary steps to fulfill the duties entrusted to them by securing the integrity of the information, managing risks and implementing an effective internal control system. In this process, compliance ensures that all applicable laws and regulations and adherence to the organization and the group ethical standards and corporate values are met in order to ensure that the interests of all stakeholders are taken into consideration in the corporate decision-making process.
A.1.3	Agreed procedure on seeking independent professional advice	Complied	Clear, formulated and approved procedure is in place for the Directors to seek independent professional advice as and when required. The Board Sub-Committees advise the Board on various matters under their purview, when necessary.
A.1.4	Advice and services of the Company Secretary	Complied	Clear formulated and approved procedure by the Board is in place for the Board members to have full access to the Company Secretary to ensure that proper Board procedures are followed and that all applicable rules and regulations are complied with. Legal matters for which clarifications are needed by the Board are referred to the Company Secretary who is a Chartered Secretary. He provides such information after obtaining necessary professional advice whenever required.
A.1.5	Independent judgment of Directors	Complied	All Directors are free to bring independent judgment for decision making of the Company and for the decisions taken by the Board on issues of strategy, performance, resources and standards of business conduct. Different arguments and the ideas are reordered in detail by the Company Secretary with a view to indicate the rationale in which decisions are arrived at.
A.1.6	Dedicating adequate time and effort by the Directors	Complied	All Directors of the Company dedicate adequate time and effort at Board and Committee meetings to fulfill their duties. Further, they also spend their time before and after the meetings, to ensure that the duties and responsibilities owed to the Company are discharged according to the highest standards. Board Papers/ Committee papers are dispatched in advance to the Directors, well ahead of scheduled meetings.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.1.7	Training for new and existing Directors	Complied	Directors have recognized the need for continuous training and expansion of their knowledge and take part in such professional development as they consider necessary in assisting them to carry out their duties as Directors. Market experts and professional services are obtained to share new knowledge from time to time. Any training programmes relevant to the Board are informed to the Board by the Company Secretary for Directors participation.
A.2 CHAIRMAN AND MANAGING DIRECTOR (MD) Board of Directors does not intervene with the Company's day to day business and there is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Company by the Executive Management, in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board to drive towards the Strategic Vision and to ensure effectiveness of the Board. The MD's role is to conduct the business operations of the Company with the help of the Corporate and the Senior Management. Hence, the roles of the Chairman and MD are clearly distinct from one another.			
A.2.1	Separation of the roles of Chairman & MD	Complied	Chairman and MD positions are held by two individuals and the Functions of the Chairman and MD are clearly documented, defined and separated by the Board, thereby preventing unfettered powers for decision making being vested in one individual. There is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Company in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board and for its effectiveness. The MD's role is primarily to conduct the business operations of the Company with the help of the Corporate Management. The roles of the Chairman and MD are clearly distinct from one another.
A.3 CHAIRMAN'S ROLE Chairman is responsible to ensure that all Board members make a full contribution to the Board's affairs and ensure that the Board acts as a team while discharging Board functions. He also provides leadership to the Board and effectively manages the Board while preserving order and facilitating effective discharge of Board functions.			
A.3.1	Role/ Functions of the Chairman	Complied	The following functions of the Chairman was approved by the Board ◆ Provide leadership to the Company and Board of Directors. ◆ Ensure that the Board works effectively and discharges its responsibilities. ◆ Ensure that all key and appropriate issues are discussed by the Board, in a timely manner. ◆ Responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. ◆ Ensure that all Directors are properly briefed on issues arising at Board meetings and that all Directors receive adequate information in a timely manner.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
			• Encourage all Directors to make a full and active contribution to the Board's affairs and to take the lead to ensure that the Board acts in the best interests of the Company. • Facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations among the Non-Executive and Executive Directors. • Not to engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever. • Ensure that appropriate steps are taken to maintain effective communication with shareholders (at general meetings and in general) and that the views of shareholders are communicated to the Board
A.4 FINANCIAL ACUMEN The Code of Best Practice requires that the Board comprises of members with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board of the Company has met the above requirement as four Board members out of nine Directors are Qualified Accountants having professional qualifications and are equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.			
A.4	Financial acumen and knowledge	Complied	The Chairman of the Audit committee, Mr. P. S. Cumaranatunga is an Associate member of the Chartered Management Accountant of UK (ACMA, UK), holds the Chartered Global Management Accountants (CGMA) qualification, a Certified Practising Accountant (CPA) and a Member of the Chartered Institute of Marketing (DipM MCIM). Ms. A. Nanayakkara and Mr. Y. S. H. R. S. Silva are both Associate members of the Chartered Institute of Management Accounts of UK (ACMA, UK). Ms. A. Nanayakkara holds the Chartered Global Management Accountants (CGMA) qualification as well. The Managing Director, Mr. K. M. S. P. Herath is a fellow Member of the Chartered Institute of Management Accounts of UK (FCMA, UK) as well as holds the Chartered Global Management Accountants (CGMA). These members of the Board have the ability to offer guidance on matters of finance to the Board.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.5 BOARD BALANCE The Code requires that a balance is maintained between the Executive and Non-Executive Directors (NEDs) thus that no individual or a small group of individual Directors is able to dominate the Board's decision making.			
A.5.1	Presence of a strong team of Non-Executive Directors (NEDs)	Complied	Eight out of Nine Directors of the Board are NEDs which is well-above the minimum prescribed by this Code, which is two NEDs or NEDs equivalent to one-third of the total number of Directors, whichever is higher. This ensures that the views of Non-Executive Directors are taken into consideration in Board decisions.
A.5.2 & A.5.3	Independence of NEDs	Complied	Four out of Eight NEDs are Independent which is well-above the minimum prescribed by this Code which is two NEDs or NEDs equivalent to one third of the total number of NEDs, whichever is higher.
A.5.4	Annual Declaration of NEDs	Complied	Every NED of the Company has made written declarations as to their independence against the specified criteria set out by the Company, which is in line with the requirements of Schedule H of this Code.
A.5.5	Annual Declaration by the Board on the independence of Directors	Complied	The Board has determined the independence of Directors based on the declarations submitted by the NEDs as to their independence as a fair representation and will continue to evaluate their independence on this basis annually in line with CBSL directions, the SEC and the Code of Best Practice. No circumstances have arisen for the determination of independence by the Board, beyond the criteria set out in the Code. Independent Non-executive Directors are: Dr. H. S. D. Soysa, Mr. W. M. P. L. De Alwis, Mr. P. S. Cumaranatunga and Ms. Aroshi Nanayakkara
A.5.6	Alternate Director	Complied	At present, there are no alternate Directors.
A.5.7 & A.5.8	Requirement to appoint a 'Senior Non-Executive Director' and making himself available for confidential discussions	Complied	As the Chairman of the Company is a Non-Independent Director, the Company has appointed Dr. Dilanjan Soysa as a Senior Director of the Company. Dr. Dilanjan Soysa participates in all confidential discussions of the Company.
A.5.9	Conducting meetings with NEDs only	Complied	The Managing Director, attends Board Audit Committee Meetings only by invitation. The Board Audit Committee met twice with the External Auditors without the presence of the Executive Management. During the year the Board met once without the presence of the Managing Director.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.5.10	Recording of concerns in Board minutes	Complied	Deliberations raised by the Directors are part of the Board Meetings and such information is adequately detailed by the Company Secretary in the minutes. Rather than minuting only the decisions, the Company Secretary minutes as to how the decision had been arrived at all times. All minutes are kept in a detailed manner.
A.6 SUPPLY OF INFORMATION The Code requires the Company's management to submit timely information to the Board with sufficient information for making decisions which would enable it to discharge its duties.			
A.6.1	Obligation of the Management to provide appropriate and timely information to the Board	Complied	The Executive Management of the Company should ensure that the Directors are provided with adequate information in a timely manner and should make every effort to provide the information, as early as possible. The Board Papers are prepared by the Executive Management of the Company to provide adequate information to the Board enabling it to deliberate on all key issues concerning the Company. Directors are free to raise inquiries/concerns for additional information, where necessary. In addition, key members of the Executive Management make their presentations at every Board meeting on their performance and issues of importance during the reviewed period. The Chairman ensures that all Directors are briefed adequately on issues arising at Board meetings.
A.6.2	Adequate time for Board meetings	Complied	According to the Articles of Association of the Company, all Board members are given a notice well ahead of the meeting, and all minutes of previous meetings, agenda and Board Papers are dispatched in advance. Further, adequate notice is given to all Directors prior to emergency/special Board meetings. This ensures that the Board members have adequate time to study the related papers and prepare for a meaningful discussion at the meetings.
A.7 APPOINTMENT TO THE BOARD Company has a formal and transparent procedure in place to appoint new Directors.			
A.7.1 & A.7.2	Presence of a Nomination Committee and annual assessment of composition of the Board	Complied	Siyapatha has set up its own Board Nomination Committee. The Committee is authorized to implement a procedure to assess the skill, knowledge and experience required for the selection/appointment of new Directors and MD for the Company. Final decision is taken by the Board as per the procedure approved by the Board to appoint new Directors which is a formal and transparent procedure. The Board assesses the composition of the Board to ensure that the combined knowledge and experience of the Board matches the strategic demand of the market.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.7.3	Disclosure of required details to Shareholders on new appointments to the Board	Complied	All new Directors who are appointed to the Board come up for election at the subsequent AGM.
A.8 RE-ELECTION The Code requires all Directors to submit themselves for re-election, on regular intervals and at least once in every three years			
A.8.1 & A.8.2	Re-election of Non-Executive Directors including Chairman and Directors	Complied	In accordance with Articles 24 (7) & (8) of the Articles of Association, the procedure adopted by the Company to re-elect by rotation, at least one-third of the Directors should retire at the Annual General Meetings. A procedure is in place to elect Directors who have joined the Board during the year and to make themselves available for election at the subsequent Annual General Meeting.
A.9 APPRAISAL OF BOARD PERFORMANCE The Code requires the Board to appraise its own performance periodically to ensure that its responsibilities are satisfactorily discharged.			
A.9.1 & A.9.2	Annual appraisal of the Board's performance and the performance of its Sub-Committees	Complied	The performance of the Board is evaluated by the Chairman and the Directors. The Board Sub-Committees carry out a self-assessment process annually to ensure they function effectively and efficiently with the objective of facilitating continuous improvement and to be in line with the good governance.
A.9.3	Disclosure of criteria used for the performance evaluation	Complied	Please refer Board Human Resources and Remuneration Committee Report for details of the criteria considered for performance evaluation of the Board.
A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS The Code requires that details of Directors be disclosed in the Annual Report for information of the shareholders			
A.10.1	Disclosures on Directors in the Annual Report	Complied	The following details pertaining to each Director are disclosed in the Annual Report (a) Brief profile with expertise and experience - pages 64 to 69 (b) Other business interests - page 135. (c) Remuneration - Note 47.2 on page 217 (d) Status of independence - page 133 (e) Details of Board Meetings and Board Committee Meetings held during the year - page 108

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.11 APPRAISAL OF MD The Code requires the Board to assess the performance of the MD at least annually to ascertain the degree to which the MD met the pre-set financial and non-financial targets			
A.11.1 & A.11.2	Setting annual targets and the appraisal of performance of the CEO/ Managing Director	Complied	At the beginning of each financial year, the Board discusses with the MD and sets long term, medium term and short term financial and non-financial goals for the Company that are to be guided and achieved by the MD within the course of that year. Assessment of performance of the MD is carried out by the Board yearly to ensure that performance is achieved.
B. DIRECTORS' REMUNERATION			
B.1 REMUNERATION PROCEDURE This principle ensures that the Company has a well-established formal and transparent procedure in place for developing an effective remuneration policy to avoid potential conflict of interest.			
B.1.1	Establishment of a Remuneration Committee	Complied	The Company has a Board Human Resources and Remuneration Committee which has the power to evaluate, assess, and decide matters that may affect the Human Resources Management of the Company.
B.1.2	Composition of the Remuneration Committee	Complied	As prescribed in this code, all members of the Board Human Resources and Remuneration Committee are Non-Executive Directors and the Chairman of the Committee is appointed by the Board.
B.1.3	Chairman and the Members of the Committee	Complied	Please refer 'Board Human Resources and Remuneration Committee Report' for details of the Chairman and the Members of the Board Human Resources and Remuneration Committee.
B.1.4	Determination of the remuneration of Non-Executive Directors	Complied	All payments to the Directors of the Company are decided by the parent Company as per the Group policy on remuneration. No Director of the Company can decide their own remuneration. The Non-Executive Directors receive a fee for being a Director of the Board, an attendance fee and an additional fee for either chairing or being a member of a Board or a Committee.
B.1.5	Ability to consult the Chairman and/ or MD and to seek professional advice by the Committee	Complied	The Committee has the authority to seek internal and external independent professional advice on all matters falling within the purview of the Committee at the Company's expense.
B.2 LEVEL AND MAKE UP OF REMUNERATION The Company ensures that the remuneration of Non-Executive Directors is at a satisfactory level to attract and retain the services of Directors			
B.2.1	Remuneration packages of Executive Directors	Complied	The Managing Director was appointed with effect from 5th April 2016 and his remuneration is based on the Group Remuneration Policy.
B.2.2	Competitiveness of levels of Remuneration	Complied	Directors are paid for their contribution based on the Group Remuneration Policy.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
B.2.3	Comparison of Remuneration with other companies in the Group	Not Applicable	All payments to the Directors are based on Group policy which is decided on the market rates.
B.2.4	Performance based remuneration of Executive Directors	Complied	During the year under review, the Company did provide for performance based remuneration for Executive Directors.
B.2.5	Executive share options	Not Applicable	No Executive Share Options were granted during the year.
B.2.6	Designing the remuneration of Executive Directors	Complied	The remuneration of the Executive Directors is determined by the Parent Company in line with the Group Remuneration Policy.
B.2.7 & B.2.8	Early termination of Executive Directors	Not arisen	This is in line with the contract of appointment.
B.2.9	Levels of Remuneration of Non-Executive Directors	Complied	Non-Executive Directors of the Company are paid a nominal fee for their time and role in the Company, in line with the Group policy approved by the Parent Company. They are not entitled to receive any other privileges other than the monthly fee and the Board / Committee sitting fees.
B.3 DISCLOSURE OF REMUNERATION The Code requires the Company to disclose in its Annual Report the details of the remuneration paid and the Remuneration Policy.			
B.3.1	Disclosure of Remuneration	Complied	Please refer 'Board Human Resources and Remuneration Committee Report' for disclosures on the names of the Remuneration Committee members and the Remuneration Policy of the Company Please refer Note 47.2 to the Financial Statements for the aggregate remuneration paid to Directors.
C. RELATIONS WITH SHAREHOLDERS			
C.1 CONSTRUCTIVE USE OF ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS The Code requires the Board to use the AGM to communicate with shareholders and encourage their active participation Since the company is a 100% owned subsidiary of the parent Company, all company information is routed through the Directors representing the parent Company's interest.			
C.1.1	Use of Proxy Votes	Complied	The Parent Company holds 100% of the shares
C.1.2	Separate resolutions for substantially separate issues and adoption of Annual Report and Accounts	Complied	The Parent Company holds 100% of the shares. Further, adoption of the Annual Report of the Board of Directors on the affairs of the Company, Statement of Compliance and the Financial Statements together with the Report of the Auditors thereon are considered separately.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
C.1.3	Availability of Chairmen of Board Committees	Complied	All Board members are present at the AGM.
C.1.4 & C1.5	Adequate Notice of AGM to shareholders together with summary of the procedure	Complied	Annual Reports are dispatched to all Shareholders of the Company, whereas a form of proxy together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving adequate notice is dispatched to shareholders.
C.2 COMMUNICATION WITH SHAREHOLDERS The Code requires effective communication with shareholders. This section is not applicable since the company is a fully own subsidiary of Sampath Bank PLC			
C.2.1	Channel to reach all shareholders of the Company	Complied	By circular to shareholders and Notice of shareholder meetings.
C.2.2	Policy and methodology for communication	Complied	By circular to shareholders and Notice of shareholder meetings.
C.2.3	Implementation of the policy and methodology for communication with shareholders	Complied	By circular to shareholders and Notice of Shareholder meetings.
C.2.4 & C.2.6	Contact person in relation to shareholder matters	Complied	The main contact person is the Group Company Secretary
C.2.5	Process to make all Directors aware of major issues and concerns of shareholders	Complied	Any major issue of concern to shareholders are informed to Board Members by the Managing Director or the Company Secretary
C.2.7	Process responding to shareholder matters	Not Applicable	This section is not applicable since the Company is a fully owned subsidiary of Sampath Bank PLC.
C.3 MAJOR AND MATERIAL TRANSACTIONS The Code requires the Directors to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Company, if entered into.			
C.3.1	Disclosures on proposed major transactions	Not Applicable	There were no major transactions involving acquisition or disposal of assets greater than half of the net asset value of the Company

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D. ACCOUNTABILITY AND AUDIT			
D.1 FINANCIAL REPORTING			
This Principle requires the Board of the Company to present a balanced and understandable assessment of the Companies' financial position, performance and prospects.			
D.1.1	Board's Responsibility for Statutory and Regulatory Reporting	Complied	The Board is well aware of its responsibility to present regulatory and statutory reports in a balanced and understandable manner and a statement to this effect is given on page 130 of this Annual Report. The Company has complied with the requirements of the Companies Act No. 07 of 2007, the Finance Companies Act No. 42 of 2011 and amendments thereto, in the preparation of Quarterly and Annual Financial Statements which are prepared and presented in conformity with Sri Lanka Accounting Standards. Further, the Company has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka and the Colombo Stock Exchange.
D.1.2	Declarations by Directors in the Directors' Report	Complied	The Annual Report of the Board of Directors on the State of affairs of the Company on pages 129 to 136 contains the declarations as required by the code.
D.1.3	Statements by Directors' and Auditors' on responsibility for financial reporting	Complied	The 'Responsibility for Financial Statements' for the preparation and presentation of financial statements is given in Note 2.2 of the Financial Statements on page 150 of the Annual Report. Please also refer pages 139 to 142 for the Independent Auditor's Report.
D.1.4	Management Discussion and Analysis	Complied	Please refer 'Management Discussion and Analysis'. (MD&A) set out on pages 19 to 60 presented as an integrated report covering all aspects referred in the code.
D.1.5	Declaration by Board on the going concern of the Business	Complied	Please refer 'Annual Report of the Board of Directors on the State of affairs of the Company' and Note 2.11 Estimates and Assumptions to the Audited Financial Statements on Page 151.
D.1.6	Requirement to Summon an Extraordinary General Meeting (EGM) to notify serious loss in net assets (capital)	Not applicable	No such event occurred during the financial year

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D.1.7	Declaration by Board on Related Party Transactions	Complied	Each Director and KMP has declared their interest in transactions with the Company during the year ended 31st December 2018, if any. Internal controls are placed within the Company to identify, record and disclose related party transactions. All related party transactions as defined in Sri Lanka Accounting Standards - LKAS 24 (Related Party Transactions) are disclosed in note 47 to the Audited Financial Statements.
D.2 INTERNAL CONTROL The Code requires the Company's Board to ensure that an effective system of internal controls, which safeguards the Company's assets to protect the interest of shareholders is in place			
D.2.1	Directors to conduct an annual review of internal controls	Complied	The Company obtained the External Auditor's certification on the effectiveness of the internal control mechanism on financial reporting
D.2.2	Need for an internal audit function for companies	Complied	This is not applicable as the Company already has its own in-house Internal Audit Department, which is responsible for internal audit function.
D.3 AUDIT COMMITTEE The Code requires the Board to have formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's External Auditor			
D.3.1	Composition of the Audit Committee	Complied	Details of the members, are found on the 'Board Audit Committee Report' under the heading 'Composition of the Committee' on Pages 117 and 118.
D.3.2	Duties of the Audit Committee	Complied	As stated in the Report of the Board Audit Committee of the Company, it regularly reviews the scope of the External Auditors, results and effectiveness of the audit. It also ensures that non audit services provided by the External Auditors do not affect their independence.
D.3.3	Terms of Reference of the Audit Committee	Complied	Terms of reference of the Board Audit Committee is clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised in December 2014. This clearly explains the purpose of the Committee, its duties and responsibilities, together with the scope and functions of the Committee. The Committee mainly deals with the matters pertaining to statutory and regulatory compliance in financial reporting, matters with regard to the External Auditors, internal audit and risk management procedures of the Company
D.3.4	Disclosure of names of the members of the Audit Committee	Complied	Names and composition of the members of the Audit Committee are given under Audit Committee Report.
D.4 CODE OF BUSINESS CONDUCT AND ETHICS The Code requires the Company to adopt an Internal Code of Conduct and Ethics to be adhered to by all Directors and members of the senior management of the Company			

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D.4.1	Disclosures on presence of Code of Business Conduct and Ethics GRI 102-16	Complied	The Company has an internally developed Code of Conduct for its Directors and this Code covers the following areas of conflict of interest, accurate accounting and record keeping, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behaviour etc. Further the "Code of Business Conduct & Ethics" is available for all employees including the Corporate and Senior Management. This code focuses mainly on the following areas: Fair dealing, protection and proper use of Company assets, record-keeping and reporting, accounting and financial reporting concerns, reporting illegal or unethical behaviour, discrimination and harassment, Health and Safety, Discipline etc.
D.4.2	Affirmative Statement by the Chairman	Complied	Please refer the Chairman's message for details on Pages 10 to 12.
D.5 CORPORATE GOVERNANCE DISCLOSURES			
Directors of the Company disclose annually the Company's adherence to 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 and the CBSL Direction No. 03 of 2008 and Amendment Direction No. 06 of 2013 of the Central Bank of Sri Lanka on Corporate Governance for Finance Companies of Sri Lanka and subsequent Amendments thereto, in the 'Corporate Governance Report'.			
D.5.1	Annual Corporate Governance Report in the Annual Report	Complied	Corporate Governance reports for Central Bank of Sri Lanka, Securities Exchange Commission and Code of Best Practice are included on pages 79 to 107 in the Annual Report.

SECTION 2 : SHAREHOLDERS			
E. INSTITUTIONAL INVESTORS			
E.1 SHAREHOLDER VOTING			
Due to the Parent Company holding 100% of equity of the Company, the requirement of disclosures to institutional investors have not arisen from an equity point of view. In the event such need arises from the perspective of accountability and transparency, all material disclosures would be made to strengthen the positive relationship between management and institutional investors			
E.1.1	Communication with shareholders	Complied	Parent Company holds 100% of shares and is the only institutional investor. All required information to the Parent Company is provided in a timely manner.
E.2 EVALUATION OF GOVERNANCE DISCLOSURES			
The Code requires the company to encourage institutional investors to give due weight to all relevant factors drawn to their attention			
E.2.1	Due weight by Institutional Investors on matters relating to Board structure and composition	Complied	Sampath Bank PLC as the only Institutional Investors is at liberty to give due weight on matters relating to the Board structure and composition.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
F. OTHER INVESTORS			
F.1 INVESTING/DIVESTING DECISION			
F.1.1	Seek independent advice in investing or divesting decisions	Not applicable	Sampath Bank PLC owns 100% of the Company shares.
F.2 SHAREHOLDER VOTING			
F.2.1	Encourage voting by Individual Investors in General Meetings	Complied	The Parent Company and subscribers/shareholders use its voting rights at the AGMs.
G. SUSTAINABILITY REPORTING			
Sustainability is a business approach that creates long term stakeholder value. It focuses on managing risks arising from economic, environmental and social aspects. Sustainability reporting aims towards the goals of sustainable developments in the context of business strategy and activities.			
G.1.1	Economic Sustainability	Complied	Please refer 'Direct economic value generated and distributed' on pages 221 and 222.
G.1.2	The Environment	Complied	This is covered in the 'Natural Capital Report' contained on pages 54 and 55.
G.1.3	Labour Practices	Complied	Please refer 'Human Capital Report' contained on pages 44 to 53.
G.1.4	Society	Complied	Please refer 'Social and Relationship Capital Report' contained on pages 36 to 41.
G.1.5	Product and Service Responsibility	Complied	Please refer 'Social and Relationship Capital Report' contained on pages 36 to 41.
G.1.6	Stakeholder Identification, Engagement & Effective Communication	Complied	Please see the contents of the 'Strategic Matters' on pages 24 to 27.
G.1.7	Sustainable Reporting & Disclosure	Complied	Disclosures relating to company's compliance with sustainability reporting is disclosed in 'GRI Context Index' on pages 226 to 227.

STATEMENT OF COMPLIANCE UNDER SECTION 7.10 OF THE RULES OF THE CSE ON CORPORATE GOVERNANCE.

Rule No	Applicable Requirement	Compliance Status	Comment
NON EXECUTIVE DIRECTORS			
7.10.1(a)	2 or 1/3 of the total number of Directors should be Non-Executive Directors	Complied	Out of Nine Directors, Eight Directors of the Board are Non-Executive Directors as at 31st December 2018.
INDEPENDENT DIRECTORS			
7.10.2(b)	2 or 1/3 of Non-Executive Directors appointed to the Board whichever is higher shall be independent	Complied	Out of Eight Non-Executive Directors, Mr. W. M. P. L. De Alwis Dr. H. S. D. Soysa, Mr. P. S. Cumaranatunga and Ms. A. Nanayakkara are Independent, Non-Executive Directors. The Company is in compliance with the requirement of 1/3 of Non-Executive Directors appointed to the Board should be independent.
7.10.2(b)	Submission of declarations annually, declaring independence of Directors	Complied	Declarations have been obtained from the Directors regarding their independence or non independence against the specified criteria and copies of the same are under the custody of Company Secretary for review.
DISCLOSURE RELATING TO DIRECTORS			
7.10.3(a)	The Board shall annually determine the independence or non independence of Directors	Complied	The Board is well aware of the requirement and the Board evaluates the independence of Directors.
	Names of Independent Directors should be disclosed in the Annual Report	Complied	The names of the Independent Directors are set out on the page 133 of the Annual Report.
7.10.3(b)	The basis for the Board's determination of independent Directors, if criteria specified on independence is not met	Complied	The Board determines the independence of Directors based on the criteria set out in the CSE Listing Rule No 7.10.4. The requirement is met.
7.10.3(c)	Publish a brief resume of each Director	Complied	Profiles of each Director has been published on pages 64 to 69 of the Annual Report
7.10.3(d)	Provide a brief resume of new Directors appointed to the Board	Complied	Mr. Y. S. H. R. S. Silva was appointed to the Board with effect from 01.06.2018 and Mr. J. Selvaratnam was appointed to the Board with effect from 18.12.2018. A brief resume of the said Directors are set out on pages 67 and 68 of the Annual Report.
CRITERIA FOR DEFINING INDEPENDENCE			
7.10.4 (a-h)	Determination of Independence	Complied	The Board has met the criteria of defining independence which is in line with CSE and CBSL Directions on Corporate Governance based on independence of Directors.

Rule No	Applicable Requirement	Compliance Status	Comment
REMUNERATION COMMITTEE			
7.10.5(a)	Composition	Complied	During the year under review, the Board HR & Remuneration Committee, consisted of the following Directors. ◆ Mr. P. S. Cumaranatunga - Chairman (Independent, Non-Executive Director) ◆ Dr. H S D Soysa (Independent, Non-Executive Director) ◆ Mr. A. Nanayakkara (Independent, Non-Executive Director)
7.10.5(b)	Recommendation on Remuneration for executive Directors, CEO and /or equivalent position	Complied	Main role of the Committee is to focus on the HR related matters of the Company and determine the remuneration policies (salaries, allowances and other financial payments) relating to MD and the rest of the staff of the Company
7.10.5(c)	Names of Directors comprising the Remuneration Committee	Complied	Published in the Annual Report on page 119 under HR & Remuneration Committee Report.
	Remuneration Policy	Complied	Remuneration of the Board of Directors of the Company is determined by Sampath Bank PLC which is the parent Company, based on the Group Remuneration Policy.
	Aggregated remuneration paid to Directors	Complied	Published in the Annual Report of the Board of Directors on the state of affairs of the Company on page 135 of the Annual Report
AUDIT COMMITTEE			
7.10.6(a)	Composition	Complied	All members of the Board Audit Committee are independent, Non-Executive Directors and the Committee comprises of Mr. P S Cumaranathunga (Chairman/ appointed w. e. f. 1st June 2018), Dr.H S D Soysa, Mr. W. M. P. L. De Alwis, Ms. A. Nanayakkara and Mr. P. M. A. Sirimane (stepped down as the Chairman w.e. f. 1st June 2018 and served until 15th October 2018)
	Chairman of the Audit Committee	Complied	Mr. P. S. Cumaranatunga is the Chairman of the Board Audit Committee who is a Chartered Management Accountant, a Certified Practicing Accountant and a Member of the Chartered Institute of Marketing.
	Attendance at Audit Committee Meetings	Complied	In addition to the members of the Board Audit Committee, the Managing Director, the Chief Operating Officer, Head of Finance, Head of Internal Audit, Head of Risk & Compliance and External Auditors of the Company attend meetings. Head of Internal Audit of Sampath Bank PLC would attend some of the meetings by invitation.
7.10.6(b)	i) Preparation, presentation and adequacy of disclosures in the financial statements of the Company in accordance with Sri Lanka Accounting standards	Complied	The Company is in compliance with Sri Lanka Accounting Standards (SLRFSs & LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka. This fact is stated in Note 2.1 to the Audited Financial Statements under "Statement of Compliance".

Rule No	Applicable Requirement	Compliance Status	Comment
	ii) Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements	Complied	The Company is in compliance with the requirements of the Companies Act No.07 of 2007. This fact is stated in Note 2.1 to the Audited Financial Statements under "Statement of Compliance".
	iii) process to ensure that the Company's internal control and risk management are adequate to meet the requirements of the Sri Lanka Auditing standards	Complied	External Auditors assess the "Directors Report on Internal Control over financial Reporting" and issues an Independent Assurance Report on the same.
	iv) Assessment of the independence and performance of the Company's external auditors	Complied	The Board Audit Committee (BAC) assesses the independence of External Auditors and their performance. The Board Audit Committee regularly reviews the scope of the External Auditors and the effectiveness of the Audit. Furthermore, the Committee ensures that non-audit services provided by the External Auditors do not affect their independence.
	v) Recommendations to the Board pertaining to appointment, re-appointment and to approve the remuneration and terms of engagement of the external auditor	Complied	The Board Audit Committee makes recommendations to the Board for appointment of the External Auditor for Audit services, their service period, Audit scope and Audit fee.
7.10.6(c)	Names of Directors comprising the Audit Committee	Complied	Published in the Annual Report on pages 117 and 118 under Audit Committee Report
	Determination of the independence of the Auditors and the basis for such determination		The Company entrusts any non-audit services to be performed by the External Auditors and such non audit service assignments requires the prior approval of the Audit Committee. The Board approved policy for non-audit services is available.
	Report of the Audit Committee setting out the manner of compliance by the Company		Please refer report of the Audit Committee, published on pages 117 and 118 of the Annual Report.

On behalf of the Board Corporate Governance Committee

A. Nanayakkara

Chairperson - Board Corporate Governance Committee

26 March 2019

Directors' Attendance & Committee Memberships

Director	Board Meetings	Board Audit Committee	Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Related Party Transactions Review Committee	Board Nomination Committee	Board Building Committee	Board IT Committee
Mr. C. P. Palansuriya	13							1	3	
Mr. W. M. P. L. De Alwis	13	12	5			3	2	5		1
Mr. K. M. S. P. Herath	13		5	5		3	2		8	1
Dr. H. S. D. Soysa	12	13		5	11			5	7	
Mr. P. M. A. Sirimane	8[1]	12[1]				2[1]	1[1]	0[1]		
Mr. L. T. Ranwala	11			4						
Mr. P. S. Cumaranatunga	13	8[4]	5	3[7]	11	3	2	4	9	
Ms. A. Nanayakkara	13	15	5	2[6]	11	3	2			1
Mr. Y. S. H. R. S. Silva- appointed to Board from 01.06.2018	9[2]									1
Mr. J. Selvaratnam-appointed to Board on 18.12.2018	1[3]									
Total No. of Meetings	13	15[5]	5	5	11	3	2	5	10	1

Directors' Attendance for the year 2019

[1] Mr. P. M. A. Sirimane resigned from the Board, Board Audit Committee, Board Corporate Governance Committee, Board Related Party Transactions Review Committee, Board IT Committee and Board Nomination Committee w.e.f. 15th October 2018.
[2] Mr. Y. S. H. R. S. Silva was appointed to the Board w.e.f 01st June 2018.
[3] Mr. J. Selvaratnam was appointed to the Board w.e.f 18th December 2018.
[4] Mr. P. S. Cumaranatunga was appointed as the Chairman of the Board Audit Committee w.e.f 1st June 2018.
[5] The Board Audit Committee had 13 meetings during the year 2018 and 02 separate Board Audit Committee Meetings were held without the presence of the Executive Management.
[6] Ms. A. Nanayakkara was appointed as a member of the Board Credit Committee w.e.f 28th August 2018.
[7] Mr. P. S. Cumaranatunga served as member of the Board Credit Committee until 28th August 2018.

Director	Board Meetings	Board Audit Committee	Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Related Party Transactions Review Committee	Board Nomination Committee	Board IT Committee	Board Building Committee
Mr. C. P. Palansuriya	C							M		C
Mr. W. M. P. L. De Alwis	M	M	C			M	M	M	M	
Mr. K. M. S. P. Herath	M		M	M		M	M			M
Dr. H. S. D. Soysa	M	M		C	M			C	M	M
Mr. P. M. A. Sirimane	M[6]	C[1]				M[6]	M[6]	M[6]		
Mr. L. T. Ranwala	M			M						
Mr. P. S. Cumaranatunga	M	C[2]	M	M[4]	C	M	C	M		M
Ms. A. Nanayakkara	M	M	M	M[5]	M	C	M		C	
Mr. Y. S. H. R. S. Silva- appointed to Board from 01.06.2018	M								M	
Mr. J. Selvaratnam-appointed to Board on 18.12.2018	M		M[3]	M[3]						
Total No. of Members	10	5	5	5	3	5	5	4	4	4

C - Chairman/ Chairperson M - Member

[1] Mr. P. M. A. Sirimane stepdown as the Chairman of the Board Audit Committee w.e.f 01st June 2018 and served until 15th October 2018.
[2] Mr. P. S. Cumaranatunga was appointed as the Chairman of the Board Audit Committee w.e.f 01st June 2018.
[3] Mr. J. Selvaratnam was appointed as a member of the Board Integrated Risk Management Committee and Board Credit Committee w.e.f 18th December 2018.
[4] Mr. P. S. Cumaranatunga stepdown as a member of the Board Credit Committee on 28th August 2018.
[5] Ms. A. Nanayakkara was appointed as a member of the Board Credit Committee w.e.f 28th August 2018.
[6] Mr. P. M. A. Sirimane resigned from the Board, Board Nomination Committee, Board Corporate Governance Committee, Board IT Committee and Board Related Party Transactions Review Committee w.e.f 15th October 2018.

MANAGING RISK

RISK ENVIRONMENT

Global Outlook

Compared to 2017 with heightened global uncertainty and strengthening popular discontent with the existent political and economic order where fundamental reforms to market capitalism and a rebuilding of solidarity within and between countries were the core apprehensions, in 2018, it can be observed that a global economic recovery was under way, offering new opportunities for progress. However, the urgency of facing up to systemic challenges intensified amid propagating indications of uncertainty, instability and fragility

Extreme weather conditions and natural disasters topped the list of global risks in 2018. Cyber security risks are also growing, both in their prevalence and in their disruptive potential. Headline economic indicators suggested the world is finally getting back on track after the global crisis that erupted 10 years ago, but this optimistic picture masks enduring underlying concerns. The global economy faces a mix of long-standing vulnerabilities and newer threats that have appeared or progressed in the years since the crisis. These risks include potentially unsustainable asset prices, with the world now eight years into a bull-run; elevated indebtedness and continuing strains in the global financial system. The newer challenges consist of mainly the limited policy firepower in the event of a new crisis; disruptions caused by intensifying patterns of automation and digitalization; and a build-up of mercantilist and protectionist pressures against a backdrop of rising nationalist and populist politics.

Domestic Outlook

Based on statistics by the Central Bank of Sri Lanka, the Real GDP grew by 3.5% in the first quarter of 2018 and 3.7% in the second quarter of 2018. Unemployment has marginally increased in Q 1 of 2018 to be at 4.5% from 4.2% in 2017. The core inflation, which reflects the underlying inflation in the economy, remained at 3.1% in December 2018 on year-on-year basis. Meanwhile, annual average core inflation also remained unchanged at 2.4% in December 2018.

In contrast to 2017, the agriculture sector grew in the first two quarters of 2018 by 5.3% and 4.5% respectively with relatively benign weather. However, the latter episodes of drought, which became more evident from the beginning of the third quarter of 2018, impacted many parts of the Island.

Increased agriculture output led to benign inflation in the first quarter of 2018. Favourable inflation outlook prompted the Central Bank to marginally relax policy rates in April, as the growth in monetary aggregates slowed down in response to a tight monetary policy.

In the External Sector, exports rebounded due to the reinstatement of GSP+ preferential access to the European Union. On the other hand, the gradually rising fuel bill and increased imports of vehicles and gold widened the trade deficit.

Event - Global	Impact on the Company	Risk Mitigation Strategies
Increasing trends in cyber Attacks	• Disruption of the information infrastructure thereby disabling the critical business functions • Possible information leak out. • Possible reputational, legal and financial consequences and loss of customer confidence	• Development of a prevention mechanism by actively engaging with FINCSIRT • Employ an external CERT for continuous assessment of cyber risk • Early signal monitoring to manage response, recovery to mitigate consequences and thereby limiting the damage • Enhance internal awareness
Decline in precious metal	• Increased defaults from gold loans	• Continuous monitoring and revision of the facility quanta limit to be line with the world market price to maintain a prudent LTV ratio. • Stress tests are carried out regularly to assess sensitivity to gold price movements

Event - Local	Impact on the Company	Risk Mitigation Strategies
Low economic growth than expected	• Lower disposable income resulting in low savings • Increase in credit default risk	• Tight screening at credit sanctioning point. • Independent assessment of facilities granted.
Tight liquidity	• Increased cost of funds • Having to rely on external borrowings	• Regular review of rate sensitive assets and liabilities of the Company • Increase of the customer deposit base

At Siyapatha Finance PLC, risk management is considered to be of utmost importance since it forms an integral part of strategy formulation and business sustainability. As a financial intermediary, robust risk management practices ensure that depositors and investors are protected and the interests other key stakeholders are safe guarded. The Company firmly believes that sound risk management practices are critical for long term growth.

RISK MANAGEMENT AT SIYAPATHA FINANCE PLC

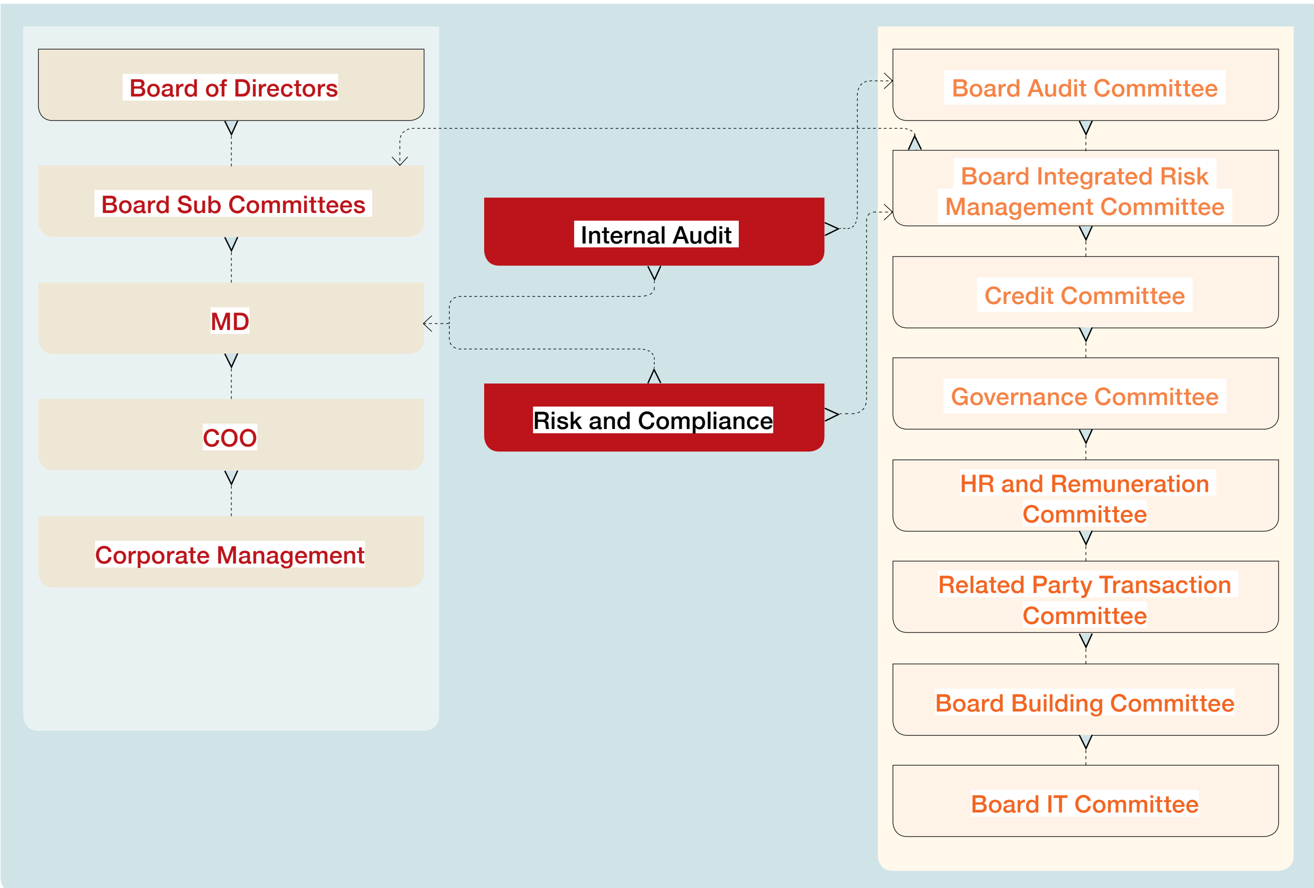
At Siyapatha Finance PLC, risk management is considered to be of utmost importance since it forms an integral part of strategy formulation and business sustainability. As a financial intermediary, robust risk management practices ensure that depositors and investors are protected and the interests other key stakeholders are safe guarded. The Company firmly believes that sound risk management practices are critical for long term growth.

The Company's objective is to strengthen the going concern of the entity by adding maximum sustainable value to all activities by considering the potential vulnerabilities of all the factors that can adversely affect the Business operation of the Company.

The risk management strategy of the Company is integrated with the business strategy of the Company. The Company's risk management processes encompasses risk identification, evaluation, mitigation and monitoring facilitating timely and effective action.

RISK MANAGEMENT FRAMEWORK

Risk Governance Structure of Siyapatha Finance PLC



Board of Directors

The Board of Directors is responsible for upholding of far-sighted risk management mechanisms and orderly implementation of the risk framework in the Company. The Board approves the policies, strategies and systems and operational approach for risk management. Board Integrated Risk Management Committee and the corporate management of the Company carry out the efficient implementation of the risk management function in the Company.

Board Integrated Risk Management Committee (BIRMC)

BIRMC is the Board subcommittee responsible for overseeing the risk management function in line with the Board approved policies and strategies. They also recommend approval of required and relevant policies for integrated risk management to the Board. The Committee interacts with the Managing Director, Board Audit Committee and Board Credit Committee on Risk Management related activities. Besides the Board's representatives, BIRMC consist of the Managing Director, COO and other key managerial personnel covering the key risk areas of the company covering credit, marketing, operations, recoveries, finance and Deposits etc.

Risk Management Department (RMD)

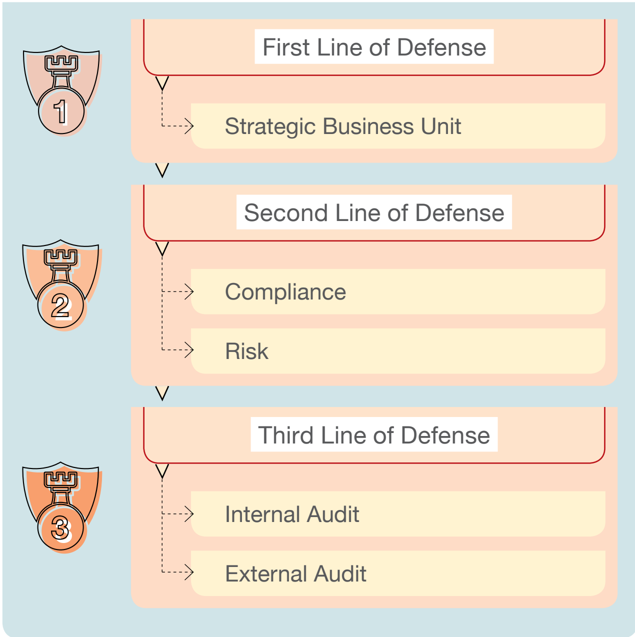
The Company's Risk Management function operates independently from the risk assuming business Functions. RMD is accountable for carrying out the overall risk management function of the Company at operational levels.

The RMD assesses the overall risk level of the Company through the Key Risk indicators mapped on to the risk grid based on the analysis done on the risk register. RMD also ensures that the policy framework is expanded, reviewed and updated regularly and that approved policies are implemented. Especially in new business strategy development or when the Company is entering into new business lines from the initial design stage, RMD gets involved through inputs to the task/process from a risk management perspective.

APPROACH TO RISK MANAGEMENT

In the Three Lines of Defense model, the lines depict the obligation of three segregated parties in the organization in risk management. Accordingly management control is the first line of defense in risk management that represents the risk assuming functions. The Risk and Compliance covers the second line. Independent assurance is the third. In consequence, each of these three "lines" plays a divergent role within the organization's broad governance framework.

Three Lines of Defense at Siyapatha Finance PLC



RISK MANAGEMENT PRINCIPLES

Risk Identification and assessment

Risk identification is the process of assessment of decisive risks that could potentially avert the Company from achieving its objectives thereby fulfilling expectation of all stake holders. Especially securing the share holder value whilst balancing risk-reward tradeoffs is a key consideration.

The main tool used in risk identification and assessment at the Company is the risk grid and the register. Apart from that, constant discussions between risk owners and monitoring units make certain that with each new activity, product or process the probable risks are identified prior to commencement.

Risk Analysis & Estimation

The Company uses a range of techniques to analyze risk including analytical review, stress testing and scenario analysis.

a) Risk appetite

Both qualitative and quantitative parameters are used to measure the risk appetite of the company. These parameters from time to time are evaluated and adjusted to reflect the vulnerabilities in the market and the macroeconomic sentiments the Company is confronted with.

b) Stress testing

Stress testing is the process of gauging the ability of the Company to stand a certain expected level of performance under undesirable conditions. Certain key factor areas are considered under stress testing scenarios in order to determine the impact on the overall performance.

Risk Mitigation

The four key strategies of risk mitigation, are acceptance, avoidance, limitation and transference, Ideally focused to reduce the adverse effects.

Risk acceptance processes enable consideration of the risk-rewards tradeoffs and the cost of other risk management options such as avoidance or limitation prior to assuming certain types of risk such as credit risk. Credit approval procedures and pre-disbursement processes are examples of the risk acceptance processes in place.

Risk avoidance is the reverse of risk acceptance. It is the action that avoids any exposure to the risk at which ever level. Rejection of credit facilities which do not meet our criteria are an example of risk avoidance.

Risk limitation option restricts a company's risky exposure by taking some action. It is a way of managing risk by accepting certain level of risk and at the same time avoiding the risk to a certain degree. Limits imposed in terms of size or period are examples of risk limitation at transaction level while single borrower limits are examples of limits with reference to the aggregate risk assumed by the Company.

Risk transference is the involvement of handing risk off to a willing third party. Outsourcing and insurance are the most common modes of transfer.

Risk Control & Monitoring

Key Risk Indicators (KRIs)

Key Risk Indicators (KRIs) are critical reflectors of undesirable events or thresholds that can have an impact on the Company. Monitoring the impact of changes in the key factors that affects on the company's performance is done through the KRI which thus forms the early warning signs for the Company. The key risk indicators for all the key risks are formulated based on identified key areas which are reviewed and analyzed frequently.

Risk appetite and Tolerance limits

Risk appetite is defined as, "the amount and type of risk that an organization is prepared to pursue, retain or take," according to ISO 31000. The risk appetite shall be linked to business decisions and appropriate metrics shall be collected to measure it.

Tolerance limits are quantitative indicators of the highest amount of risk the company is geared to accept. Risk tolerances are set at the overall enterprise level to capture all key areas especially credit and funding. Real levels of risk undertaken are monitored and compared against the established tolerances. The Company ensures that the regulatory limits are not compromised at any cost. While safeguarding the Company from excessive risk exposure, limits are defined and observed with a special attention on the available business opportunities and changes in the market place. Risk tolerances are approved by the BIRMC prior to implementation of the same and are reviewed annually or earlier if such a need arises.

MANAGING KEY RISKS FACED BY THE COMPANY

Credit risk

The likelihood that a borrower or counterparty will fail to meet its obligations as contracted.

- **Default Risk:** the risk of default due to reluctance or incapability to meet the contractual obligations
- **Concentration risk:** arises from either imbalanced distribution of exposures to its borrowers or from imbalanced distribution of exposures to particular sectors, regions, industries or products

Credit Risk

Identification and assessment

A rigorous credit screening process has been the core strength of the Company, facilitating prudent risk acceptance. Multiple layers of approving lines ensure that credit risk is mitigated and priced in line with the level of risk assumed. The primary contact of the customer is the branch level at which the borrower is evaluated for the facility. Approval limits in place facilitate escalation of approval in line with credit risk assessment, rating and amount.

The credit risk assessment process throughout the lifecycle of the loan is graphically given below.

Pre-Approval

Assess credit using the following:
- industry sector
- succession
- integrity
- past record

Assess facility considering:
- equity contribution
- security cover
- guarantors

Pre-Disbursement

Monitor compliance with pre-disbursement terms and conditions by Credit Administration

Post Disbursement

Monitoring by
- Branch network
- Recoveries Department
  - Early warning signals
  - Trigger Lists
  - Regular review

Control and Monitoring

Asset quality

The product portfolio of the Company consists of finance leases, hire purchase facilities, loans, gold financing and factoring. The market segments to which the Company caters mainly consist of salaried individuals and small and medium sized enterprises. Segregation of the credit sanctioning process is key risk management tool and authority is granted based type of the facility, exposure and security as well. However, in 2018, the macro economic factors as outlined above have negatively affected the default rate of the Company.

Stress testing on NPA

Three main scenarios namely - a shift in the NPA categories, an increase in the gross NPA and net NPA provide the basis for stress testing on NPA in order to facilitate an evaluation of Capital Adequacy Ratio (CAR) of the Company since it is has a inverse relationship with NPA. When the NPA increases, a negative impact is generated. Increase of NPA has an adverse bearing on the retained earnings of the Company, which forms a part of the core capital by way of an impact to provisioning with respect to NPA.

Concentration

Over reliance or over dependency in one fragment of a portfolio due to uneven augmentation of exposures gives rise to concentration risk. The concentration risk may crop up from products, different industries, asset categories and geographical areas. Therefore, maintaining a satisfactory diversity in the said segments is essential for the Company as any resultant danger of contagion effects in the event of default needs to be mitigated.

Concentration risk is monitored through the KRIs given below along with the set tolerance limits:

KRI for Concentration

- Tolerance limit Portfolio concentration

  Limits are reviewed based on market trends and strategic direction

- Asset concentration

  Limits are reviewed based on market trends and macro environment

- Branch concentration

  Limits are reviewed based on the performance and maturity of the branch

Interest Rate Risk

The risk that arises from the fluctuation of interest rates.

Potential impacts on earnings, valuation of assets, cost of borrowings

Interest Rate Risk

Identification and assessment

Due to different fixed interest rates of assets and liabilities allocated to the portfolio, Finance Companies are exposed to a risk of changing interest rates in the market.

Changes in interest rates affect earnings, value of assets/ liability, off-balance sheet items and cash flow. Hence, at Siyapatha, the objective of interest rate risk management is to sustain earnings while ensuring the ability to absorb expected negative impact and to ensure that sufficient returns are reaped for risks taken.

Stress testing is carried out on to assess the impact of different interest rate scenarios to the net interest position and the re-pricing cycles of interest sensitive assets and liabilities. .Simulations to the interest rates are done to assess potential impact on the Company's profitability resulting from alternative interest rate scenarios.

In order to obtain the maximum benefits of the market interest rate movements and to take timely action, the Company monitors the macro market conditions continuously. From the funding perspective in the last year, a considerable growth in deposit base of the Company was witnessed giving a more balanced approach to its funding base. The other sources of funding are equity and borrowed funds. The increase in the deposit base has lessen the company's dependency on borrowed funds which consists of long term funding and short term funding. The Company's strategy is to ensure gains from volatility in the market rates, while ensuring a prudent liquidity level.

Control and Monitoring

Volatile Liability Dependency Ratio

Volatile Liability Dependency Ratio (on interest rate) is calculated by considering the variable rated borrowings as a percentage of total lending portfolio of the company.

KRI for Interest Rate Risk

Tolerance limit

Net Interest Yield (NIY) above the budgeted level.

Volatile Liability Dependency Ratio (on interest rate basis) 30% of the total portfolio.

Further, ALCO closely monitors the movements in interest rate and review the interest rate structures within the company for both lending and borrowings. Accordingly, the committee issues directions on the adjustments to be done to the interest rates required.

Another controlling mechanism is the introduction of products with shorter tenure to capture the re-pricing mismatches. On the other hand, increasing the fixed rated borrowing has also contributed in managing the interest rate risk in last year at the Company.

Liquidity Risk

An institution's incapability to meet its financial commitments.

Arises due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.

Liquidity and Funding Risk

Identification and assessment

Liquidity risk refers to an institution's incapability to meet its financial commitment which would ultimately have an impact on the Company's stability. Thus, having a strong system to identify funding requirements of the Company to ensure that funds are available at required time at the right price is a concept that Siyapatha believes in. A main element of liquidity risk management at Siyapatha is observing and evaluating the firm's present and potential fund requirement including debt obligations and planning for contingencies stemming from all possible scenarios.

In order to eliminate liquidity issues arising due to mismatches in the timing of cash flows the Company monitors the cash flows closely to ensure that its liquid assets are sufficient to meet its obligations. In order to be vigilant, certain liquidity risk indicators are monitored by the Company. The main focus is on the liquid asset ratio, maturity gap analysis, the capital adequacy ratios and the volatile liability dependency ratio on maturity and funding concentration. Further, the ALCO monitors these risk indicators ensure a healthy liquidity position.

Control and Monitoring

Volatile Liability Dependency Ratio (maturity)

Volatile Liability Dependency Ratio on maturity is calculated by taking interest bearing liabilities payable in less than 12 month as a percentage of total lending portfolio.

KRI for Liquidity Risk

- Tolerance Limit Liquidity Ratio - 7.5%-8.5%
- Statutory Liquidity Ratio - 7.5%
- Volatile Liability Dependency Ratio (on maturity basis) - 30%

Operational Risk

Risk of losses resulting due to errors, breaches, interruption or damages.

Operational risk incidents include internal frauds, external frauds, employment practices and workplace safety, clients, -products and business practices, damage to physical assets, business disruptions and system failures etc.

Operational Risk

Identification and assessment

The assessment on internal controls along with process audits indicate any weak links in the processes and enable the Company to assess vulnerabilities that need to be addressed and prepare for potential adverse scenarios and risk events. Operational risk is mainly observed through the following areas.

- Losses due to frauds, misconduct and negligence
- Losses due to poor quality of credit documentation and legal documentation
- Number of customer complaints and law suits
- Frequency of systems break downs and costs

Control and monitoring

Losses from operational risk episodes can be catastrophic, not only in monetary sense, but in terms of the impact on the Company's overall business and reputation, at times threatening its very existence. The key challenges in operational risk management can be considered as identifying efficient risk parameters, processing Large data and complex logic, having a single aggregated enterprise wide view.

Board approved manuals covering all aspects of the companywide processors ensure all key processors are being documented.

Cyber security threats have been looked into by the Company and have carried out several IT audits to identify any security threats. The findings have been used to upgrade the existing IT system. A Board approved BCP is in place covering the Disaster Recovery planning as well. Disaster Recovery site testing have been carried out to assess the adequacy of the same.

People Risk

Potential losses or failures caused by human behavior or the decisions of employees.

As a result of lack of proper performance recognition mechanisms, inexpertness and omission of related activities

People Risk

Human capital is the collective skills, knowledge, or other intangible assets of individuals that can be used to create economic value for a company and forms the main strength in achieving its corporate strategies. As a service organization, a skillful team is vital in providing financial solutions.

People risk is created initially due to weaknesses in recruitment process that lacks identifying right people for requirements of a company and would be continued due to inadequate performance recognition and evaluation mechanisms, misconduct, unplanned absenteeism and negligence of employees.

Identification and assessment

At Siyapatha, a stringent process is followed to screen and recruit team members followed by orientation programmes to communicate our Code of Ethics and corporate values for successful candidates. Onboarding of new recruits is followed by close monitoring of performance during probation periods to mitigate people risk supported by a coaching and mentoring culture. On the other hand, continuous dialogue between team members through visits by the HR team to all branches, open door policy for grievance handling and exit interviews, facilitate early identification of potential issues.

Control and monitoring

At the point of onboarding the new recruits, a comprehensive induction program is conducted and the expected level of performance especially in terms of internal processes and integrity is communicated.

On the other hand, the Company has implemented detailed performance assessment and compensating mechanism to capture all aspects of the performance of employees thereby ensuring that the right performance is recognized and rewarded. A strict disciplinary policy is in place to ensure dutiful good conduct of all employees.

Technology Risk

Any potential for technology failures to disrupt business such as information security incidents or service outages.

Arises from the use, ownership, operation, involvement, influence and adoption of IT within an organization.

Technology Risk

Technology risk can end up in financial loss, disruption or damage to the reputation of the Company due to unauthorized access to systems or data/information, failures of the existing information technology systems and use of obsolete information technology systems.

Identification and assessment

In the current dynamic digitally driven market environment along with the expansion of the business, the Company has identified that continuous investment in enhancing the IT system along with security features is critical.

Continued and thorough assessment of the IT system is carried out routinely to ensure that the system operates without any disruptions and is not vulnerable to any cyber attacks.

Control and monitoring

The Company has secure computers, servers networks, utilizes anti-virus and anti-spyware protection , firewalls and regular updates of software along with use data backups that include off-site storage to mitigate risks arising from technological framework.

Further, at the inception of new products planning process, the technological requirement is done by evaluating the nature of the product. Routine IT system audits are being carried out after the implementation of systems to identify the deficiencies and set necessary controls.

Compliance Risk

The risk of losses arising from violations or infringement of laws regulations applicable to the Company

Compliance and Legal Risk

Identification and assessment

The impact of compliance risk can be rather far-reaching. It could even lead to loss of earnings and business opportunities, tarnished company image and imminent lawsuits.

Control and monitoring

The compliance of the Company with relevant regulations and laws including directions and regulations issued by the Central Bank of Sri Lanka and Colombo Stock Exchange is monitored by the Compliance officer of the Company. The Compliance officer functions independently and reports directly to the BIRMC.

All non-compliances are reported to the Committee and the Board directly. Compliance department disseminate regulatory directives through internal circulars based on the requirements.

Strategic Risk

The risk of losses that might arise from pursuit of an unsuccessful business plan

Strategic Risk

Identification and assessment

Strategic risk might arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.

The Company plans the strategic direction of the Company for the next three years and regularly reviews it to make necessary adjustments. The strategic plan is formulated by incorporating views all departments at different levels.

Control and monitoring

The strategic plan is reviewed at Board level routinely and at operational level frequently. Accordingly review actions/ plans are done depending on the outcome, any external, economic environment changes etc. Further, assessments of key performance indicators, the trend in movements and simulations are done to monitor the achievement and possible issues in implementation of the strategic plan.

Reputational Risk

The threat to the profitability or sustainability of a business or other entity that is caused by unfavorable public perception of the organization or its products or services

Reputational Risk

Identification and assessment

As deposit mobilizing institutions, the reputation of a Company is a critical success factor for a finance company.

Siyapatha being a subsidiary of a leading bank treats good governance and transparency as two key principles in all of its transactions. Further, timely and efficient communications among all stakeholders are always maintained.

Control and monitoring

In communicating externally, the Company ensures several parties are involved in finalizing the communication. All external communications are monitored by several layers of authority. Further, the Company has established a set of internal controls to ensure monitoring of the conduct of employees.

COMMITTEE REPORTS

BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee (The Committee) is appointed by the Board of Directors to which it is responsible. The Committee comprised of four Non-Executive Directors who conducted Committee proceedings in accordance with the Terms of Reference approved by the Board of Directors of the Company. The composition of the Committee as at 31st December 2018 is given below:

Mr. P. S. Cumaranatunga	-	Chairman, Independent, Non-Executive Director
Dr. H. S. D. Soysa	-	Member, Independent, Non-Executive Director
Mr. W. M. P. L. De Alwis	-	Member, Independent, Non-Executive Director
Mrs. A. Nanayakkara	-	Member, Independent, Non-Executive Director
Mr. P. M. A. Sirimane	-	Former Chairman, Independent, Non-Executive Director (served on the Committee until 15th October 2018)

Brief profiles of the members are given on pages 64 to 69 of the Annual Report.

The Chairman of the Committee, Mr. P. S. Cumaranatunga is a Chartered Management Accountant, a Certified Practising Accountant and a Member of the Chartered Institute of Marketing.

MEETINGS

The Committee met on 13 occasions during the year. Details of attendance of the Committee members at these meetings are given in the table on page 108 of the Annual Report. Head of Internal Audit of Sampath Bank PLC attended some of these meetings, in addition to the Managing Director, the Chief Operating Officer, Head of Finance, Head of Internal Audit, Head of Risk & Compliance and External Auditors of the Company.

Two separate meetings between the Committee and the Audit Partner were held during the year, without members of the management being present, in order to facilitate confidential discussions between the two parties.

Proceedings of the Committee meetings, with adequate details of matters discussed, were reported regularly to the Board.

The Company Secretary functions as the Secretary to the Committee.

THE TERMS OF REFERENCE

The Terms of Reference of the Committee are clearly spelt out in the Charter of the Board Audit Committee, which is approved by the Board of Directors. These Terms are being reviewed annually and approved by the Board of Directors, after incorporating any new developments relating to the functions of the Committee.

FUNCTIONS OF THE COMMITTEE

The Committee assists the Board of Directors to effectively carry out its supervisory responsibilities by reviewing accounting and financial information of the Company, in order to monitor the integrity of its Financial Statements, Annual Report, accounts and periodical reports prepared for disclosure and the significant financial reporting judgments they contain.

The Committee is also empowered to examine the adequacy and effectiveness of internal control systems, assess compliance with regulatory requirements, review adequacy of scope and functions of the Internal Audit Department, assess the internal audit program and results of the internal audit process and recommend the appointment and remuneration of the External Auditors.

REGULATORY COMPLIANCE

The roles and functions of the Committee are regulated by the Finance Companies (Corporate Governance) Direction No.3 of 2008 on Directions, Rules, Determinations, Notices and Guidelines applicable to Licensed Finance Companies and Specialized Leasing Companies issued by the Central Bank of Sri Lanka, the Rules on Corporate Governance as per section 7.10 and sub-rule 7.10.6 of Listing Rules issued by the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL).

ROLES AND RESPONSIBILITIES

The duties of the Committee shall be to make recommendations on matters connected with:

Financial Reporting

a) To review the quarterly, half-year and annual financial statements before submission to the Board, focusing particularly on:

   (i) Any changes in accounting policies and practices
   (ii) Major judgmental areas and significant estimates
   (iii) Significant adjustments resulting from the audit
   (iv) The going concern assumption
   (v) Compliance with accounting standards
   (vi) Compliance with legal requirements applicable to financial statements
   (vii) Approve and recommend the financial statements to the Board of Directors.

External Audit

a) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes, the audit fee, service period and any questions of resignation or dismissal;

b) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.

c) To discuss with the external auditor before the audit commences the nature and scope of the audit and ensure co-ordination where more than one audit firm is involved.

BOARD AUDIT COMMITTEE REPORT

d) To review the external auditor's Management Letter and the responses provided by the management.

e) To develop and implement a policy with the approval of the Board, on the engagement of an external auditor to provide non-audit services permitted under the statutes, regulations, requirements and guidelines. The Committee shall ensure that provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity.

f) To discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management, where necessary);

Internal Audit

a) To take the following steps with regard to internal audit function of the finance company.

   i. Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work.

   ii. Review the internal audit programs and results of the internal audit process.

   iii. Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department.

   iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.

   v. Ensure that the Committee is apprised of the resignation of senior staff members of the Internal Audit Department including the Head of Internal Audit and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning.

   vi. Ensure that the internal audit function is independent of the activities it audits and it is performed with impartiality, proficiency and due professional care.

b) To review the Company's statement on internal control systems prior to endorsement by the Board, and to make sure of the adequacy and effectiveness of the internal control systems in the company.

c) To review the internal audit program, comment on the audit findings, recommend appropriate action, ensure co-ordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;

d) To consider the major findings of internal investigations and relevant responses provided by the management.

e) To review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for fair and independent investigation of such matters.

f) To consider other topics, as defined by the Board.

REPRESENTATION BY EXTERNAL AUDITORS

As per the CBSL Guidelines, the Company's Audit Partner, representing Messrs. Ernst & Young attended meetings in his capacity and expressed an opinion on whether the Company's financial statements are free of material misstatements.

WHISTLE BLOWING

The Company's Whistle Blowing Policy serves as a mechanism to manage risks pertaining to corporate fraud. There is provision under this Policy for any staff member, who has a legitimate concern on an existing or potential "wrong doing" committed by any person within the Company, to bring such concerns in confidence to the notice of the Chairman of the Board Audit Committee. The Board assigned a separate email address for 'Whistle Blowing' to be directed to the Group Company Secretary, who in turn would keep a record of it and address it to the Audit Committee. A process is also in place for such concerns to be investigated, while maintaining confidentiality of the identity of the Whistle-blower. The Committee is empowered under the Terms of Reference to monitor this procedure.

REPORTING TO THE BOARD

The minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

PROFESSIONAL ADVICE

The Committee has the authority to seek external professional advice on matters within its purview and from time to time during the year, consultations were held with various parties.

EVALUATION OF THE COMMITTEE

The Committee undertakes an annual performance evaluation of its members and the summary of the performance evaluation is submitted to the Board of Directors. Accordingly, the Board assesses the performance and effectiveness of the Committee.

APPRECIATION

The Committee wishes to thank the former Chairman of the Board Audit Committee, Mr. P. M. A. Sirimane, who served on the Committee till 15th October 2018, for his valuable contribution over the years, towards the betterment of the Company.

On behalf of the Board Audit Committee

P. S. Cumaranatunga
Chairman - Board Audit Committee

Colombo, Sri Lanka
26 March 2019

REPORT OF THE BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE

The Company being a value driven organization, works toward improving the wellbeing of its employees. The Board of Directors has entrusted to the Board Human Resource and Remuneration Committee ('the Committee'), the tasks of monitoring and implementing decisions taken for the betterment of human resources of the Company and making recommendations to the Board in this connection.

The Committee focuses on improving standards of employees through due recognition, promotions, reward, training and development and other HR related functions. The Committee concentrates on developing and implementing HR strategies, reviewing and approving of HR policies and Key Performance Indicators of the Company.

The Committee would act in the best interest of the employees, bringing about synergy of teamwork, as at present 81% of the staff of Siyapatha Finance PLC is below 35 years of age. The Company believes that this staff could be groomed to take increased responsibility through necessary training and skills development and be promoted to the next level.

COMPOSITION OF THE BOARD HR & REMUNERATION COMMITTEE

The Committee consists of three (03) Independent Non-Executive Directors, chaired by Mr. P. S. Cumaranatunga who is a Chartered Management Accountant (ACMA), a Certified Practising Accountant (CPA) and a Member of the Chartered Institute of Marketing (DipM MCIM).

Name	Position
Mr. P. S. Cumaranatunga - Chairman	Independent, Non-Executive Director
Dr. H. S. D. Soysa	Independent, Non-Executive Director
Ms. A. Nanayakkara	Independent, Non-Executive Director

A brief profile of the Committee members is given on page 64 to 69 of the Annual Report. The Group Company Secretary functions as the Secretary to the Committee.

MEETINGS FOR THE YEAR 2018

The Committee had 11 meetings during the year 2018 and the attendance of members is set out on page 108 of the Annual Report. The Managing Director (MD) of the Company attends meetings by invitation and members of the Corporate Management would attend meetings as and when required.

MINUTES OF MEETINGS

The Group Company Secretary maintains the minutes of meetings with all relevant details. The minutes are tabled at Board Meetings for the Board of Directors' information and necessary action.

TERMS OF REFERENCE

The role and functions of the Committee would be covered under the terms of reference set by the Company and any additional provisions which may be applicable under the Corporate Governance Direction No. 3 of 2008, the Companies Act No. 7 of 2007 and other statutes or any modification or re-enactment thereof.

SCOPE

- Main role of the Committee is to focus on HR related matters of the Company and determine the remuneration policies (salaries, allowances and other financial payments) relating to the MD/CEO and the rest of the staff of the Company.
- The Committee shall periodically evaluate the performance of the MD/CEO and key management personnel against set targets and goals and determine the basis for revising remuneration, benefits and other payments of performance based incentives.
- The Committee shall consider any other areas and enlarge its scope of review or do so, if in the Board's view, it is desirable to do so.
- The Committee shall advise the MD/CEO of the Company regarding all aspects of HR functions including the revision of salaries of staff and of any major organizational changes needed for the Company.

REMUNERATION POLICY

Sampath Bank PLC recommends the remuneration for Non-Executive Directors, in accordance with the Group policy on remuneration.

The aggregate remuneration paid to the Directors from 1st January 2018 to 31st December 2018, is set out on page 217 of the Annual Report. The Board of Directors of the Company, with the recommendations of the Board HR & Remuneration Committee, decides the remuneration of Key Management Personnel.

On behalf of the Board HR & Remuneration Committee

P. S. Cumaranatunga
Chairman - Board HR & Remuneration Committee

Colombo, Sri Lanka
26 March 2019

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Board Integrated Risk Management Committee (BIRMC) has been assigned for effective management of risk of the Company. The BIRMC would be responsible of setting the risk tolerance limits, assess the high risk areas and to take proactive measures to mitigate risk, to overseeing and reviewing the overall prudential risks including, but not limited to, credit, market, capital and liquidity, operational, strategic and reputational risk.

The scope of the BIRMC entails that the actual overall risk profile of the Company conforms to the desirable risk profile and the risk appetite of the Company, as defined by the Board.

The BIRMC performs the oversight function through an integrated approach in relation to different types of risks faced by the Company in its business operations and ensures the sufficiency of the risk management framework of the Company.

COMPOSITION

The BIRMC comprises of three (03) Independent Non Executive Directors, Non independent Non Executive Director and the Managing Director of the Company. The Deputy Chairman of the Company is the Chairman of the BIRMC. In compliance with Section 8(3) of the Direction No. 03 of 2008, on Finance Companies (Corporate Governance), issued by the Monetary Board of the Central Bank of Sri Lanka, the Senior Corporate Management are also members of the Committee, representing the Management.

In the year of 2018, the BIRMC consisted of the following members:

Name	Position
Members of the Board	
Mr. W. M. P. L. De Alwis - Chairman	Independent Non-Executive Director
Mr. P. S. Cumaranatunga	Independent Non-Executive Director
Ms. A. Nanayakkara	Independent Non-Executive Director
Mr. K. M. S. P. Herath	Executive Director
Mr. J. Selvaratnam	Non-Independent Non-Executive Director
Members of the Management	
Mr. R. De Silva	Chief Operating Officer
Ms. Thilani Punyawansa	Head of Risk and Compliance
Ms. Hasuni Gayasha	Head of Finance (Resigned w.e.f 31.01.2019)
Mr. Mathisha Hewavitharana	Head of Branches

Name	Position
Members of the Management	
Mr. Nimal Luxshman	Head of Internal Audit
Mr. Shajeewa Dodanwatte	Head of Recoveries
Mr. Rohana Dissanayake	Head of Deposits
Mr. Saman De Silva	Head of Credit
Mr. Ajantha Kumara	Head of Gold Financing / Head of Micro Financing
Mr. N. A. D. Shaminda Nallaperuma	Manager - Internal Audit
Ms. Lakmini Perera	Manager Factoring
Mr. B. L. M. M. Balasuriya	Manager IT

MEETINGS

During the year, the BIRMC had five meetings. The attendance of Board members is listed on page 108 of the Annual Report.

ROLES AND RESPONSIBILITIES

The approved Terms of Reference for the BIRMC stipulates authority, structure, responsibilities and tasks of the BIRMC. Accordingly, the primary responsibilities of the BIRMC includes,

- Assessing all risks such as credit, market, liquidity, operational and strategic risks of the Company on a monthly basis through appropriate risk indicators and management information.
- Reviewing the adequacy and effectiveness of ALCO (Assets and Liability Committee) to address specific risks and manage those risks within quantitative and qualitative risk limits specified by the Committee
- Taking prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Company's policies, regulatory and supervisory requirements.
- Meeting at least quarterly to assess all aspects of risk management including the updated Business Continuity Plan.
- Taking appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective measures as recommended by the Committee and/or as directed by the Central Bank Corporate Governance Directions.
- Approving in principle, all policies relating to risk management and submit it for the approval of the Board.

- Establishing protective risk management culture within the Company.
- Periodically reviewing the risk exposures of the Company to be in line with its risk and business strategies and objectives.
- Engaging in external and independent reviews for the validation of risk measurement, methodology and outputs.

In addition to the above, the Committee may perform such other functions, which are necessary or appropriate for the discharge of its duty.

REVIEW

The Board undertakes regular review of the Committee's performance, objectives and responsibilities. The Committee approved minutes of the BIRMC meetings would be tabled at the main Board meeting for the information of the Board.

On behalf of the Board Integrated Risk Management Committee

W. M. P. L. De Alwis
Chairman - Board Integrated Risk Management Committee

Colombo, Sri Lanka
26 March 2019

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Board Related Party Transactions Review Committee ('the Committee') was established by the Board on 27th January 2015, to monitor, assess and improve control mechanisms on related party transactions, to ensure that all transactions are conducted at arm's length. Further, the Committee would review all proposed Related Party Transactions to ensure that the interests of the shareholders have been considered in terms of the Code of Best Practice on Related Party Transactions issued by the Securities & Exchange Commission of Sri Lanka and Section 9 of the Listing Rules of the Colombo Stock Exchange.

COMPOSITION OF THE COMMITTEE

The Committee consisted of four (04) Independent Non-Executive Directors and an Executive Director. The Chairman of the Committee is Mr. P. S. Cumaranatunga who is a Chartered Management Accountant (ACMA), a Certified Practising Accountant (CPA) and a Member of the Chartered Institute of Marketing (DipM MCIM).

The Committee's composition during the period ended 31st December 2018 is as follows:

Name	Position
Mr. P. S. Cumaranatunga	Independent Non-Executive Director, Chairman
Mr. P. M. A. Sirimane	Independent Non-Executive Director (Served on the Committee until 15th October 2018)
Mr. W. M. P. L. De Alwis	Independent Non-Executive Director
Ms. A. Nanayakkara	Independent Non-Executive Director
Mr. K. M. S. P. Herath	Executive Director* (Served on the Committee till 28th February 2019)
Mr. Ananda Seneviratne	Executive Director (Appointed w.e.f. 01st March 2019)

The above composition is in compliance with the provisions of the Rules regarding the composition of the Board Related Party Transactions Review Committee. Brief profiles of the members are given on pages 64 to 69 of the Annual Report. The Company Secretary functions as the Secretary to the Board Related Party Transactions Review Committee.

MEETINGS

During 2018, the Committee had two meetings. Attendance of each Committee member at each of the said meetings is given in page 108 of the Annual Report.

TERMS OF REFERENCE

The role and functions of the Committee are regulated by the Code and the Rules.

ROLE AND RESPONSIBILITIES

The mandate of the Committee is derived from the Code and the Rules and include mainly the following:

1. Developing and maintaining a Related Party Transactions Policy consistent with the provisions of the Code and the Rules for adoption by the Board of Directors of the Company (the Board).
2. Reviewing all proposed Related Party Transactions ("RPTs") in compliance with the provisions of the Code and the Rules.
3. Advising the Board on making immediate Market Disclosures and Disclosures in the Annual Report where necessary, in respect of RPTs, in compliance with the provisions of the Code and the Rules, Procedures and Directives/Guidelines adopted by the Committee.
4. Ensuring that Procedures/Directives/Guidelines are issued to compel all RPTs to be referred to the Committee for review.

REVIEW FUNCTION OF THE COMMITTEE

Review of the relevant RPTs by the Committee takes place quarterly and the Committee communicates its observations to the Board. RPTs are published in Note 47 to the Financial Statements. An inhouse developed software is available for identification of RPTs and the relevant information to capture RPTs is fed into the Company's data collection system. The system is updated based on information obtained from the Secretariat Department, HR Department and the Finance Department of the Company and that of Sampath Bank, on a quarterly basis.

REPORTING TO THE BOARD

The minutes of the RPTR Committee meetings are tabled at the Board meetings for the information of the Board of Directors.

On behalf of the Board Related Party Transactions Review Committee

P. S. Cumaranatunga
Chairman - Board Related Party Transactions Review Committee

Colombo, Sri Lanka
26 March 2019

BOARD NOMINATION COMMITTEE REPORT

The Board of Directors appointed the Board Nomination Committee (BNC) to select, interview and recommend suitable members to the Board of Directors who could actively participate in the decision making process by sharing their knowledge, experience and expertise. The BNC also recommends recruitment to the Corporate Management and promotion to the Corporate Management level of the company. The BNC was formed on the 10th October 2017. Quorum of the committee is at least three (3) members.

The BNC consist of four (04) Independent, Non-Executive Directors and a Non- Independent, Non-Executive Director as at 31st December 2018. During the year, Mr. P. S. Cumaranatunga was appointed as a member of the Board and Mr. P. M. A. Sirimanne resigned from the Committee with his resignation from the Board with effect from 15th October 2018. Senior Director Dr. H. S. D. Soysa is the Chairman of the Committee who is an Independent, Non-Executive Director

The BNC members as at 31st December 2018 are follows;

Name	Position
Dr. H. S. D. Soysa	Independent Non-Executive Director, Chairman
Mr. W. M. P. L. De Alwis	Independent, Non-Executive Director
Mr. P. S. Cumaranatunga	Independent, Non-Executive Director
Mr. C. P. Palansuriya	Non-Independent, Non-Executive Director

Brief profiles of the members are given on pages 64 to 69 of the Annual Report. The Group Company Secretary functions as the Secretary to the Committee.

MEETINGS

During the year 2018, the Committee met five times. The attendance of members is listed on page 108 of the Annual Report.

SCOPE & RESPONSIBILITY

(i) To select /appoint new Directors and Chief Executive Officer (CEO).

(ii) To consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.

(iii) To ensure that Directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria specified under Statutory and Regulatory requirements.

(iv) To consider a succession plan for the retiring Directors and CEO and ensure that there is a succession plan for all Key Management Personnel, considering additional new expertise.

The minutes of the meetings of the Board Nomination Committee are submitted at the subsequent Board meetings for their review and ratification.

On behalf of the Board Nomination Committee

H. S. D. Soysa
Chairman - Board Nomination Committee

Colombo, Sri Lanka
26 March 2019

REPORT OF THE BOARD CREDIT COMMITTEE

COMPOSITION

The Board Credit Committee ("the Committee") is appointed by and is responsible to the Board of Directors ("the Board"). This Committee comprises of three Non Executive Directors and one Executive Director. The Committee's composition may be determined by the Board from time to time. The Company Executives may be invited to attend the Committee meetings, if desired by the Members.

The Committee's composition during the period ended 31st December 2018 is as follows:

Name	Position
Dr. H. S. D. Soysa	Chairman - (IND/NED)
Mr. L. T. Ranwala	Member - (NID/NED)
Ms. A. Nanayakkara	Member - (IND/NED) (appointed w.e.f 28th August 2018)
Mr. K. M. S. P. Herath	Member - (ED)
Mr. P. S. Cumaranatunga	Member - (IND, NED) (served on the Committee until 28th August 2018)
Mr. J. Selvaratnam	Member - (NID/NED) (appointed w.e.f 18th December 2018)

(NID - Non Independent Director, IND - Independent Director, NED - Non Executive Director, ED - Executive Director)

MEETINGS

During the year, the Committee met on five occasions. Meetings are usually held once every quarter. The Chairman of the Board Credit Committee in consultation with the Company Secretary schedules committee meetings as and when necessary.
The Company Secretary is the Secretary to the Board Credit Committee and the minutes of the meetings are submitted to the Board of Directors at monthly Board meetings. The Committee also approves urgent credit proposals by circulation.

ROLES AND RESPONSIBILITIES

The Board Credit Committee plays a vital role in establishing the best practices in relation to credit policies and practices. The Board of Directors has defined the scope and authority of the Committee and has set out the following responsibilities.

The Committee carries out evaluation, assessment and the review of credit policy initiated by the management. Further, the credit policy is assessed in terms of statutory requirements prescribed by regulatory/supervisory authorities. A continuous assessment of the portfolio/sector review is conducted, based on management/industry information. The Committee also assesses credit risks of new products in detail.

The Committee reviews credit proposals and approves them within the limits delegated by the Board of Directors along with pricing of lending proposals and making recommendations to the Board for approval when the credit limit exceeds the delegated limit of the Board Credit Committee.

Delegated lending limits are assigned based on an approved credit approval framework and are reviewed periodically by the Committee. Assessment of periodic portfolio reviews is also done in order to assess performance.

REPORTING TO THE BOARD

The Minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

EVALUATION OF THE COMMITTEE

The Committee undertakes an annual performance evaluation of its members and the summary of the performance evaluation is submitted to the Board of Directors. Accordingly, the Board assesses the performance and effectiveness of the Committee.

APPRECIATION

The Committee wishes to thank Mr. P. S. Cumaranatunga who was a Member of the Committee until 28th August 2018 and stepped down from the Committee on being appointed as Chairman of the Board Audit Committee.

On behalf of the Board Credit Committee

H. S. D. Soysa
Chairman - Board Credit Committee

Colombo, Sri Lanka
26 March 2019

REPORT OF THE BOARD CORPORATE GOVERNANCE COMMITTEE

BOARD CORPORATE GOVERNANCE COMMITTEE REPORT STRATEGIC PLANNING PROCESS

The Strategic Planning Process aims to sharpen the strategic alignment with the Company's overall mission. Conducted annually, the process is driven by an interactive bottom-up approach that encourages the active participation of employees at all levels. Amid strong focus placed upon business strategy, the Company intends to fine tune its operational strategy in order to achieve its business objectives.

All members of the Corporate Management are expected to implement the strategic direction outlined by the Board and set clear, measurable goals and targets.

Implementation and achievement of the sectional strategies are monitored by each department, with quarterly reviews being carried out to assess the effectiveness of the strategic plan.

INTEGRATED RISK MANAGEMENT FRAMEWORK

The Integrated Risk Management Framework advocates a structured and disciplined approach to risk management by aligning strategy, processes, people, technology and knowledge vis-à-vis the opportunities, threats and uncertainties faced by the Company.

CODE OF CONDUCT FOR EMPLOYEES

All employees including the Executive Directors are bound to abide by the ethics, values and expectations set out in the Employee Code of Conduct. The Code is made available to all employees to ensure that the highest standards of integrity and conduct are maintained in dealings and interactions with all stakeholders. The Code of Conduct addresses a range of fair dealing and compliance matters, among others.

WHISTLE BLOWING POLICY

The Policy serves as an early warning mechanism to identify the improprieties in financial reporting, internal control or other matters of corporate fraud or risk by encouraging employees to report their genuine concerns in relation to activities, which they feel are wrongful or illegal or otherwise harmful to the interests of the Company, its employees, customers or any other stakeholders. Further, the Board Audit Committee (BAC) ensures that proper arrangements are in place for the fair and independent investigation of such matters, and have appropriate follow-up action and the protection of the whistle blower. Chairman of the BAC is to receive in confidence any whistle blowing messages through the Company Secretary who is also the Secretary to the BAC.

COMMUNICATION POLICY

The Company strives at all times to maintain its corporate credibility and instill investor confidence in the Group by practicing a structured communication policy approved by the Board which covers all stakeholders, including depositors, creditors, shareholders and borrowers, spells out the process through which timely, transparent, consistent and credible information on corporate strategies, treads, operational performance and financial data is disseminated.

GOVERNANCE STRUCTURE

BOARD OF DIRECTORS

The Board of Directors is the apex body responsible for the execution of Company's Corporate Governance Framework. Moreover, the Board is responsible for setting out strategic and management guidelines for the Company and for monitoring general performance, as well as defining and applying the Corporate Governance rules and examining internal audit procedures. The Board is tasked with approving strategic plan, governance structures, risk appetite limits, policies and procedures, delegation of authority and providing a framework for decision making amongst others.

The Board has full ordinary and extraordinary administrative powers to manage the activities of the Company in a way that would achieve its corporate purpose. Further, as the highest governance body of the Company, the Company is expected to use its skill and expertise to determine the wider social, environmental and economic implications that may arise out of all business decisions. The Board is therefore, the principal authority providing oversight to the Corporate Management team that directs and executes all operational functions within the Company. Board meets the Key Management Personnel on a regular basis when need arises to exercise appropriate oversight of the affairs of the finance company.

BOARD MEETINGS

The Board of Directors held 13 Board meetings during the period ending 12 months up to 31st December 2018, with Retail Growth, Digitalization and Performance Optimization being some of the key topics of discussion. Meanwhile, the Board Sub Committees held a total of 57 meetings during the same period under review.

BOARD SUB COMMITTEES

To assist the Board in its supervisory role, a number of Sub Committees have been appointed by the Board. An integral component of the Company's Corporate Governance Framework, each Sub Committee reports to the Board with detailed information on its activities.

Sub Committee members are selected from a mix of Board members, except in the instance of the Board Building Committee.

REPORT OF THE BOARD CORPORATE GOVERNANCE COMMITTEE

Members of each Sub Committee are held collectively responsible for their designated area of activity. Currently the Board has established a total of nine Board Sub Committees including Board Audit committee, Board Integrated Risk Management Committee, Board HR and Remuneration committee to carry out specific functions, with each Sub Committee being headed by a Non Executive Director. The following changes took place in the membership of the Board and its Sub Committees during the year.

BOARD

Mr. P. M. A. Sirimane
Served until 15th October 2018

Mr. Y. S. H. R. S. Silva
Appointed w.e. f. 01st June 2018

Mr. J. Selvaratnam
Appointed w.e. f. 18th December 2018

BOARD AUDIT COMMITTEE

Mr. P. M. A. Sirimane
Stepped down as the Chairman w.e.f. 01st June 2018 and served until 15th October 2018

Mr. P. S. Cumaranatunga
Appointed as the Chairman w. e. f 01st June 2018

BOARD HR AND REMUNERATION COMMITTEE

There were no changes in the membership of the Board HR and Remuneration Committee during the year.

BOARD NOMINATION COMMITTEE

Mr. P. M. A. Sirimane
Served until 15th October 2018

Mr. P. S. Cumaranatunga
Appointed w. e. f. 1st September 2018

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Mr. J. Selvaratnam
Appointed w.e.f. 18th December 2018

BOARD CREDIT COMMITTEE

Mr. P. S. Cumaranatunga
Served until 28th August 2018

A. Nanayakkara
Appointed w.e.f. 28th August 2018

Mr. J. Selvaratnam
Appointed w. e. f. 18th December 2018

BOARD CORPORATE GOVERNANCE COMMITTEE

Mr. P. M. A. Sirimane
Served until 15th October 2018

BOARD RELATED PARTY TRANSACTION REVIEW COMMITTEE

Mr. P. M. A. Sirimane
Served until 15th October 2018

BOARD BUILDING COMMITTEE

There were no change to the Board appointed committee members other than the members appointed from the parent company and other subsidiaries.

BOARD IT COMMITTEE

Mr. P.M.A. Sirimane
Served until 15th October 2018

The above Sub Committees come under the purview of the Board. Most of the Board Sub Committees function in a supervisory capacity, overseeing the key management personnel in charge of the day to day operational and functional aspects of the business. In this context, Head of Internal Audit reports to the Board Audit Committee, whilst the Head of Risk and Compliance Reports to the Board Integrated Risk Management Committee to ensure their independence and impartiality.

COMPANY SECRETARY

The Company Secretary is independent and acts as a conduit between the Board and the Company. The Company Secretary's, primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations. Further, the Company Secretary is responsible to liaison with the Registrar of Companies and other relevant regulators and facilitating Board members with access to legal and other expertise, as and when required.

The Group Company Secretary, Mr. S. Sudarshan acts as the Secretary to all the Board Sub Committees and the minutes of Board and Sub committees are retained in his custody. The Group Company Secretary prepares the minutes within a reasonable time and there is a documented process for the minutes to be inspected by the Directors if necessary. Written Terms of Reference approved by the Board that comply with the Corporate Governance requirements are available for the Sub Committees, with the Group Company Secretary.

On behalf of the Board Nomination Committee

A. Nanayakkara
Chairperson - Board Corporate Governance Committee

Colombo, Sri Lanka
26 March 2019

Financial Information

Radiating value across the nation

FINANCIAL CALENDAR

FINANCIAL CALENDAR 2018	
Audited Financial Statements for the year ended 31 December 2017 signed on	20 February 2018
Annual General Meeting held on	27 March 2018
Publication of half yearly Financial Statements (2nd half of year 2017) (audited) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	27 February 2018
Rs 1.25 per share Scrip Dividend for 2017 declared on	27 March 2018
Publication of half yearly Financial Statements (1st half of year 2018) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	29 August 2018
Publication of Interim Financial Statements in terms of Rules 7.4 of the Colombo Stock Exchange	
1st Quarter ended 31 March 2018	15 May 2018
2nd Quarter ended 30 June 2018	02 August 2018
3rd Quarter ended 30 September 2018	14 November 2018
4th Quarter ended 31 December 2018	27 February 2019

PROPOSED FINANCIAL CALENDAR 2019	
Audited Financial Statements for the year ended 31 December 2018 signed on	26 February 2019
Publication of half yearly Financial Statements (2nd half of year 2018) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	28 February 2019
Annual General Meeting to be held on	28 May 2019
Rs. 0.50 per share Scrip Dividend for 2018 to be declared *	28 May 2019
Publication of half yearly Financial Statements (1st half of year 2019) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	On or before 31 August 2019
Publication of half yearly Financial Statements (2nd half of year 2019) (audited) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	On or before 28 February 2020
Interim Financial Statements in terms of Rules 7.4 of the Colombo Stock Exchange to be published	
1st Quarter ended 31 March 2019	On or before 15 May 2019
2nd Quarter ended 30 June 2019	On or before 15 August 2019
3rd Quarter ended 30 September 2019	On or before 15 November 2019
4th Quarter ended 31 December 2019	On or before 28 February 2020

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

GRI 102-45

The Board of Directors of Siyapatha Finance PLC has pleasure in presenting its Annual Report on the State of Affairs of the Company to the members of Siyapatha Finance PLC for the financial year ended 31st December 2018, together with the audited Financial Statements of the Company, and the Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 7 of 2007, Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

This Report includes the information as required by the Companies Act No. 7 of 2007, Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended) and the Listing Rules of the Colombo Stock Exchange. It is also guided by the Recommended Best Practices on Corporate Governance.

GENERAL

GRI 102-1

Siyapatha Finance PLC ("the Company"), bearing the registration No. PB 917 PQ was incorporated on 03rd March 2005, under the Companies Act No 17 of 1982, as a Specialized Leasing Company in the name 'Sampath Leasing and Factoring Limited' and the Company was re-registered under the provisions of the Companies Act No 07 of 2007. Thereafter the Company changed its name to 'Siyapatha Finance Limited' on 02 September 2013 in parallel to the obtaining of 'Registered Finance Company' status from the Central Bank of Sri Lanka on 25 September 2013. Upon the listing of the unsecured subordinated redeemable debentures on the Colombo Stock Exchange on 31 December 2014, the status of the Company was changed from Siyapatha Finance Limited to Siyapatha Finance PLC with effect from 02nd January 2015. The Company is the largest fully owned subsidiary of Sampath Bank PLC.

The Company's unsecured subordinated redeemable debentures and unsecured senior redeemable debentures are listed on the Colombo Stock Exchange. Fitch Rating Lanka Limited has affirmed the Company's National Long Term Rating at "A-(lka)"with a stable outlook. The agency has also affirmed the National Long-Term Rating on Siyapatha's senior unsecured debentures at 'A-(lka)' and subordinated debentures at 'BBB+(lka)'.

GRI 102-3

The registered office of the Company is located at No. 110, Sir James Peiris Mawatha, Colombo 02 and the Head office of the Company is located at No 46/12, Nawam Mawatha, Colombo 02.

As per the requirements set out in Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report for the year under review.

Information required to be disclosed	Reference to the Companies Act	Extent of compliance by the Company
I) The nature of the business of the Company, together with any change thereof during the accounting period	Section 168 (1) (a)	Refer page 130
II) Completed and signed Financial Statements of the Company for the accounting period completed.	Section 168 (1) (b)	Refer pages 143 to 220
III) Auditor's Report on Financial Statements of the Company.	Section 168 (1) (c)	Refer pages 139 to 142
IV) Any changes made to the Accounting policies during the year under review.	Section 168 (1) (d)	Refer pages 153 and 154
V) Particulars of the entries in the Interests Registers of the Company during the accounting period.	Section 168 (1) (e)	Refer pages 134 and 135
VI) Remuneration and other benefits paid to Directors of the company during the period.	Section 168 (1) (f)	Refer page 217
VII) Total amount of donations made by the Company during the period.	Section 168 (1) (g)	Refer page 136
VIII) Information on Directorate of the Company during and at the end of the accounting period.	Section 168 (1) (h)	Refer page 133
IX) Separate disclosure on amounts payable by the Company to the Auditor as Audit Fees and fees for other services rendered during the accounting period.	Section 168 (1) (i)	Refer page 136
X) Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Refer page 136
XI) Acknowledgment of the contents of this report/signatures on behalf of the Board by two Directors and the Secretary of the Company.	Section 168 (1) (k)	Refer page 146

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

CORPORATE VALUES

The Company's vision, mission and values are enumerated in page 1 and inner front cover of the Annual Report. Business activities of the Company are conducted in an environment of high level of compliance and in conformity with ethical practices.

PRINCIPAL ACTIVITIES

The Company's principal activities during the year were acceptance of customer deposits, providing finance lease, hire purchase and vehicle loan facilities, mortgage loans, gold loans,revolving loans , personal/business loans and debt factoring.

There were no significant changes in the nature of the principal activities of the Company during the year under review.

REVIEW OF OPERATIONS

A review of the financial and operational performance of the Company together with significant events took place during the year 2018 are stated in the Chairman's Message on pages 10 to 12, and Managing Director's Review on pages 13 to 16 which form and integral part of this report.

FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Chairman's Message on pages 10 to 12, and Incumbent Managing Director's Message on pages 17 and 18.

FINANCIAL STATEMENTS

The Financial Statements of the Company have been prepared in accordance with the Sri Lanka Accounting Standards comprising 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. 07 of 2007, Finance Business Act No.42 of 2011 the directions and guidelines issued under the said Finance Business Act and the Listing Rules of the Colombo Stock Exchange.

Consequent to the Board Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 26th February 2019.

The aforementioned Financial Statements for the year ended 31 December 2018 completed and duly signed by the Head of Finance, Managing Director and two Directors of the Company are given on pages 143 to page 220 which form an integral part of this Annual Report of the Board of Directors on the affairs of the Company.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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

The Directors are of the view that the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and Notes to Financial Statements appearing on pages 143 to 220 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the amendments thereto, directions and guidelines issued under the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

Responsibility for the Financial Statements is given on page 150 and forms an integral part of the Annual Report of the Board of Directors.

DIRECTORS' STATEMENT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Board has issued a statement on the internal control mechanism of the Company as per Section 10 (2) (b) of Finance Companies (Corporate Governance) Direction No. 03 of 2008. The said statement which forms an integral part of the Annual Report of the Board of Directors on the affairs of the Company is given on pages 129 to 136. The Board has obtained an Assurance Report from the Independent Auditors on the Directors' Statement on Internal Control over Financial Reporting as referred to in pages 137 and 138 .

AUDITORS' REPORT

The Auditors of the Company are Messrs Ernst & Young, Chartered Accountants. Messrs Ernst & Young carried out the audit on the Financial Statements of the Company for the year ended 31st December 2018 and their report on those Financial Statements and Auditors' report is given on pages 139 to 142.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES DURING THE YEAR

The significant accounting policies adopted and changes in accounting policies in the preparation of the Financial Statements are given on pages 150 to 174.

FINANCIAL RESULTS AND APPROPRIATIONS

Interest Income

Total interest income of the Company for the year ended 31 December 2018 was Rs. 6,395.90 Million (Rs. 4,599.47 Million in 2017). Components of interest income are given in Note 7 to the Financial Statements.

Profit and Appropriations

The Company has recorded a 6.18% growth in profit before tax and 3.54% growth in profit after tax in 2018 compared to 2017. The Company's Total Comprehensive Income (net of tax) for the year is Rs. 569.11 Mn (2017: Rs. 554.47 Mn). A detailed breakup of the profits & appropriations of the Company is given below.

For the year ended 31 December	2018 Rs.'000	2017 Rs.'000
Profit before Tax	833,789	785,240
Less: Income tax expense	(317,268)	(286,378)
Net profit after taxation	516,521	498,862
Unappropriated balance brought forward from previous year	1,672,544	1,266,963
Impact of adoption of SLFRS 9	(149,435)	-
Unappropriated balance brought forward from previous year after adoption of SLFRS 9	1,523,109	1,266,963
Actuarial (losses) / gains on defined benefit plans, net of tax	1,652	(1,212)
Profit available for appropriation	2,041,282	1,764,613
Appropriations		
Transfer to Statutory Reserve Fund	(26,000)	(26,578)
Dividend		
Final scrip dividend paid-2016 (Rs. 1.21 per share)	-	(65,491)
Final scrip dividend paid-2017 (Rs. 1.25 per share)	(69,721)	-
Unappropriated balance carried forward	1,945,561	1,672,544
Proposed dividend		
Final scrip dividend - 2017 (Rs. 1.25 per share)	-	69,721
Final scrip dividend - 2018 (Rs. 0.50 per share)	36,344	-

TAXATION

The Income Tax rate applicable to the Company's operations is 28% (2017:28%).The Company is also liable for VAT on financial services at 15% (2017: 15%), NBT on financial services at 2% (2017: 2%) and Debt repayment levy on financial services at 7% (w.e.f. 01 October 2018).

The Company has also provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 (Income Taxes).

DIVIDEND

The Board of Directors of the Company has recommended a final scrip dividend of Rs. 0.50 per share to be paid for the financial year ended 31st December 2018, such right to the dividend applying to the increased number of shares allotted pursuant to the Rights Issue 2018 as well. Further, in compliance with the Company's Articles of Association this dividend is to be approved by the shareholders at the Annual General Meeting to be held on 28 May 2019.

The Board of Directors was satisfied that the Company would meet the solvency test immediately after the payment of final scrip dividend proposed, in terms of the Section 56 of the Companies Act No. 7 of 2007. The Company provided the Statement of Solvency to the Auditors and obtained Certificate of Solvency from the Auditors in respect of the dividend payment conforming to the statutory provision. Details pertaining to dividend payments are stated in Note 16 of the Financial Statements.

RESERVES

A summary of the Company's reserves is given below.

As at 31 December	2018 Rs.'000	2017 Rs.'000
Statutory Reserve Fund	139,000	113,000
Revaluation Reserve	107,763	56,823
Retained Earnings	1,945,562	1,672,545
Total	2,192,325	1,842,368

CAPITAL EXPENDITURE

The total capital expenditure on acquisition of property, plant and equipment and intangible assets of the Company amounted to Rs. 231.69 Mn (2017: Rs. 74.44 Mn). Details are given in Notes 29 and 30 to the Financial Statements.

CAPITAL COMMITMENTS

The capital expenditure approved and contracted for, as at the reporting date is given in Note 44.1 to the Financial Statements.

PROPERTY, PLANT AND EQUIPMENT (PPE)

Details of property, plant and equipment are given on Note 29 to the Financial Statements.

MARKET VALUE OF FREEHOLD LAND

The Company reassessed the market value of the freehold land in December 2018 through professionally qualified independent valuer, to ensure that the carrying amount of such freehold land reflects the current market price. Accordingly, material market value change was identified pertaining to freehold land and its value was adjusted to bring the current market price into the Financial Statements as at 31st December 2018. The Directors are of the opinion that the revalued amounts are not in excess of the current market value of such freehold land. The details of freehold land owned by the Company are given in Note 29 to the Financial Statements.

STATED CAPITAL AND DEBENTURES

Stated Capital

The Stated Capital of the Company as at 31st December 2018 amounted to Rs. 948.67 Mn 63,596,388 ordinary shares (2017: consisting of Rs. 635.92 Mn consisting of 55,777,146 ordinary shares). The number of shares in issue of the Company increased from 55,777,146 ordinary shares to 63,596,388 ordinary shares as a result of the payment of Scrip Dividend for 2017 and Rights Issue in 2018.

Debt Capital

The details of debentures outstanding as at 31 December 2018 are given in Note 32.3 to the Financial Statements. The rated, unsecured, subordinated redeemable debentures issued in year 2014 and year 2017 totaling to Rs. 2.0 Billion are eligible for the Tier II Capital of the Company.

SHARE INFORMATION

Information relating to earnings, dividends and net assets are given in the Financial Highlights on page 4 and in the Investor Information section on pages 58 to 60.

SHAREHOLDING

The Company has eight shareholders, the details of which are appended below.

For the year ended 31 December	No. of Shares	% of Issued Share Capital
Mr. C. P. Palansuriya	1	>0.001%
Mr. W. M. P. L. De Alwis	1	>0.001%
Dr. H. S. D. Soysa	1	>0.001%
Mr. P. S. Cumaranatunga	1	>0.001%
Ms. A. Nanayakkara	1	>0.001%
Mr. Y. S. H. R. S. Silva	1	>0.001%
Mr. S. Sudarshan	1	>0.001%
Sampath Bank PLC	63,596,381	99.99%
Total	63,596,388	100.00%

EQUITABLE TREATMENT TO SHAREHOLDERS

The Company has at all times ensured that all shareholders are treated equitably.

THE BOARD OF DIRECTORS

The Board of Directors of the Company comprised of nine Directors (2017: eight) with wide financial and commercial knowledge and experience. The names of the Directors of the Company during the period 1st January 2018 to 31st December 2018 are given below as per Section 168 (1) (h) of the Companies Act No.7 of 2007. Their brief profiles are given on pages 64 to 69 of the Annual Report. The classification of Directors into Executive (ED), Non-Executive (NED) and Independent (IND), Non-Independent Directors (NID) are given against the names as per Listing Rules and Corporate Governance Rules of Colombo Stock Exchange and Finance Companies Direction No.03 of 2008 and subsequent amendments thereto issued by the Central Bank of Sri Lanka.

Name	Classification (NED/NID/ED/IND)	Remarks(Appointed date, change of directorate to chairman etc)
Mr. C. P. Palansuriya (Appointed as the Chairman w.e.f 15.11.2017)	NID, NED	02/05/2014
Dr. H. S. D. Soysa	IND/NED	01/01/2011
Mr. L. T. Ranwala	NID, NED	28/07/2015
Mr. W. M. P. L. De Alwis	IND/NED	25/02/2011
Mr. K. M. S. P. Herath	ED	05/04/2016
Mr. P. S. Cumaranatunga	IND/NED	30/10/2017
Ms. A. Nanayakkara	IND/NED	06/11/2017
Mr. Y. S. H. R. S. Silva	NID, NED	01/06/2018
Mr. J. Selvaratnam	NID, NED	18/12/2018
Mr. P. M. A. Sirimane	IND/NED	03/08/2010 (Resigned w.e.f. 15.10.2018)

All Directors have submitted affidavits and declarations for the year 2018 under the Finance Companies (Assessment of Fitness and propriety of all Directors on the Board and officers performing executive functions) Direction No. 03 of 2011.

CHANGES IN DIRECTORATE

The Company has disclosed the 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 in terms of Section 168 (1) (h) of the Companies Act No.7 of 2007.

RETIREMENT AND RE-ELECTION / REAPPOINTMENT OF DIRECTORS

In terms of Articles 24 (7) & 24 (8) of the Articles of Association of the Company, Mr. C. P. Palansuriya, Mr. W. M. P. L. De Alwis and Dr. H. S. D. Soysa retire by rotation being eligible, offered themselves for re-election on the unanimous recommendation of the Board of Directors.

Mr. Y. S. H. R. S. Silva, Mr. J. Selvaratnam and Mr. J.H. Gunawardena having being appointed to the Board with effect from 1st June 2018, 18th December 2018 and 29th January 2019 respectively offered themselves for election by the shareholders in terms of Article 24 (2) of the Articles of Association of the Company.

REGISTER OF DIRECTORS AND SECRETARIES

As required under Section 223 (1) of the Companies Act No.7 of 2007, the Company maintains a Register of Directors and Secretaries which contains the name, surname, former name (if any), residential address, business, occupation, dates of appointment and dates of resignation (if applicable) of each Director and the Secretary.

BOARD SUB COMMITTEES

The Board of Directors of the Company has formed nine committees in compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008, Listing Rules of the Colombo Stock Exchange and as per the recommended best practices on Corporate Governance.

The following Directors served as members of the Audit Committee, Integrated Risk Management Committee, Human Resource and Remuneration Committee, Credit Committee, Corporate Governance Committee, Related Party Transactions Review Committee, Nomination Committee, Building Committee and IT Committee.

The Board Audit Committee

- Mr. P. S. Cumaranatunga (Chairman/ Appointed w.e.f. 1st June 2018)
- Dr. H. S. D. Soysa

- Mr. W. M. P. L. De Alwis
- Ms. A. Nanayakkara
- Mr. P. M. A. Sirimane (stepped down as the Chairman w.e. f. 1st June 2018 and served until 15th October 2018)

The Report of the Board Audit Committee appears on pages 117 and 118.

The Board Integrated Risk Management Committee

- Mr. W. M. P. L. De Alwis (Chairman)
- Mr. P. S. Cumaranatunga
- Ms. A. Nanayakkara
- Mr. K. M. S. P. Herath
- Mr. J. Selvaratnam (appointed w.e.f. 18th December 2018)

The Report of the Board Integrated Risk Management Committee appears on pages 120 and 121.

The Board Human Resource and Remuneration Committee

- Mr. P. S. Cumaranatunga (Chairman)
- Dr. H. S. D. Soysa
- Ms. A. Nanayakkara

The Report of the Board Human Resources and Remuneration Committee appears on page 119.

The Board Credit Committee

- Dr. H. S. D. Soysa (Chairman)
- Mr. L. T. Ranwala
- Mr. K. M. S. P. Herath
- Ms. A. Nanayakkra (appointed w.e.f. 28th August 2018)
- Mr. J. Selvaratnam (appointed w.e.f. 18th December 2018)
- Mr. P. S. Cumaranatunga (served until 28 August 2018)

The Report of the Credit Committee appears on page 124.

The Board Corporate Governance Committee

- Ms. A. Nanayakkara (Chairperson)
- Mr. W. M. P. L. De Alwis
- Mr. K. M. S. P. Herath
- Mr. P. S. Cumaranatunga
- Mr. P. M. A. Sirimane (served until 15th October 2018)

The Report of the Board Corporate Governance Committee appears on pages 125 and 126.

The Board Related Party Transactions Review Committee

- Mr. P. S. Cumaranatunga (Chairman)
- Mr. W. M. P. L. De Alwis
- Mr. K. M. S. P. Herath
- Ms. A. Nanayakkara
- Mr. P. M. A. Sirimane (served until 15th October 2018)

The Report of the Board Related Party Transactions Review Committee appears on page 122.

The Board Nomination Committee

- Dr. H. S. D. Soysa (Chairman)
- Mr. W. M. P. L. De Alwis
- Mr. C. P. Palansuriya
- Mr. P. S. Cumaranatunga
- Mr. P. M. A. Sirimane (served until 15th October 2018)

The Report of the Board Nomination Committee appears on page 123.

The Board Building Committee

- Mr. C. P. Palansuriya (Chairman)
- Dr. H. S. D. Soysa
- Mr. K. M. S. P. Herath
- Mr. P. S. Cumaranatunga

The Board IT Committee

- Ms. A. Nanayakkara
- Dr. H. S. D. Soysa
- Mr. W. M. P. L. De Alwis
- Mr. Y. S. H. R. S. Silva
- Mr. P. M. A. Sirimane (served until 15th October 2018)

DIRECTORS' MEETINGS

The details of the Board meetings, the Board Sub Committee meetings and the attendance of the Directors at these meetings are given in the Corporate Governance Report on page 108 of the Annual Report.

DIRECTORS' INTEREST REGISTER AND DIRECTORS' INTEREST IN CONTRACTS OR PROPOSED CONTRACTS

The Company maintains the Directors' Interest Register as required under the provisions of Section 168 (1) (e) of the Companies Act No.7 of 2007, the Directors of the Company have made necessary declarations of their interest in contracts or proposed contracts, in terms of the Sections 192 (1) and 192 (2) of the Companies Act No.7 of 2007. These interests have been recorded in the Interest Register which is available for inspection in terms of the Act. As a practice and in terms of Corporate Governance, Directors have refrained from voting on matters in which they were materially interested. The Directors have no direct or indirect interest in a contract or a proposed contract with the Company other than those disclosed.

RELATED PARTY TRANSACTIONS

Directors have also disclosed transactions if any, that could be classified as Related Party Transactions in terms of Sri Lanka Accounting Standard - LKAS 24 (Related Party Disclosure) which is adopted in preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 47 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors. The Company has complied with the requirement of the Code of Best Practice issued by SEC, Listing Rules of CSE and with all disclosure requirement stipulated thereunder.

DIRECTORS' INTEREST IN ORDINARY SHARES AND DEBENTURES

The Directors' shareholding and the relevant interests of Directors in the shares of the Company as at 31 December 2018 and 31 December 2017 are as follows:

Name	Position	No: of Shares as at 31 December 2018	No: of Shares as at 31 December 2017
Mr. C. P. Palansuriya	Chairman	01	01
Mr. W. M. P. L. De Alwis	Deputy Chairman	01	01
Dr. H. S. D. Soysa	Senior Director	01	01
*Mr. P. S. Cumaranatunga	Director	01	Nil
**Ms. A. Nanayakkara	Director	01	Nil
***Mr. Y. S. H. R. S. Silva	Director	01	Nil

* transferred from Mr. R. Samaranayake w.e.f. 28th June 2018.

**transferred from Mr. S. G. Wijesinha w.e.f. 28th June 2018

*** transferred from Mr. M. A. Abeynaike w.e.f 28th June 2018

Except, 15,000 Listed, Rated, Unsecured ,Subordinated, Redeemable Debentures held by Mr. P. S. Cumaranatunga, no debentures were registered in the name of any Director at the beginning and at the end of the year under review.

DIRECTORS' REMUNERATION

Details of Directors' emoluments and other benefits paid in respect of the Company during the financial year under review are given in Note 47 to the Financial Statements.

HUMAN RESOURCES

Human Resource Practices and Policies of the Company are aligned to ensure efficiency, effectiveness and productivity of the work force and these policies are reviewed periodically. Further, All efforts are directed at having a motivated and competent team in order to grow and achieve results as projected in the Strategic Plan and the Budget. As at 31st December 2018, the number of employees on the payroll of the Company was 597 (2017: 540).

ENVIRONMENTAL PROTECTION

To the best knowledge of the Board, the Company has not engaged in any activity that is harmful or hazardous to the environment. The Directors also confirm that to the best of their knowledge and belief the Company has complied with the relevant environmental laws and regulations.

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government, other regulatory bodies and related to the employees have been paid on a timely basis.

OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company's lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or the future operations of the Company. Details of litigation pending against the Company are given in Note 44.2 to the Financial Statements.

EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the Statement of Financial Position date which would require adjustments to, or disclosure in, the accounts, except those disclosed in Note 45 to the Financial Statements.

GOING CONCERN

The Board of Directors has reviewed the Company's strategic plan/budget and is satisfied that the Company has adequate resources to continue operations in the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

DONATIONS

During the year the Company made donations to the value of Rs. 1,000,000/- (2017: Nil).The Company does not make donations for political purposes.

RISK MANAGEMENT AND INTERNAL CONTROL

Material Foreseeable Risk Factors

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company. This process is detailed in the Risk Management Report on pages 110 to 116. The Directors, on a regular basis review the above mentioned process through the Board Integrated Risk Management Committee.

Internal Controls

The Directors of the Company have taken reasonable steps to safeguard the assets of the Company and to prevent and detect frauds and any other irregularities. For this purpose the Directors have instituted effective and comprehensive systems of internal controls for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year and it is being regularly reviewed by the Board of Directors.

This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect frauds and other irregularities and secure, as far as practicable, the accuracy and reliability of the records.

CORPORATE GOVERNANCE AND COMPLIANCE WITH LAWS AND REGULATIONS

The Directors of the Company are committed towards maintaining an effective Corporate Governance Framework and implementing processes required to ensure that the Company is compliant with the Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Direction on Corporate Governance issued by the CBSL. Details are given on Corporate Governance Report on pages 78 to 108 of this Annual Report.

Further the Board of Directors declare that the Company complies with the prudential requirements, regulations, laws and internal controls and takes measures to rectify any non-compliance.

AUDITORS

The Auditors of the Company during the year were Messrs Ernst & Young, Chartered Accountants.

Audit fees paid to Ernst & Young for the year ended 31st December 2018 by the Company amounted to Rs. 1.27 Mn (2017: Rs. 1.54 Mn). Further, the Company paid Rs. 2.99 Mn (2017: Rs. 2.65 Mn) to Messrs Ernst & Young as permitted non-audit related services including tax consultancy services.

Based on the declaration provided by Messrs Ernst & Young, and as far as the Directors are aware, the Auditors do not have any relationship with or interest with the Company that in their judgments, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report.

The retiring Auditors, Messrs Ernst & Young, have expressed their willingness to continue in office. They come up for re-election at the Annual General Meeting, with the recommendation of the Board Audit Committee and the Board of Directors. In accordance with the Companies Act, a resolution proposing the re-appointment of Messrs Ernst & Young, Chartered Accountants, as Auditors is being proposed at the Annual General Meeting.

NOTICE OF MEETING

The Annual General Meeting of the Company will be held at the Board Room of Sampath Bank PLC, No.110, Sir James Peiris Mawatha, Colombo 02 on 28th May 2019 The Notice of Meeting is given on page 238 of this Annual Report.

As required by Section 168(1)(k) of the Companies Act the Board of Directors hereby acknowledge the contents of this report.

For and on behalf of the Board of Directors,

C. P. Palansuriya Chairman	W. M. P. L. De Alwis Deputy Chairman
Ananda Seneviratne Managing Director	S. Sudarshan Group Company Secretary

Siyapatha Finance PLC

26 March 2019

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

The Board of Directors ("the Board") of Siyapatha Finance PLC (the Company) presents this report on Internal Control over Financial Reporting, in compliance with Section 10(2) (b) of Finance Companies Corporate Governance Direction No. 03 of 2008.

The Board is responsible for ensuring the adequacy and effectiveness of the internal control mechanism of the Company. This mechanism is designed to provide a reasonable assurance to maintain proper accounting records and generate reliable financial information and also to safeguard assets of the Company, rather than to eliminate the risk of failure to achieve the business goals and objectives of the Company. The internal control mechanism can therefore provide only 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 mechanism of Internal Control Over Financial Reporting as and when there are changes to business environment or regulatory guidelines.

Reviews of this process are conducted by the Board on a regular basis. On the basis of such reviews the Board expresses the view that the internal control mechanism over financial reporting in place is adequate to provide a reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Board's policies and procedures pertaining to internal control over financial reporting, have been documented. The implementation of such policies and procedures is carried out with the assistance of the management. In order to assess the internal control system over financial reporting, 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. The Internal Audit Department of the Company observes and checks them annually for suitability of design and operating effectiveness.

KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

Given below are the key processes which have been established to review the adequacy and integrity of internal controls, with respect to financial reporting:

- Establishment of various sub committees to assist the Board with a view to ensuring the effectiveness of the Company's daily operations and such operations conform to Company's corporate objectives, strategies and the annual budget as well as policies and business directions approved by the Board.
- The Internal Audit Department of the Company verifies whether policies and procedures of the Company are being complied with, while ascertaining effectiveness of the internal control mechanism, on an ongoing basis, using samples and rotational procedures and highlights any significant non compliance. All Departments and Branches are subjected to audits, the frequency of which is determined by the level of risk assessed which is approved by the Board Audit Committee. The Internal Audit Department submits the Annual Audit Plan for review and approval of the Board Audit Committee. Independent and objective reports covering significant observations of the Internal Audit Department are also tabled for review by the Board Audit Committee, at their periodic meetings.
- The Board Audit Committee also reviews the internal audit functions, with particular reference to the scope and quality of the audits. Minutes of all the Board Audit Committee meetings are submitted to the Board for review. In addition, periodical summaries submitted by the Internal Audit Department indicating the functions carried out are reviewed by the Board Audit Committee.
- Evaluation of the adequacy and effectiveness of internal controls over financial reporting is carried out by the Board Audit Committee through review of internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities and the management. In order to ensure that key management personnel comply with laid down systems and procedures and implement the required internal control systems at their work locations, a procedure has been introduced to obtain an annual certification from the respective officers.
- In order to assess the internal control mechanism, all procedures and controls which are connected with significant accounts and disclosures of the Financial Statements of the Company are being continuously reviewed and updated by identified officers of the Company. The Internal Audit Department verifies the suitability of design and operating effectiveness of such procedures and controls, on an ongoing basis.

Company adopted SLFRS 9, the new Sri Lanka Accounting Standards on Financial Instruments and SLFRS 15 on Revenue from Contracts with customer with effect from 01 January, 2018. Processes applied to adopt the said accounting standards were identified during the year 2017 and are in place in order to comply with recognition, classification, measurement and disclosure requirements of the new accounting standards. Continuous monitoring is in progress and steps are being taken to make improvements to the processes where required, to enhance effectiveness and efficiency. In addition, required enhancements in control process are being carried out in respect of Management Information System and its reports.

The Board has taken into consideration the requirements of the SLFRS 16 - Leases which is effective from 01 January 2019 and necessary steps are being taken to assess its impact on financial statements and to design suitable internal controls.

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 and is in accordance with relevant accounting principles and regulatory requirements of the Central Bank of Sri Lanka.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors, Messrs Ernst & Young, have reviewed the above Directors’ statement on Internal Control Over Financial Reporting included in this Annual Report of the Company for the year ended 31 December 2018 and reported to the board that nothing has come to their attention that caused them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Controls Over Financial Reporting of the Company. Their report on the statement of Internal Control Over Financial reporting is given on page 230 of this Annual Report.

By order of the Board,

W. M. P. L. De Alwis
Deputy Chairman

P. S. Cumaranatunga
Chairman - Board Audit Committee

Siyapatha Finance PLC

26 March 2019

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SIYAPATHA FINANCE PLC

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming 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.

Key audit matter	How our audit addressed the key audit matter
Impairment Allowance for Lease receivables, Factoring receivables and Loan receivables including Company's transition to SLFRS 9: Our audit considered impairment for Lease receivables, Factoring receivables and Loan receivables as a key audit matter. The materiality of the reported amounts for Lease receivables, Factoring receivables and Loan receivables (and impairment thereof), the subjectivity associated with management's impairment estimation, complex manual calculations of impairment and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned our basis for considering it as a Key Audit Matter.	To assess the reasonableness of the allowance for impairment, we carried out audit procedures (among others) to obtain sufficient and appropriate audit evidences, that included the following: ◆ We evaluated the design, implementation and operating effectiveness of key internal controls over estimation of impairment for Lease receivables, Factoring receivables and Loan receivables, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. ◆ We test-checked the underlying calculations and data used in such calculations. ◆ In addition to the above, following focused procedures were performed:

Key audit matter	How our audit addressed the key audit matter
As at 31 December 2018 the total of the Lease receivables, Factoring receivables and Loan receivables amounted to LKR 29,416 Million (Note 24, 21 and 23), net of total allowance for impairment of LKR 1.476.3 Million (Note 24, 21 and 23). These collectively contributed 81% to the total assets. The impact on transition to SLFRS 9 on the Company's Financial Statements has been quantified and presented in the Note 6 to the Financial Statements. Significant estimates and assumptions used by the management in such calculations, their sensitivities and basis for allowance for impairment are disclosed in Note 4.1.9, 24, 21, 23, and 42.4.	For those individually assessed for impairment: ◆ we assessed the main criteria used by the management for determining whether an impairment event had occurred. ◆ where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. For those collectively assessed for impairment: ◆ we tested the completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT systems. ◆ we also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays, by comparing them with relevant publicly available data and information sources. ◆ We assessed the adequacy of the related financial statement disclosures as set out in Note 4.1.9, 24, 21, 23, and 42.4. ◆ We also assessed the adequacy of the Company's disclosure on the impact of the initial adoption of SLFRS 9 as set out in note 6. This included testing of the quantitative impact of the transition.

Key audit matter	How our audit addressed the key audit matter
Company's controls over financial reporting process, related IT systems and implementation of a new IT system Company uses multiple and complex IT systems in its operations. As a result, preparation of financial statements inclusive of key disclosures are heavily dependent on various information system outputs. In order to rely on the output of such system for the purpose of the audit, ensuring the appropriate design and operating effectiveness of financial reporting related IT controls is critical.	Our audit procedures included the following, amongst others ◆ We involved our internal specialised resources to understand and evaluate design effectiveness of selected automated, IT dependent and manual controls as implemented by management over the process of generating financial statements and significant disclosures. ◆ We carried out test-checking of: the reports used for the generation of financial statement disclosures for accuracy and completeness; source data with those of the related systems; and calculations and categorisations performed by management.

Key audit matter	How our audit addressed the key audit matter
During the year, the Company implemented a new IT system for Loan Receivables and Fixed Deposits. The change of IT system involved the migration of operational and financial data from the previous systems to the new system. As such, ensuring the integrity of financial data being migrated was critical for accurate financial reporting. The preparation and presentation of financial statements and disclosures based on manual or IT dependent controls over the said process was considered by us as an area of significant attention together with the accuracy of data migrated to the new IT system. In addition, as our approach was based on a high degree of reliance on financial reporting related IT controls, a significant proportion of our audit involved procedures in this area, and accordingly we considered this as a key audit matter.	◆ Where we considered necessary, we performed additional substantive audit procedures on system output to general ledger reconciliations that supports significant financial statements disclosures. ◆ In respect of the new IT system, we considered the Company's processes and project governance over the implementation as carried out by a third party. We also involved our internal specialised resources to test-check the data migration process. ◆ We also performed other procedures which included understanding and evaluation of specific procedures carried out by personnel involved in the information security function that supported management's assertion of integrity of systems.

Other information included in the 2018 Annual Report

Other information consists of the information included in the Company's 2018 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2018 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.

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

Responsibilities of management and those charged with governance 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

Independent Auditors' Report to the Shareholders of Siyapatha Finance PLC

EY
Building a better working world

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 2199.

Ernst & Young

26 February 2019
Colombo

INCOME STATEMENT

For the year ended 31 December	Note	2018 Rs.'000	2017 Rs.'000
Interest income		6,395,898	4,599,470
Less: Interest expenses		(3,680,060)	(2,764,290)
Net interest income	7	2,715,838	1,835,180
Fee and commission income		278,637	243,899
Less: Fee and commission expenses		(21)	(680)
Net fee and commission income	8	278,616	243,219
Other operating income	9	288,844	222,685
Total operating income		3,283,298	2,301,084
Less : Credit loss expense on financial assets and other losses	10	(829,751)	(236,744)
Net operating income		2,453,547	2,064,340
Less: Operating expenses			
Personnel expenses	11	(733,266)	(611,373)
Other operating expenses	12	(595,233)	(436,917)
Operating profit before taxes on financial services		1,125,048	1,016,050
Less: Taxes on financial services	13	(291,259)	(230,810)
Profit before income tax		833,789	785,240
Less: Income tax expense	14	(317,268)	(286,378)
Profit for the year		516,521	498,862
Basic/Diluted earnings per share (Rs.)	15	8.52	8.70
Dividend per share (Rs.)	16	1.25	1.21

The Accounting policies and Notes to the Financial Statements from pages 150 to 220 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	2018 Rs.'000	2017 Rs.'000
Profit for the year		516,521	498,862
Other comprehensive income/ (expenses)			
Other comprehensive income that will not to be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit plan	36.3	2,295	(1,683)
Deferred tax effect on actuarial gain/(loss)	35	(643)	471
		1,652	(1,212)
Surplus from revaluation of property,plant & equipment		70,750	78,921
Deferred tax effect on revaluation surplus		(19,810)	(22,098)
	39	50,940	56,823
Other comprehensive income for the year,net of tax		52,592	55,611
Total comprehensive income for the year,net of tax		569,113	554,473
Attributable to :			
Equity holders of the parent company		569,113	554,473
		569,113	554,473

The Accounting policies and Notes to the Financial Statements from pages 150 to 220 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2018 Rs.'000	2017 Rs.'000
Assets			
Cash and bank balances	18	191,556	297,858
Placements with banks	19	-	65,699
Securities purchased under repurchase agreements	20	1,768,461	1,200,981
Factoring receivables	21	1,332,310	1,899,702
Gold loan receivables	22	3,548,666	2,563,352
Loan receivables	23	2,481,575	2,724,776
Lease receivables	24	25,601,932	19,873,470
Hire purchase receivables	25	48,525	252,000
Other assets	26	489,556	464,986
Financial instruments- available for sale	27	-	56
Equity instruments at fair value through other comprehensive income	27	56	-
Financial investments held to maturity	28	-	4,303
Debt instruments at amortised cost	28	4,319	-
Property, plant & equipment	29	615,402	455,140
Intangible assets	30	83,972	8,257
Total Assets		36,166,330	29,810,580
Liabilities			
Bank overdraft		321,821	456,018
Due to other customers	31	9,672,008	9,333,622
Debt issued and other borrowed funds	32	21,391,367	16,310,778
Other payables	33	600,736	775,445
Current tax liabilities	34	149,015	91,800
Deferred tax liabilities	35	449,603	331,469
Retirement benefit obligations	36	40,789	33,163
Total Liabilities		32,625,339	27,332,295

Statement of Financial Position

As at 31 December	Note	2018 Rs.'000	2017 Rs.'000
Equity			
Stated capital	37	948,666	635,917
Share application money pending allotment	37.1	400,000	-
Statutory reserve fund	38	139,000	113,000
Revaluation reserve	39	107,763	56,823
Retained earnings	40	1,945,562	1,672,545
Total Equity		3,540,991	2,478,285
Total Liabilities and Equity		36,166,330	29,810,580
Net asset value per share (Rs.)		55.68	44.43
Commitments and contingencies	44	609,673	772,657

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

Managing Director

Head of Finance

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

Chairman

Director

The Accounting policies and Notes to the Financial Statements from pages 150 to 220 form an integral part of these Financial Statements.

26 February 2019

Colombo

STATEMENT OF CHANGES IN EQUITY

	Note	Stated Capital Rs'000	Share Application Money Pending Allotment Rs'000	Statutory Reserve Fund Rs'000	Revaluation Reserve Rs'000	Retained Earnings Rs'000	Total Rs'000
Balance as at 01 January 2017		576,975	-	86,422	-	1,266,963	1,930,360
Profit for the year		-	-	-	-	498,862	498,862
Other comprehensive income,net of tax		-	-	-	56,823	(1,212)	55,611
Transfer to Statutory Reserve Fund	38	-	-	26,578	-	(26,578)	-
Scrip Dividend paid		58,942	-	-	-	(65,491)	(6,549)
Balance as at 31 December 2017		635,917	-	113,000	56,823	1,672,544	2,478,284
Impact of adopting SLFRS 9 as at 1 January 2018		-	-	-	-	(149,435)	(149,435)
Restated balance under SLFRS 9 as at 1 January 2018		635,917	-	113,000	56,823	1,523,109	2,328,849
Profit for the year		-	-	-	-	516,521	516,521
Other comprehensive income,net of tax		-	-	-	50,940	1,652	52,592
Transfer to Statutory Reserve Fund	38	-	-	26,000	-	(26,000)	-
Scrip Dividend paid		62,749	-	-	-	(69,721)	(6,972)
Rights issue of shares		250,000	-	-	-	-	250,000
Share application money pending allotment	37.1	-	400,000	-	-	-	400,000
Balance as at 31 December 2018		948,666	400,000	139,000	107,763	1,945,561	3,540,990

The Accounting policies and Notes to the Financial Statements from pages 150 to 220 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2018 Rs.'000	2017 Rs.'000
Cash flows from operating activities			
Profit before taxation from operations		833,789	785,240
Interest expenses	7	3,680,060	2,764,290
Fee & commission expenses	8	21	680
Credit loss expense on financial assets	10	829,751	236,744
Provision for staff gratuity	36.2	11,921	9,175
Provision for depreciation	29	52,426	49,839
Amortisation of software	30	14,023	6,224
(Profit)/Loss on sale of motor vehicles		(765)	(1,723)
Write off of provisions		(175)	-
		4,587,262	3,065,229
Operating profit before working capital changes		5,421,051	3,850,469
(Increase)/Decrease in lease receivables		(6,071,416)	(6,143,152)
(Increase)/Decrease in hire purchase receivables		209,723	586,489
(Increase)/Decrease in factoring receivables		99,765	10,685
(Increase)/Decrease in gold loan receivables		(976,106)	(801,728)
(Increase)/Decrease in loan receivables		31,681	(2,014,570)
Increase/(Decrease) in due to other customers		291,101	5,751,243
(Increase)/Decrease in other assets		(55,049)	(179,752)
Increase/(Decrease) in other payables		(239,202)	122,516
		(6,709,503)	(2,668,269)
Cash generated from operating activities		(1,288,452)	1,182,200
Interest expense paid		(3,605,669)	(2,514,237)
Gratuity paid	36.1	(2,000)	(708)
Income tax paid	34	(39,761)	(58,749)
Dividend tax paid		(6,972)	(6,549)
Net cash outflow from operating activities		(4,942,854)	(1,398,043)

For the year ended 31 December	Note	2018 Rs.'000	2017 Rs.'000
Cash flow from investing activities			
Net investments in government bonds & government securities		639,873	(1,192,896)
Purchase of property, plant and equipment and intangible assets		(231,693)	(74,444)
Proceeds from sale of property, plant and equipment		781	2,248
Net cash inflow/(outflow) from investing activities		408,961	(1,265,092)
Net cash outflow before financing activities		(4,533,893)	(2,663,135)
Cash flow from financing activities			
Proceeds from long term loans		8,350,000	5,075,000
Repayments of long term loans		(5,821,539)	(3,757,504)
Proceeds from debentures		-	1,000,000
Proceeds from rights issue		250,000	-
Share application money pending allotment		400,000	-
Net proceeds from short term borrowings		2,525,000	(225,000)
Net cash inflow from financing activities		5,703,461	2,092,496
Net increase/(decrease) in cash and cash equivalents		1,169,568	(570,639)
Cash & cash equivalents as at the beginning of the year		(92,461)	478,178
Cash and cash equivalents as at end of the year		1,077,107	(92,461)
Analysis of the cash and cash equivalents at the end of the year			
Cash and bank balances (Note 18)		191,559	297,858
Placements with banks less than three months (Note 19)		-	65,699
Securities purchased under repurchase agreements less than three months		1,207,369	-
Bank overdraft		(321,821)	(456,018)
		1,077,107	(92,461)

The Accounting policies and Notes to the Financial Statements from pages 150 to 220 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

1. CORPORATE INFORMATION

1.1 General

Siyapatha Finance PLC ("The Company"), formerly known as Siyapatha Finance Limited is a domiciled, public limited liability company incorporated in Sri Lanka on 03 March 2005 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. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto. The registered office of the Company is located at No.110, Sir James Pieris Mawatha, Colombo 02. The principal place of business is located at. No.46/12, Nawam Mawatha, Colombo 02.

The debentures of the Company were initially listed on the Colombo Stock Exchange on 2 January 2015.

The staff strength of the Company as at 31 December 2018 was 597 (540 as at 31 December 2017).

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 Sampath Bank PLC, which is incorporated in Sri Lanka.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

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

2.2 Responsibility for Financial Statements

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

2.3 Approval of Financial Statements by Directors

The Financial Statements of the Company as at and for the year ended 31 December 2018 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 26 February 2019.

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

2.4 Basis of Measurement

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

- Financial Assets at fair value through other comprehensive income (applicable from 1st January 2018) at fair value(Note 27)
- Available for Sale Financial Instruments (applicable before 1st January 2018) at fair value(Note 27)
- 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 29)
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation less the fair value of the plan assets (Note 36)

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 Siyapatha Finance PLC operates. The Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand 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 43.

2.7 Materiality and Aggregation

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

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an Accounting Standard.

2.8 Comparative Information

The comparative information is re-classified whenever necessary to conform to the current year's presentation the details of which are given in Note 46 to the Financial Statements.

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

2.9 Statement of Cash Flow

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

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

2.10 Events After the Reporting Date

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

No circumstances have arisen since the reporting date, which would require adjustments to, or disclosure in the financial statements, other than those disclosed in Note 45 to the Financial Statements.

2.11 Significant Accounting Judgements, Estimates and Assumptions

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

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

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

2.11.1 Going Concern

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

2.11.2 Impairment losses on loans and receivables

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

Applicable from 1 January 2018

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

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

Applicable before 1 January 2018

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

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such also an type, asset type and past due status etc., and judgements on the effect of concentrations of risks and economic data including levels of unemployment, consumer prices indices, interest rates, exchange rates). Impairment of loans and receivables is discussed in detail under Note 21 to 25 to the Financial Statements.

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

2.11.3 Fair Value of Financial Instruments

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

2.11.4 Financial Assets and Financial Liabilities Classification

The Company's accounting policies provide scope for assets and liabilities to be classified, at inception in to different accounting categories. The classification of financial instrument is given in Note 17 "Analysis of Financial Instruments by Measurement Basis".

2.11.5 Taxation

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

The Company has adopted the requirements of the New Inland Revenue Act 24 of 2017 which was effective from 1 April 2018 and deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

2.11.6 Defined Benefit Plans

The cost of Defined Benefit Pension Plan is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate for the Company. The sensitivity of assumptions used in actuarial valuations are set out in Note 36.4 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 29 to the Financial Statements.

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

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

2.11.9 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 44 to the Financial Statements.

3. CHANGES IN ACCOUNTING POLICIES

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

SLFRS 9 -Financial Instruments

The Company has initially adopted SLFRS 9 with the date of transition as 01 January 2018. The Company has not early adopted this standard in previous periods. The adoption of SLFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. SLFRS 9 significantly amends the other standards dealing with financial instruments such as SLFRS 7 'Financial Instruments: Disclosure'.

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

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

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

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

Classification of Financial Assets & Financial Liabilities

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

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

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

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

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

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

Impairment of financial assets

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

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

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

SLFRS 15 - Revenue from Contracts with Customers

The Company has also adopted SLFRS 15 on 01 January 2018 prospectively. The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Company. Accordingly, the impact of comparative information is limited to new disclosure requirements.

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

4. GENERAL ACCOUNTING POLICIES

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

4.1 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

4.1.1 Date of Recognition

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

4.1.2 Initial measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments.

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

4.1.3 'Day 1' profit or loss

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

4.1.4 Measurement categories of Financial Assets and Financial Liabilities

4.1.4 (a) Policy applicable from 1 January 2018

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

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

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

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

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

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

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

The details of the above conditions are outlined below.

Business model assessment

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

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

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

The SPPI test

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

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

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

In contrast, contractual terms of that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

4.1.4 (a) (ii) Equity instruments at FVOCI

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

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

Currently, the Company has recorded its non- quoted equity investments FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 27 to the Financial Statements.

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

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

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

4.1.4 (b) Policy applicable before 1 January 2018

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

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

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

Subsequent measurement of financial assets depends on their classification.

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

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

The Company does not have financial assets under this category.

b) Financial Assets Available for Sale

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

The Company has not classified any loans or receivables as available for sale.

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

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

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

Currently, the Company has recorded its non- quoted equity investments classified as available for sale financial instruments at cost less impairment if any. The details of available for sale financial assets are given in Note 27 to the Financial Statements.

c) Held to Maturity Financial Assets

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

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

If the Company were to sell or reclassify more than an insignificant amount of Held to Maturity investments before maturity (other than in certain specific circumstances) the entire category would be tainted and would be reclassified as available for sale. Furthermore, the Company would be prohibited from classifying any financial assets as held to maturity during the following two years. The details of HTM financial investments are given in Note 28 to Financial Statements.

d) Loans and Receivables

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

- Those that the Company intends to sell immediately in the near term and those that, upon initial recognition, designates as fair value through profit or loss
- Those that the Company, upon initial recognition, designates as available for sale
- Those for which the Company may not recover substantially all of its initial investments, other than because of credit deterioration

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

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

Cash and Bank balances

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

4.1.5 Classification and Subsequent Measurement of Financial Liabilities

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

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)
    a) Financial liabilities held for trading
    b) Financial liabilities designated at fair value through profit or loss
(ii) Financial liabilities at amortised cost,when they are held for trading and derivative instruments or the fair value designation is applied.

The subsequent measurement of financial liabilities depends on their classification.

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

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

ii. Financial Liabilities at Amortised Cost

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

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognized in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

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

4.1.6 Reclassifications of Financial assets and Financial Liabilities

From 1 January 2018, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2017.

4.1.7 Derecognition of Financial Assets and Financial Liabilities

4.1.7 (a) Derecognition of Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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

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

  Or

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

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

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

A transfer only qualifies for derecognition if either:

- The Company has transferred substantially all the risks and rewards of the asset

  Or

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

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

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

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises as associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

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

4.1.7 (b) Derecognition - Financial Liabilities

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

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

4.1.8 Determination of Fair Value

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

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

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

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

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

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

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

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

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

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

4.1.9 Impairment of Financial Assets

4.1.9 (i). Policy applicable from 1 January 2018

a. Overview of the expected credit loss (ECL) principles

The Company recognises expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

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

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

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

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

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

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

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

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

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

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

b. The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR.A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

PD : The probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

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

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

The mechanism of the ECL method are summarised below.

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

Stage 2: 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 amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability - weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

c. Debt instruments measured at fair value through OCI

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

d. Debt factoring and revolving loans

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

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

e. Forward looking information

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

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

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

4.1.9 (ii) Policy applicable before 1 January 2018

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

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

a. Financial Assets carried at Amortised Cost

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

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

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

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- Significant downgrading in credit rating by an external credit rating agency

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

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

(ii). Incurred but not yet identified impairment

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

The collective impairment allowance is determined after taking into account:

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

(iii). Collectively assessed Loans and Receivables

Impairment is assessed on a collective basis in two circumstances:

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

(iv). Homogeneous groups of Loans and Advances

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

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

Under this methodology the movement in the outstanding balance of customers in to bad categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which the

Group is not able to identify on an individual loan basis, and that can be reliably estimated.

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

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

These additional macro and portfolio risk factors may include:

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

b. Available for Sale Financial Investments

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

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Company treats 'significant 'generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

c. Held to Maturity Financial Assets

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

4.1.9 (iii) Reversals of impairment

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

4.1.9 (iv). Renegotiated Loans

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

From 1January 2018,when the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 42.4.1. The Company also considers whether the assets should be classified as Stage 3.

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

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

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

4.1.9 (vi). Collateral Valuation

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

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

4.1.9 (vii). Collateral repossessed

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

4.1.9 (viii). Offsetting Financial Assets and Liabilities

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

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

4.2 Finance Lease and Operating Lease

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

4.2.1 Finance Lease

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

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

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

4.2.2 Operating Lease

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

4.3 Property, Plant & Equipment

4.3.1 Recognition

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

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

4.3.2 Measurement

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

4.3.3 Cost Model

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

4.3.4 Revaluation Model

The Company applies the revaluation model to the entire class of freehold land. Such properties are carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses. Freehold land of the Company are revalued every three years or more frequently if the fair values are substantially different from carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date. The Company has revalued its freehold land during the year 2018 and details of the revaluation are given in Note 29 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 reserve. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

4.3.5 Subsequent Cost

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

4.3.6 Repairs and Maintenance

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

4.3.7 Capital Work -in -Progress

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

4.3.8 Borrowing Costs

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

4.3.9 De-recognition

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

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

4.3.10 Depreciation

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

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

Category of Asset	Period of Depreciation	
	2018	2017
Office Equipment	15.00% p.a.	15.00% p.a.
Computer Equipment	16.67% p.a	16.67% p.a
Office furniture	15.00% p.a.	15.00% p.a.
Motor Vehicles (except Motor Bicycles)	12.50% p.a.	12.50% p.a.
Motor Bicycles	20.00% p.a.	20.00% p.a.
Fixtures	20.00% p.a.	20.00% p.a.

4.3.11 Change in Estimates

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

4.4 Intangible Assets

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

4.4.1 Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company in accordance with the Sri Lanka Accounting Standard - LKAS 38 on Intangible assets.

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

4.4.2 Subsequent Expenditure

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

4.4.3 Useful Economic life, Amortization and Impairment

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year - end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

4.4.4 Amortization

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

The Class of Intangible Assets	Useful Life	Amortisation Method
Computer software	4 Years	Straight line method

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

4.4.5 Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

4.5 Impairment of Non Financial Assets

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

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

4.6 Dividend Payable

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

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

4.7 Retirement Benefit Obligations

4.7.1 Defined Benefit Plan - Gratuity GRI 201-3

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 GRI 201-3

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, 5% of the net profit for the period is transferred to the Statutory reserve fund during the financial year.

4.9 Provisions

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

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

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

4.10 Recognition of Interest Income Interest Expense

4.10.1 Interest Income and Interest Expense

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

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

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

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

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

4.10.2 Interest Income on Overdue Rentals

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

4.11 Fee and Commission Income and Expenses

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

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

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

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

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

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

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

b) Fee Income from providing transaction services

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

4.12 Other operating income

(a) Dividend Income

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

(b) Recovery of Bad Debts Written Off

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

(c) Other Income

Other income is recognised on an accrual basis.

4.13 Personnel Expenses

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

4.14 Taxes

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

4.14.1 Current tax

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

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

4.14.2 Deferred tax

Deferred tax is 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 34 and Note 35 to the Financial Statements respectively.

4.14.3 Value Added Tax (VAT) on Financial Services

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

Year ended 31 December 2018

4.14.4 Nation Building Tax (NBT) on Financial Services

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

4.14.5 Debt Repayment Levy

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

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

4.14.6 Withholding Tax (WHT) on Dividends

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

4.14.7 Economic Service Charge (ESC)

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

4.15 Regulatory provisions

4.15.1 Deposit Insurance and Liquidity Support Scheme

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

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

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

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

4.15.2 Crop Insurance Levy (CIL)

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

4.16. Earnings per Share (EPS)

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

4.17 Commitments and Contingencies

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

Financial guarantees and undrawn loan commitments

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

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

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

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments are disclosed in Note 44.

5. SRI LANKA ACCOUNTING STANDARDS NOT YET EFFECTIVE AS AT 31 DECEMBER 2018

The following Sri Lanka Accounting Standard has been issued by the Institute of Chartered Accountants of Sri Lanka which is not yet effective as at 31st December 2018. The Company intends to adopt this standard, if applicable, when it becomes effective.

SLFRS 16- LEASES

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

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

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

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

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

Leases in which the Company is a lessee

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

The new standard requires a lessee to:

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

Year ended 31 December 2018

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

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

As at 31 December 2018, the Company's future minimum lease payments under non-cancellable operating leases amounted to Rs. 609.67 Mn on an undiscounted basis, which the Company estimates it will recognise as additional lease liabilities.

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

Transition

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

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

6. TRANSITION DISCLOSURES

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

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

	Reference
Cash and bank balances	
Placements with banks	
Securities purchased under repurchase agreements	
Factoring receivables	
Gold loan receivables	
Loan receivables	
Lease receivables	
Hire purchase receivables	
Other financial assets	
Other non financial assets	
Financial instruments- available for sale	A
Equity instruments at fair value through OCI	A
Financial investments held to maturity	B
Debt instruments at amortised cost	B
Property, plant & equipment	
Intangible assets	
Total Assets	
Liabilities	
Bank overdraft	
Due to other customers	
Debt issued and other borrowed funds	
Other financial liabilities	
Other non financial liabilities	
Current tax liabilities	
Deferred tax liabilities	C
Retirement benefit obligations	
Total Liabilities	
Equity	
Stated capital	
Share application money pending allotment	
Statutory reserve fund	
Revaluation reserve	
Retained earnings	Note 6.2
Total Equity	
Total Liabilities and Equity	

L&R :Loans & receivables

AFS :Available-for-sale

HTM :Held-to-maturity

FVOCI:Fair value through other comprehensive income

	LKAS 39 Measurement		Reclassification	Remeasurement		SLFRS 9	
	Category	Amount Rs. '000	Rs. '000	ECL Rs. '000	Other Rs. '000	Amount Rs. '000	Category
	L&R	297,858	-	(8)	-	297,850	Amortised cost
	L&R	65,699	-	(20)	-	65,679	Amortised cost
	L&R	1,200,981	-	-	-	1,200,981	Amortised cost
	L&R	1,899,702	-	(172,672)	-	1,727,030	Amortised cost
	L&R	2,563,352	-	14,101	-	2,577,453	Amortised cost
	L&R	2,724,776	-	2,284	-	2,727,060	Amortised cost
	L&R	19,873,470	-	(56,255)	-	19,817,215	Amortised cost
	L&R	252,000	-	1,092	-	253,092	Amortised cost
	L&R	268,737	-	3,930	-	272,667	Amortised cost
		196,249	-	-	-	196,249	
	AFS	56	(56)	-	-	-	
		-	56	-	-	56	FVOCI
	HTM	4,303	(4,303)	-	-	-	
		-	4,303	-	-	4,303	Amortised cost
		455,140	-	-	-	455,140	
		8,257	-	-	-	8,257	
		29,810,580	-	(207,548)	-	29,603,032	
	Amortised cost	456,018	-	-	-	456,018	Amortised cost
	Amortised cost	9,333,622	-	-	-	9,333,622	Amortised cost
	Amortised cost	16,310,778	-	-	-	16,310,778	Amortised cost
	Amortised cost	555,630	-	-	-	555,630	Amortised cost
		219,815	-	-	-	219,815	
		91,800	-	-	-	91,800	
		331,469	-	(58,113)	-	273,356	
		33,163	-	-	-	33,163	
		27,332,295	-	(58,113)	-	27,274,182	
		635,917	-	-	-	635,917	
		-	-	-	-	-	
		113,000	-	-	-	113,000	
		56,823	-	-	-	56,823	
		1,672,545	-	(149,435)	-	1,523,110	
		2,478,285	-	(149,435)	-	2,328,850	
		29,810,580	-	(207,548)	-	29,603,032	

A. Financial assets previously classified under available for sale category have been reclassified as financial assets fair value through other comprehensive income (FVOCI) upon adoption of SLFRS 9.

B. As of 1 January 2018, the Company elected to classify its previous held to maturity financial investments as debt instruments measured at amortised cost since these instruments met the "Solely Payments of Principal and Interest" (SPPI) criterion.

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

Year ended 31 December 2018

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

	Retained earnings Rs.'000
Closing balance under LKAS 39 as at 31st December 2017	1,672,544
Remeasurement adjustments on adoption of SLFRS 9	
Impact of expected credit losses under SLFRS 9	(207,548)
Deferred tax impact on above	58,113
Total change in equity due to adoption of SLFRS 9	(149,435)
Opening balance under SLFRS 9 as at 1st January 2018	1,523,109

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

	Note	Loan loss provision under LKAS 39 as at 31 December 2017	Re-measurement	ECLs under SLFRS 9 as at 1 January 2018
Cash and bank balances	18.1	-	8	8
Placements with banks	19.1	-	20	20
Factoring receivables	21.4	158,044	172,672	330,716
Gold loan receivables	22.3	19,707	(14,101)	5,606
Loan receivables	23.4	34,387	(2,284)	32,103
Lease receivables	24.5	271,554	56,255	327,809
Hire purchase receivables	25.5	39,373	(1,092)	38,281
Provision for repossessed stock	26.1	143,301	-	143,301
Provision for insurance premium receivables	26	3,930	(3,930)	-
		670,296	207,548	877,844

7. NET INTEREST INCOME

7.1 Interest income

	2018 Rs.'000	2017 Rs.'000
Interest income on lease receivables	**4,231,110**	2,879,685
Interest income on hire purchase receivables	**20,453**	86,018
Interest income on factoring receivables	**413,110**	420,241
Interest income accrued on impaired financial assets	**9,763**	1,418
Interest income on loan receivables	**541,223**	373,244
Interest income on gold loan receivables	**679,281**	497,168
Interest income on government securities	**156,362**	128,380
Interest income on overdue rentals	**326,368**	200,953
Interest income on staff loans	**17,253**	10,627
Interest income on placements with banks	**975**	1,736
Total interest income	**6,395,898**	4,599,470

7.2 Interest expenses

	2018 Rs.'000	2017 Rs.'000
Bank overdraft	15,641	6,316
Short term borrowings	510,729	374,846
Customer deposits	1,090,191	708,135
Long term borrowings	1,515,209	1,221,121
Redeemable debentures	548,290	453,872
Total interest expenses	3,680,060	2,764,290
Net interest income	2,715,838	1,835,180

8. NET FEE AND COMMISSION INCOME

	2018 Rs.'000	2017 Rs.'000
Documentation charges	72,370	50,842
Insurance commission	85,960	66,589
Service charges-Gold loan	106,774	112,227
Processing fees	11,871	13,461
Other fee & commission income	1,663	780
Total fee and commission income	278,637	243,899
Fee and commission expenses		
Guarantee fee	21	680
Total fee and commission expenses	21	680
Net fee and commission income	278,616	243,219

9. OTHER OPERATING INCOME

	2018 Rs.'000	2017 Rs.'000
Profit on early terminations	229,536	177,806
Profit on disposal of motor vehicles	765	1,723
Recovery of bad debts written off	1,386	1,609
Recovery of charges	38,898	27,621
Sundry income	18,259	13,926
Total other operating income	288,844	222,685

Year ended 31 December 2018

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 2018 recorded in the income statement.

	2018 Rs.'000 Stage 1	2018 Rs.'000 Stage 2	2018 Rs.'000 Stage 3	2018 Rs.'000 Total
Lease receivables	(21,978)	16,704	291,973	286,699
Hire purchase receivables	(129)	(226)	(4,801)	(5,156)
Factoring receivables	(18,546)	(9,768)	323,445	295,131
Loan receivables	(124)	(3,050)	216,977	213,803
Gold loan receivables	3,370	1,676	(152)	4,894
Repossessed stock	-	-	34,404	34,404
Bank balances and placements with banks	(24)	-	-	(24)
	(37,431)	5,336	861,846	829,751

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

	2017 Rs.'000 Individual	2017 Rs.'000 Collective	2017 Rs.'000 Total
Lease receivables	-	121,571	121,571
Hire purchase receivables	-	(930)	(930)
Factoring receivables	64,109	4,747	68,856
Loan receivables	5,296	28,238	33,534
Gold loan receivables	-	7,298	7,298
Repossessed stock	-	5,411	5,411
Other loans	-	1,004	1,004
	69,405	167,339	236,744

11. PERSONNEL EXPENSES

	2018 Rs.'000	2017 Rs.'000
Salaries and bonus	595,421	513,623
Contribution to defined contribution plan	54,692	45,577
Gratuity charge for the year	11,921	9,175
Others	71,232	42,998
	733,266	611,373

12. OTHER OPERATING EXPENSES

	2018 Rs.'000	2017 Rs.'000
Directors' emoluments	25,722	18,106
Auditors' remuneration	1,266	1,541
Non- audit fees to auditors	2,994	2,646
Professional & legal expenses	21,431	10,894
Depreciation on property, plant & equipment	52,426	49,839
Amortization of intangible assets	14,023	6,224
Deposit insurance premium	11,993	8,035
Donations	1,000	-
Operating lease expenses	94,006	83,853
Office administration & establishment expenses	208,102	149,776
Advertising expenses	89,167	54,981
Other expenses	73,103	51,022
	595,233	436,917

13. TAXES ON FINANCIAL SERVICES

	2018 Rs.'000	2017 Rs.'000
Value added tax on financial services	228,834	201,414
Nation building tax on financial services	32,437	29,396
Debt repayment levy on financial services	29,988	-
	291,259	230,810

14. INCOME TAX EXPENSE

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

Income statement	2018 Rs.'000	2017 Rs.'000
Current tax expense		
Income tax for the year	165,451	148,566
Under/ (Over) provision of current taxes in respect of previous years	(3,977)	(1,942)
	161,474	146,624
Deferred tax expense		
Deferred taxation charge (refer note 35)	155,794	139,754
	317,268	286,378
Effective tax rate	38.05%	36.47%

Year ended 31 December 2018

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

	2018 Rs.'000	2017 Rs.'000
Accounting profit before income taxation	833,789	785,240
At the statutory income tax rate of 28%	233,461	219,867
Tax effect of non deductible expenses	106,040	27,426
Tax effect of other allowable credits	(46,345)	(98,727)
Tax effect of exempt income	-	-
Tax effect of losses claimed	(127,705)	-
Under/ (Over) provision of current taxes in respect of previous years	(3,977)	(1,942)
Deferred tax expense	155,794	139,754
	317,268	286,378

The Company's income is taxed at the rate of 28% during the years 2018 and 2017.

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

	2018	2017
Profit attributable to ordinary shareholders (Rs. 000)	516,521	498,862
Weighted average number of ordinary shares during the year (15.1)	60,651,183	57,346,388
Basic/Diluted earnings per ordinary share- (Rs.)	8.52	8.70

15.1 Weighted average number of ordinary shares (basic)

	Outstanding No: of Shares		Weighted Average No: of Shares	
	2018	2017	2018	2017
Number of shares in issue as at 01 January	55,777,146	54,124,726	55,777,146	54,124,726
Add:Number of shares issued due to scrip dividend 2017	-	1,652,420	-	1,652,420
	55,777,146	55,777,146	55,777,146	55,777,146
Add:Number of shares issued due to scrip dividend 2018	1,569,242	1,569,242	1,569,242	1,569,242
Add:Number of shares issued under rights issue 2018	6,250,000	-	3,304,795	-
Number of shares in issue/weighted average number of ordinary shares at 31st December	63,596,388	57,346,388	60,651,183	57,346,388

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

16. DIVIDEND PAID

	2018	2017
Scrip dividends paid (Rs. 000)	69,721	65,491
Number of Ordinary Shares	55,777,146	54,124,726
Dividends per Ordinary Share (Rs.)	1.25	1.21

A scrip dividend of Rs. 1.25 per share for the year 2017 was paid in March 2018. (a scrip dividend of Rs. 1.21 per share for the year 2016 was paid in March 2017)

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 December 2018	Amortised Cost Rs.'000	Equity instruments- FVOCI Rs.'000	Total Rs.'000
Financial Assets			
Cash and bank balances	191,556	-	191,556
Securities purchased under repurchase agreements	1,768,461	-	1,768,461
Factoring receivables	1,332,310	-	1,332,310
Gold loan receivables	3,548,666	-	3,548,666
Loan Receivables	2,481,575	-	2,481,575
Lease receivables	25,601,932	-	25,601,932
Hire purchase receivables	48,525	-	48,525
Other assets	370,267	-	370,267
Equity instruments at fair value through OCI	-	56	56
Debt instruments at amortised cost	4,319	-	4,319
Total Financial Assets	35,347,611	56	35,347,667
Financial Liabilities			
Bank overdraft	321,821	-	321,821
Due to other customers	9,672,008	-	9,672,008
Debt issued and other borrowed funds	21,391,367	-	21,391,367
Other payables	398,769	-	398,769
Total Financial Liabilities	31,783,965	-	31,783,965

Year ended 31 December 2018

17.1 Analysis of Financial Instruments by Measurement Basis (Contd.)

	Amortised Cost Rs.'000	Held to Maturity Rs.'000	Available For Sale Rs.'000	Total Rs.'000
Financial Assets				
Cash and bank balances	297,858	-	-	297,858
Placements with banks	65,699	-	-	65,699
Securities purchased under repurchase agreements	1,200,981	-	-	1,200,981
Factoring receivables	1,899,702	-	-	1,899,702
Gold loan receivables	2,563,352	-	-	2,563,352
Loan Receivables	2,724,776	-	-	2,724,776
Lease receivables	19,873,470	-	-	19,873,470
Hire purchase receivables	252,000	-	-	252,000
Other assets	268,737	-	-	268,737
Financial instruments- Available for sale	-	-	56	56
Financial investments- Held to maturity	-	4,303	-	4,303
Total Financial Assets	29,146,575	4,303	56	29,150,934
Financial Liabilities				
Bank overdraft	456,018	-	-	456,018
Due to other customers	9,333,622	-	-	9,333,622
Debt issued and other borrowed funds	16,310,778	-	-	16,310,778
Other payables	555,630	-	-	555,630
Total Financial Liabilities	26,656,048	-	-	26,656,048

18. CASH AND BANK BALANCES

	2018 Rs.'000	2017 Rs.'000
Cash in hand	159,797	272,766
Balances with local banks	31,762	25,092
Less: Allowance for expected credit losses	(4)	-
	191,556	297,858

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

	2018 Rs.'000 Stage 1	2018 Rs.'000 Total
Balance as at 01st January	8	8
Charge/(Reversal) for the year	(4)	(4)
Balance as at 31st December	4	4

19. PLACEMENTS WITH BANKS

	2018 Rs.'000	2017 Rs.'000
Placements with banks	-	65,699
Less: Allowance for expected credit losses	-	-
	-	65,699

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

	2018 Rs.'000 Stage 1	2018 Rs.'000 Total
Balance as at 01st January	20	20
Charge/(Reversal) for the year	(20)	(20)
Balance as at 31st December	-	-

20. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

	2018 Rs.'000	2017 Rs.'000
Securities purchased under repurchase agreements	1,768,461	1,200,981
	1,768,461	1,200,981

21. FACTORING RECEIVABLES

	2018 Rs.'000	2017 Rs.'000
Factoring receivables	1,948,385	2,057,746
Less: VAT suspense	(166)	-
Gross factoring receivable	1,948,219	2,057,746
Less : Allowance for expected credit losses/ individual impairment(Note 21.2)	(586,145)	(151,166)
Allowance for expected credit losses/ collective impairment(Note 21.3)	(29,764)	(6,878)
	1,332,310	1,899,702

Year ended 31 December 2018

21.1 Analysis of factoring receivables on maximum exposure to credit risk

As at 31 December 2018	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individually impaired factoring receivables	566,780	188,699	1,028,540	**1,784,019**
Factoring receivables subject to collective impairment	162,871	1,329	-	**164,200**
Gross factoring receivables	729,651	190,028	1,028,540	**1,948,219**
Allowance for expected credit losses(ECL)	(21,898)	(8,819)	(585,192)	**(615,909)**
	707,753	181,209	443,348	**1,332,310**

21.2 Allowance for expected credit losses/Impairment

Individually impaired loans	2018 Rs.'000	2017 Rs.'000
Balance as at 01st January	**151,166**	88,475
Charge/ (Reversal) to income statement	**444,917**	64,109
Write-off during the year	**(175)**	-
Interest income accrued on impaired loans(Note 7.1)	**(9,763)**	(1,418)
Balance as at 31st December	**586,145**	151,166

21.3 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2018 Rs.'000	2017 Rs.'000
Balance as at 01st January	**6,878**	2,131
Impact of adoption of SLFRS 09 as at 01st January 2018 (Note 6)	**172,672**	-
	179,550	2,131
Charge/ (Reversal) to income statement	**(149,786)**	4,747
Balance as at 31st December	**29,764**	6,878

21.4 Movement in allowance for expected credit losses

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Balance as at 01 January 2018	40,444	18,587	271,685	**330,716**
Charge/ (Reversal) to income statement (Note 10.1)	(18,546)	(9,768)	323,445	**295,131**
Write-off during the year	-	-	(175)	**(175)**
Interest income accrued on impaired loans(Note 7.1)	-	-	(9,763)	**(9,763)**
Balance as at 31st December 2018	21,898	8,819	585,192	**615,909**

22. GOLD LOAN RECEIVABLES

	2018 Rs.'000	2017 Rs.'000
Gold loan receivables	3,559,166	2,583,059
Less : Allowance for expected credit losses/ collective impairment (Note 22.2)	(10,500)	(19,707)
	3,548,666	2,563,352

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

As at 31 December 2018	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross factoring receivables- subject to collective impairment	2,636,087	895,841	27,238	3,559,166
Allowance for expected credit losses (ECL)	(5,177)	(4,027)	(1,296)	(10,500)
	2,630,910	891,814	25,942	3,548,666

22.2 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2018 Rs.'000	2017 Rs.'000
Balance as at 01st January	19,707	12,409
Impact of adoption of SLFRS 09 as at 01st January 2018 (Note 6)	(14,101)	-
	5,606	12,409
Charge/ (Reversal) to income statement	4,894	7,298
Balance as at 31st December	10,500	19,707

22.3 Movement in allowance for expected credit losses

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Balance as at 01st January 2018	1,807	2,351	1,448	5,606
Charge/ (Reversal) to income statement (Note 10.1)	3,370	1,676	(152)	4,894
Balance as at 31st December 2018	5,177	4,027	1,296	10,500

Year ended 31 December 2018

23. LOAN RECEIVABLES

	2018 Rs.'000	2017 Rs.'000
Revolving loan receivables	190,132	287,394
Vehicle loan receivables	18,602	76,114
Personal/Business loan receivables	2,518,747	2,395,655
Gross loan receivables	2,727,481	2,759,163
Less : Allowance for expected credit losses/ individual impairment(Note 23.2)	(94,778)	(5,296)
Less : Allowance for expected credit losses/ collective impairment(Note 23.3)	(151,128)	(29,091)
	2,481,575	2,724,776

23.1 Analysis of loan receivables on maximum exposure to credit risk

As at 31 December 2018	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individually impaired loan receivables	52,964	83,678	317,241	453,883
Loan receivables subject to collective impairment	1,190,819	389,615	693,164	2,273,598
Allowance for expected credit losses(ECL)	(7,479)	(7,817)	(230,610)	(245,906)
	1,236,304	465,476	779,795	2,481,575

23.2 Allowance for expected credit losses/Impairment

Individually impaired loans	2018 Rs.'000	2017 Rs.'000
Balance as at 01st January	5,296	-
Charge/ (Reversal) to income statement	89,482	5,296
Balance as at 31st December	94,778	5,296

23.3 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2018 Rs.'000	2017 Rs.'000
Balance as at 01st January	29,091	853
Impact of adoption of SLFRS 09 as at 01st January 2018 (Note 6)	(2,284)	-
	26,807	853
Charge/ (Reversal) to income statement	124,321	28,238
Balance as at 31st December	151,128	29,091

23.4 Movement in allowance for expected credit losses

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Balance as at 01st January 2018	7,603	10,867	13,633	**32,103**
Charge/ (Reversal) to income statement (Note 10.1)	(124)	(3,050)	216,977	**213,803**
Balance as at 31st December 2018	7,479	7,817	230,610	**245,906**

24. LEASE RECEIVABLES

At Amortized cost	2018 Rs.'000	2017 Rs.'000
Total lease rentals receivable	**35,056,721**	27,038,685
Less: Unearned lease interest income	**(8,834,535)**	(6,887,798)
Less: VAT suspense	**(5,562)**	(5,679)
Less: Prepaid rentals	**(184)**	(184)
Gross lease receivable	**26,216,440**	20,145,024
Less: Allowance for expected credit losses/ collective impairment(Note 24.4)	**(614,508)**	(271,554)
Net lease receivable (Note 24.1 & 24.2)	**25,601,932**	19,873,470

Lease receivables include receivables amounting to Rs. 18,436,792,074/- (2017- Rs. 15,972,916,787/-) that have been assigned under securitization & term loan funding arrangement.

24.1 Maturity analysis of net lease receivable

As at 31 December 2018	1 Year Rs.'000	1- 5 Year Rs.'000	More than 5 Year Rs.'000	Total Rs.'000
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	12,998,466	21,949,068	103,441	**35,050,975**
Less: Unearned lease interest income	(3,958,527)	(4,868,635)	(7,373)	**(8,834,535)**
Gross lease receivable	9,039,939	17,080,433	96,068	**26,216,440**
Less: Allowance for expected credit losses	(211,625)	(400,530)	(2,353)	**(614,508)**
Net lease receivable	8,828,314	16,679,903	93,715	**25,601,932**

24.2 Maturity analysis of net lease receivable

As at 31 December 2017	1 Year Rs.'000	1- 5 Year Rs.'000	More than 5 Year Rs.'000	Total Rs.'000
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	9,455,211	17,522,892	54,719	27,032,822
Less: Unearned lease interest income	(3,096,781)	(3,787,154)	(3,863)	(6,887,798)
Gross lease receivable	6,358,430	13,735,738	50,856	20,145,024
Less: Provision for collective impairment	(86,409)	(184,449)	(696)	(271,554)
Net lease receivable	6,272,021	13,551,289	50,160	19,873,470

Year ended 31 December 2018

24.3 Analysis of lease receivables on maximum exposure to credit risk

As at 31 December 2018	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross lease receivables- subject to collective impairment	16,689,192	6,752,948	2,774,300	**26,216,440**
Allowance for expected credit losses(ECL)	(39,697)	(89,466)	(485,345)	**(614,508)**
	16,649,495	6,663,482	2,288,955	**25,601,932**

24.4 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2018 Rs.'000	2017 Rs.'000
Balance as at 01st January	**271,554**	149,983
Impact of adoption of SLFRS 09 as at 01st January 2018 (Note 6)	**56,255**	-
	327,809	149,983
Charge/ (Reversal) to income statement	**286,699**	121,571
Balance as at 31st December	**614,508**	271,554

24.5 Movement in allowance for expected credit losses

As at 31 December 2018	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Balance as at 01st January 2018	61,675	72,762	193,372	**327,809**
Charge/ (Reversal) to income statement (Note 10.1)	(21,978)	16,704	291,973	**286,699**
Balance as at 31st December 2018	39,697	89,466	485,345	**614,508**

25. HIRE PURCHASE RECEIVABLES

	2018 Rs.'000	2017 Rs.'000
Total hire purchase rentals receivable	**84,656**	318,938
Less: Unearned hire purchase interest income	**(3,006)**	(27,565)
Gross hire purchase receivable	**81,650**	291,373
Less: Allowance for expected credit losses/ collective impairment(Note 25.4)	**(33,125)**	(39,373)
Net hire purchase receivable (Note 25.1 & 25.2)	**48,525**	252,000

Hire purchase receivables include receivables amounting to Rs.38,820,419/-(2017-Rs.245,390,695/-) that have been assigned under a securitization & term loan funding arrangement.

25.1 Maturity analysis of net hire purchase receivable

As at 31 December 2018	1 Year Rs.'000	1- 5 Year Rs.'000	More than 5 Year Rs.'000	Total Rs.'000
Total hire purchase rentals receivable	79,287	3,284	2,085	84,656
Less: Unearned hire purchase interest income	(2,369)	(535)	(102)	(3,006)
Gross hire purchase receivable	76,918	2,749	1,983	81,650
Less: Allowance for expected credit losses	(30,977)	(1,435)	(713)	(33,125)
	45,941	1,314	1,270	48,525

25.2 Maturity analysis of net hire purchase receivable

As at 31 December 2017	1 Year Rs.'000	1- 5 Year Rs.'000	More than 5 Year Rs.'000	Total Rs.'000
Total hire purchase rentals receivable	253,540	65,398	-	318,938
Less: Unearned hire purchase interest income	(24,062)	(3,503)	-	(27,565)
Gross hire purchase receivable	229,478	61,895	-	291,373
Less: Provision for collective impairment	(31,308)	(8,065)	-	(39,373)
	198,170	53,830	-	252,000

25.3 Analysis of hire purchase receivables on maximum exposure to credit risk

As at 31 December 2018	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross hire purchase receivables- subject to collective impairment	26,346	11,337	43,967	**81,650**
Allowance for expected credit losses(ECL)	(16)	(17)	(33,092)	**(33,125)**
	26,330	11,320	10,875	**48,525**

25.4 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2018 Rs.'000	2017 Rs.'000
Balance as at 01st January	**39,373**	40,303
Impact of adoption of SLFRS 09 as at 01st January 2018 (Note 6)	**(1,092)**	-
	38,281	40,303
Charge/ (Reversal) to income statement	**(5,156)**	(930)
Balance as at 31st December	**33,125**	39,373

Year ended 31 December 2018

25.5 Movement in allowance for expected credit losses

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Balance as at 01st January 2018	145	243	37,893	**38,281**
Charge/ (Reversal) to income statement (Note 10.1)	(129)	(226)	(4,801)	**(5,156)**
Balance as at 31st December 2018	16	17	33,092	**33,125**

26. OTHER ASSETS

	2018 Rs.'000	2017 Rs.'000
Financial Assets		
Repossessed stock	177,654	143,301
Less: Provision for repossessed stock (Note 26.1)	(177,654)	(143,301)
Insurance premium receivable	191,068	146,088
Less: Provision for insurance premium receivable	-	(3,930)
Staff loan	171,420	107,803
Less: Staff loan fair value adjustment	(23,716)	(13,237)
Insurance commission receivable	23,902	21,086
Other financial assets	7,593	10,927
	370,267	268,737
Non Financial Assets		
Pre paid expenses	50,767	54,896
Pre-paid staff cost	23,716	13,237
Advance payments	4,546	68,329
Inventories	2,646	2,901
Taxes receivable	22,730	48,171
Other non financial assets	14,884	8,715
	119,289	196,249
	489,556	464,986

26.1 Movement in provision for repossessed stock

As at 31 December 2018	Lease Rs.'000	Hire purchase Rs.'000	Loan Rs.'000	Factoring Rs.'000	Total Rs.'000
Balance as at 01st January	105,619	31,083	4,941	1,658	143,301
Charge/ (Reversal) during the Year	33,315	498	(40)	631	34,404
Other movements	-	-	-	(51)	(51)
Balance as at 31st December	138,934	31,581	4,901	2,239	177,654

As at 31 December 2017	Lease Rs.'000	Hire purchase Rs.'000	Loan Rs.'000	Factoring Rs.'000	Total Rs.'000
Balance as at 01st January	100,531	31,183	4,920	1,256	137,890
Charge/ (Reversal) during the Year	5,088	(100)	21	402	5,411
Other movements	-	-	-	-	-
Balance as at 31st December	105,619	31,083	4,941	1,658	143,301

Repossessed stock of the Company and the corresponding ECL allowances are grouped under Stage 3.

27. FINANCIAL INSTRUMENTS -FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE FOR SALE

	2018 Rs.'000	2017 Rs.'000
Financial instruments- available-for-sale	-	56
Equity instruments at fair value through OCI	56	-
	56	56

Unquoted available for sale investments/equity instruments at FVOCI are recorded at cost, since there is no market value for these investments and the company intends to hold them for the long run.

In 2018, the Company received dividends of Rs.240,000/-(2017-Rs.180,000/-) from these unquoted equity investments, recorded as other operating income.

28. FINANCIAL INVESTMENTS- HELD TO MATURITY/DEBT INSTRUMENTS AT AMORTISED COST

	2018 Rs.'000	2017 Rs.'000
Financial investments held to maturity	-	4,303
Debt instruments at amortised cost	4,319	-
	4,319	4,303

The Company has classified its investments in government debt securities-Treasury bonds previously classified as financial investments held to maturity as debt instruments at amortised cost.

Year ended 31 December 2018

29. PROPERTY, PLANT AND EQUIPMENT

29.1 Cost/Valuation

	Balance as at 31.12.2017 Rs.'000	Additions Rs.'000	Revaluation surplus Rs.'000	Disposals Rs.'000	Balance as at 31.12.2018 Rs.'000
Freehold Land	283,000	-	70,750	-	**353,750**
Fixtures	128,413	27,234	-	-	**155,647**
Office furniture	30,180	6,524	-	-	**36,704**
Office equipment	64,428	11,883	-	-	**76,311**
Motor vehicles	11,471	980	-	(3,922)	**8,529**
Computer equipment	88,161	6,853	-	-	**95,014**
Capital work-in progress	16,128	88,481	-	-	**104,609**
Total Cost/ Valuation	621,781	141,955	70,750	(3,922)	**830,564**

29.2 Accumulated Depreciation

	Balance as at 31.12.2017 Rs.'000	Charge for the year Rs.'000	Disposals Rs.'000	Balance as at 31.12.2018 Rs.'000
Freehold Land	-	-	-	**-**
Fixtures	65,143	25,696	-	**90,839**
Office furniture	15,844	4,050	-	**19,894**
Office equipment	31,233	9,302	-	**40,535**
Motor vehicles	10,196	953	(3,905)	**7,244**
Computer equipment	44,225	12,425	-	**56,650**
Capital work-in progress	-	-	-	**-**
	166,641	52,426	(3,905)	**215,162**

29.3 Net book values

	2018 Rs.'000	2017 Rs.'000
Freehold Land	**353,750**	283,000
Fixtures	**64,808**	63,270
Office furniture	**16,810**	14,336
Office equipment	**35,776**	33,195
Motor vehicles	**1,285**	1,275
Computer equipment	**38,364**	43,936
Capital work-in progress	**104,609**	16,128
	615,402	455,140
Total carrying amount of Property, Plant & Equipment	**615,402**	455,140

29.4 During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs.141.96 Million (2017 Rs.68.45 Million).

Cost of fully depreciated assets of the Company which are still in use as at 31 December 2018 is Rs.79.34 Million (2017 - Rs.44.16 Million).

29.5 Fair value related disclosures of freehold land

Freehold land located at 534, Baudhaloka Mawatha, Colombo 08 is carried at the revalued amount, being the fair value at the valuation date less any subsequent accumulated impairment losses. The independent valuers provide the fair value of land and buildings once in three years or more frequently if the fair values are substantially different from carrying amounts according to the Company policy. Therefore the fair value exist in the recent valuation (31 December 2018) which was carried out by professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard-SLFRS 13 (Fair Value Measurement) less subsequent impairment losses considered as the fair value exist as at the reporting date (31 December 2018).

Fair value hierarchy

The fair value of the Company's freehold land 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.

	Rs.'000
Balance at 1 January 2018	283,000
Acquisition	-
Changes in fair value	70,750
Balance at 31 December 2018	353,750

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) 2018
Market Comparable Method	Estimated price per perch	Rs. 5 Million-Rs.15 Million
	Land extent: 28.3 perches	

29.6 The carrying value of Company's revalued freehold land,if it was carried at cost,would be as follows.

	2018 Cost Rs.'000	2018 Carrying Value Rs.'000	2017 Cost Rs.'000	2017 Carrying Value Rs.'000
Freehold Land	204,079	204,079	204,079	204,079
	204,079	204,079	204,079	204,079

Year ended 31 December 2018

30. INTANGIBLE ASSETS

	2018 Rs.'000	2017 Rs.'000
Cost as at 01 January	52,426	46,434
Additions and improvements	89,738	5,992
Cost as at 31 December	142,164	52,426
Amortisation as at 01 January	44,169	37,945
Amortisation for the year	14,023	6,224
Accumulated amortisation as at 31 December	58,192	44,169
Net book value as at 31 December	83,972	8,257

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs. 89.73 Million (2017 - Rs. 5.99 million).Cost of fully amortised intangible assets of the Company as at 31 December 2018 is Rs. 40.2 Million (2017 - Rs. 34.13 Million). Useful life of the above is estimated as 4 years.

31. DUE TO OTHER CUSTOMERS

	2018 Rs.'000	2017 Rs.'000
Fixed deposits	9,623,744	9,323,604
Saving deposits	48,264	10,018
	9,672,008	9,333,622

32. DEBT ISSUED AND OTHER BORROWED FUNDS

	2018 Rs.'000	2017 Rs.'000
Loans (32.2)	16,731,432	11,651,511
Redeemable debentures (32.3)	4,659,935	4,659,267
	21,391,367	16,310,778

The Company has not had any default of principal, interest of other breaches with regard to any liability during 2017 and 2018.

32.1 Movement in Debt issued and other borrowed funds

	2017 Rs.'000	Grantings/ Accrual Rs.'000	Repayments Rs.'000	2018 Rs.'000
Long-term borrowings	10,039,631	8,350,000	(5,821,539)	12,568,092
Short-term borrowings	1,575,000	2,525,000	-	4,100,000
Redeemable debentures	4,500,000	-	-	4,500,000
Capital outstanding of debt issued and other borrowed funds	16,114,631	10,875,000	(5,821,539)	21,168,092
Interest on debt issued and other borrowed funds	196,147	2,589,869	(2,562,741)	223,275
	16,310,778	13,464,869	(8,384,280)	21,391,367

32.2 Loan-on terms

	Period	Amortised Cost	
		2018 Rs.'000	2017 Rs.'000
Short term loans			
Sampath Bank PLC	01 Month	1,754,504	-
Hatton National Bank PLC	03 Months	754,541	-
Muslim Commercial Bank	03 Months	100,038	200,200
Nations Trust Bank PLC	03 Months	1,510,505	1,381,676
		4,119,588	1,581,876
Long term loans			
Sampath Bank PLC	60 Months	3,495,514	1,487,204
Commercial Bank PLC	36-60 Months	2,573,082	3,181,336
Hatton National Bank PLC	60 Months	3,236,180	2,267,796
Nations Trust Bank PLC	60 Months	-	114,828
Seylan Bank PLC	60 Months	3,156,258	2,141,920
Union Bank PLC	60 Months	-	675,369
Muslim Commercial Bank	60 Months	150,810	201,182
		12,611,844	10,069,635
		16,731,432	11,651,511

The above short term loans and long term loans were institution wise aggregated values as at 31 December 2018 and 31 December 2017.

Year ended 31 December 2018

32.2.1 Loans - on maturity

	Payable within 1 year Rs.'000	Payable after 1 year Rs.'000	Total Rs.'000
Short term loans & long term loans payable	9,202,084	7,529,348	16,731,432
	9,202,084	7,529,348	16,731,432

32.3 Redeemable debentures - movement

	2018 Rs.'000	2017 Rs.'000
Balance as at 01st January	4,500,000	3,500,000
Debentures issued	-	1,000,000
	4,500,000	4,500,000
Interest payable	703,658	565,656
Interest paid	(543,723)	(406,389)
Balance as at 31st December	4,659,935	4,659,267

32.3.1 Redeemable debentures - maturity

	Payable within 1 year Rs.'000	Payable after 1 year Rs.'000	Total Rs.'000
Debentures payable	2,581,925	2,078,010	4,659,935
	2,581,925	2,078,010	4,659,935

32.3.2 Details of debentures issued

					Amortized Cost	
	No of Debentures	Issue Date	Maturity Date	Rate of interest	2018 Rs.'000	2017 Rs.'000
Rated unsecured subordinated redeemable debentures	10,000,000	24-Dec-14	24-Dec-19	8.90%	1,036,223	1,035,555
Rated unsecured senior redeemable debentures						
Type A	14,219,900	20-Sep-16	20-Sep-19	13.00%	1,474,156	1,474,156
Type B	10,780,100	20-Sep-16	20-Sep-21	13.50%	1,119,077	1,119,077
Rated unsecured subordinated redeemable debentures	10,000,000	4-Oct-17	4-Oct-22	12.50%	1,030,479	1,030,479
					4,659,935	4,659,267

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

33. OTHER PAYABLES

	2018 Rs.'000	2017 Rs.'000
Financial Liabilities		
Vendor payable	147,980	346,901
Insurance premium payable	119,113	107,429
Other financial liabilities	131,676	101,300
	398,769	555,630
Non Financial Liabilities		
VAT payable	-	2,744
Other taxes payable	116,496	106,880
Accrued expenses	34,950	30,444
Deposit insurance premium	1,050	1,061
Deferred guarantee income	49	3
Other non financial liabilities	49,422	78,683
	201,967	219,815
	600,736	775,445

34. CURRENT TAX LIABILITIES

	2018 Rs.'000	2017 Rs.'000
Balance as at 1st January	91,800	61,257
Less: Tax paid	(39,761)	(58,749)
Adjustment (ESC/WHT/Notional Tax etc.)	(64,498)	(57,332)
Provision for the year (Note 14)	161,474	146,624
Balance as at 31st December	149,015	91,800

34.1 Notional tax credit on secondary market transactions

As per the Section 137 of the Inland Revenue Act No.10 of 2006 (Applicable up to 31 March 2018),any company which derives income from secondary market transactions involving any security or treasury bonds or treasury bills on which the income tax has been deducted at the rate of 10% at the time of issue of such security, is entitled to a notional tax credit at 10% of the grossed up amount of net interest income from such secondary market transactions to an amount of one ninth of the same. Accordingly, the net interest income earned by the Company from such transactions has been grossed up in the Financial Statements for the year ended 31 December 2018 and the notional tax credit amounts to Rs. 4.12 Million(2017-Rs. 12.84 Million).

Year ended 31 December 2018

35. DEFERRED TAX LIABILITIES/(ASSETS)

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

	Accelerated depreciation for tax purposes						
	Property, plant & equipment Rs.'000	Leased assets Rs.'000	Provision for loan losses Rs.'000	Revaluation on land Rs.'000	Retirement benefit obligation Rs.'000	Tax losses on leasing operation Rs.'000	Total Rs.'000
Balance as at 1 January 2017	74,953	587,323	(38,721)	-	(6,443)	(447,024)	170,088
Income statement (Note 14.1)	(5,657)	387,220	7,450	-	(2,371)	(246,888)	139,754
Other comprehensive income	-	-	-	22,098	(471)	-	21,627
Balance as at 31 December 2017	69,296	974,543	(31,271)	22,098	(9,285)	(693,912)	331,469
Balance as at 31 December 2017	69,296	974,543	(31,271)	22,098	(9,285)	(693,912)	331,469
Impact of adoption of SLFRS 9 (Note 6)	-	-	(58,113)	-	-	-	(58,113)
Balance as at 1 January 2018	69,296	974,543	(89,384)	22,098	(9,285)	(693,912)	273,356
Income statement(Note 14.1)	(49,272)	(481,651)	(4,417)	-	(2,778)	693,912	155,794
Other comprehensive income	-	-	-	19,810	643	-	20,453
Balance as at 31 December 2018	20,024	492,892	(93,801)	41,908	(11,420)	-	449,603

36. RETIREMENT BENEFIT OBLIGATIONS

An actuarial valuation of the gratuity fund of the Company was carried out as at 31 December 2018 by Messrs. Piyal S Goonethilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Actuarial Cost Method", recommended by Sri Lanka Accounting Standard-LKAS 19 (Employee Benefits).

36.1 Defined benefit obligation reconciliation

	2018 Rs.'000	2017 Rs.'000
Balance as at 01st January	**33,163**	23,013
Amount recognised in the income statement (36.2)	**11,921**	9,175
Amounts recognised in other comprehensive income (36.3)	**(2,295)**	1,683
Benefits paid by the plan	**(2,000)**	(708)
Balance as at 31st December	**40,789**	33,163

36.2 Amount recognised in the Income Statement

	2018 Rs.'000	2017 Rs.'000
Current service cost for the year	**8,459**	6,413
Interest on the defined benefit liability	**3,462**	2,762
Total amount recognised in income statement	**11,921**	9,175

36.3 Amount recognised in Other Comprehensive Income

	2018 Rs.'000	2017 Rs.'000
Liability (gains)/losses due to changes in assumptions	(3,362)	48
Liability experience (gains)/losses arising during the year	1,067	1,635
Total amount recognized in OCI	(2,295)	1,683

36.4 Assumptions

	2018	2017
Discount rate	12.23%	10.44%
Future salary increment rate	10.00%	9.44%
Mortality	GA 1983	GA 1983
	Mortality Table	Mortality Table
Retirement age	Normal retirement age, or age on valuation date, if greater	Normal retirement age, or age on valuation date, if greater

Expected average future working life of the active participants is 14.1 years. (2017: 11.1 years).

36.5 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.

		2018		2017	
Variable	Rate Change	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%	(4.51 Million)	4.51 Million	(3.62 Million)	3.62 Million
Discount rate	-1.00%	5.31 Million	(5.31 Million)	4.26 Million	(4.26 Million)
Salary Increment rate	1.00%	5.26 Million	(5.26 Million)	4.18 Million	(4.18 Million)
Salary Increment rate	-1.00%	(4.55 Million)	4.55 Million	(3.63 Million)	3.63 Million

37. STATED CAPITAL

	2018		2017	
	No. of Shares	Rs.'000	No. of Shares	Rs.'000
Issued and Fully Paid-Ordinary shares				
Ordinary shares as at 01st January	55,777,146	635,917	54,124,726	576,975
Rights issue	6,250,000	250,000	-	-
Scrip dividend	1,569,242	62,749	1,652,420	58,942
Ordinary shares as at 31st December	63,596,388	948,666	55,777,146	635,917

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.

37.1 Share application money pending allotment

Share application money pending allotment represents applications received from existing shareholders on rights issue of shares.

The equity shares are expected to be allotted against the share application money within a reasonable period, not later than three months from the reporting date.

38. 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 5% of the net profit for the year transferred to Reserve Fund as long as the capital funds are not less than 25% of total deposit liabilities.

As at 31 December	2018 Rs.'000	2017 Rs.'000
Balance as at 01st January	113,000	86,422
Transfer during the year	26,000	26,578
Balance as at 31st December	139,000	113,000

39. REVALUATION RESERVE

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

As at 31 December	2018 Rs.'000	2017 Rs.'000
Balance as at 01st January	56,823	-
Revaluation surplus(net of tax)	50,940	56,823
Balance as at 31st December	107,763	56,823

40. 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.

41. FAIR VALUE OF ASSET AND LIABILITIES

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

Assets for which fair value approximates carrying value

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

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

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

Fixed Rate Financial Instruments

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

Variable rate Financial Instruments

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

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

	2018 Rs. '000					2017 Rs. '000				
		Fair value measurement using					Fair value measurement using			
	Carrying value	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Carrying value	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial Assets										
Factoring receivables	1,332,310	-	2,019,998	-	2,019,998	1,899,702	-	1,987,232	-	1,987,232
Gold loan receivables	3,548,666	-	3,540,285	-	3,540,285	2,563,352	-	2,552,178	-	2,552,178
Loan receivables	2,481,575	-	2,544,535	-	2,544,535	2,724,776	-	2,676,808	-	2,676,808
Lease receivables	25,601,932	-	26,147,267	-	26,147,267	19,873,470	-	19,989,593	-	19,989,593
Financial investments held to maturity	-	-	-	-	-	4,303	-	4,210	-	4,210
Debt instruments at amortised cost	4,319	-	4,102	-	4,102	-	-	-	-	-
Financial instruments- available for sale	-	-	-	-	-	56	-	-	56	56
Equity instruments at fair value through OCI	56	-	-	56	56	-	-	-	-	-
Hire purchase receivables	48,525	-	88,466	-	88,466	252,000	-	292,085	-	292,085
Total Financial Assets	33,017,383	-	34,344,653	56	34,344,709	27,317,659	-	27,502,106	56	27,502,161
Financial Liabilities										
Due to other customers	9,672,008	-	9,996,855	-	9,996,855	9,333,622	-	9,714,323	-	9,714,323
Debt instruments issued and other borrowed funds	21,391,367	-	20,815,613	-	20,815,613	16,310,778	-	16,281,390	-	16,281,390
Total Financial Liabilities	31,063,375	-	30,812,468	-	30,812,468	25,644,400	-	25,995,713	-	25,995,713

There were no transfers between levels of fair value hierarchy during 2018 and 2017.

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature ore re-priced to current market rates frequently.

Assets

- Cash and bank balances
- Securities purchased under repurchase agreements
- Placements with banks
- Other assets

Liabilities

- Bank overdraft
- Other payables

42. RISK MANAGEMENT

42.1 Introduction

Risk is inherent in the financial business and such risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The Company is mainly exposed to Credit Risk, Interest Rate Risk, Liquidity Risk, Operational Risk, Regulatory & Compliance Risk, Reputation Risk and Environmental Risk.

42.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC), which is a sub-committee of the Board, oversees the risk management function in line with the Board approved policies and strategies. Integrated Risk Management committee shall develop the policy and operations for Company-wide risk management. The Committee comprises of Executive and Non-Executive Directors. Meeting of BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

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, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

Risk appetite of the Company is defined in both qualitative and quantitative terms. These risk appetite parameters are dynamic and subject to changes in line with the changing business strategies of the Company and changing market conditions. Risk appetite of the Company is defined through the Risk tolerance limits approved by the Board of Directors.

The BIRMC was set up to fulfil the requirement set out in the Finance Companies Direction No. 3 of 2008 on Corporate Governance for Finance Companies issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act, No. 42 of 2011.

The said Committee consists of such number of members, as the Board may determine from time to time. The Committee currently consists of membership of 4 Directors, Managing Director and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.

In addition to the BIRM Committee, Risk Management function is managed by Risk Management Department (RMD). RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Department works closely with the Risk Committee to ensure that procedures are compliant with the overall framework. RMD is also responsible for monitoring compliance with risk principles, policies and limits across the Company. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

42.3 Risk measurement & Reporting System and Risk Mitigation

Prudent management of risk exposures relevant to the Company's business operations would be ensured through a mechanism of "Three Lines of Defence". These levels consist of management of risk by the relevant risk-assuming function, independent risk management & compliance functions and internal & external audit functions.

The positioning map of each risk component is placed within the risk grid. Tolerance levels are set by using sustainable measurements and these are discussed at risk management meetings. The risk console indicates the severity of each component of risk. Tabulated below is the Risk Console that is used in identification of Key Risks and Risk Measures taken by the company together with mitigates suggested.

Financial Risks		Risk Measures	Mitigates
Credit Risk	1. Default Risk Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations 2. Concentration Risk Credit Exposure being concentrated to few sectors/ groups (insufficient diversification)	◆ Probability of Default ◆ Loss Given Default ◆ Sector / Asset / Client / Branch Concentrations of Lending Portfolio ◆ Concentrations in Repossessed assets ◆ Macro Credit Portfolio risk measures such as a) Provision Coverage b) Net NPL as a % of Equity Funds	◆ Board approved credit policies/ procedures/ framework and annual review ◆ Delegated authority levels/ segregation of duties ◆ Setting Prudential limits on maximum exposure ◆ Overall NPL Ratio setting based on risk appetite ◆ Credit Limit Exposures (for Asset Type and Sector) that takes account of NPL / Infection ratios and movement in NPL ratios ◆ Concentration limits for clients/ groups, asset types ◆ Monitoring of exposures against the limits ◆ Trend analysis reported to BIRMC Strict compliance with CBSL Guidelines
Interest Rate Risk	Adverse effect on Net Interest Income	◆ Net Interest Yield and Movement in Net Interest Yield ◆ Lending to Borrowing Ratio ◆ Tracking of Movements in Money Market rates ◆ Marginal Cost of funds / Risk based Pricing ◆ Gaps in asset Liability Re-Pricing ◆ Cumulative Gaps as a % of Cumulative Liabilities	◆ Setting of Marginal Pricing with Risk Premiums for Different classes of Lending assets ◆ Setting of Lending to Borrowing ratios ◆ Gaps limits for structural liquidity, ◆ Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets ◆ Volatile Liability Dependency measures ◆ Balance sheet ratios
Liquidity Risk	Inability to meet obligations as they fall due	◆ Gaps in dynamic liquidity flows ◆ Stocks of high quality liquid assets	

42.4 Credit Risk

Credit risk is the risk of financial loss to the Company, if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's credit facilities given to customers and investments in debt securities. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances.

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of Company is not to eliminate credit risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

Management of Credit Risk

In credit risk management, the rigorous credit screening process adopted has been a core competency of the Company. The multiple layers of approving lines ensure that credit risk is mitigated in all aspects.

At the initial level, the credit facilities are preliminary screened at the branch level and a credit evaluation is done. Then based on the exposure the facility is escalated upwards for approval along with a credit risk assessment. In determining the borrower's credit risk the industry in which he performs, succession, integrity, past payment records inter alia are considered. In assessing the facility the equity contribution, security cover and guarantors are taken in to consideration.

Post approval pre-disbursement stage is covered by the Credit Administration department under which security documentation and disbursement is done. Post disbursement monitoring is efficiently carried out by both the branch network and the recoveries department based on the repayment pattern.

Early warnings signals captured through trigger lists done by credit risk management is also shared with respective departments to aid the post disbursement monitoring. Further timely reviews of facilities also ensure that any early warning signs are captured and required corrective steps are taken to arrest any unexpected default.

42.4.1 Impairment Assessment (Policy applicable from 1 January 2018)

The methodology of the impairment assessment has explained in Note 4.1.9 under Accounting policies.The references below should be read in conjunction with those Accounting policies.

42.4.1. (a) Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Company considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal assessment of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Company
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Company
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

42.4.1 (b) 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 significantly increased in credit risk when the SLFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

42.4.1 Assessment of Expected Credit Losses

42.4.1 (c) Analysis of the total allowance for expected credit losses is as follows.

As at 31 December	2018			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Cash & cash equivalents	4	-	-	4
Factoring receivables	21,898	8,819	585,192	615,909
Gold loan receivables	5,177	4,027	1,296	10,500
Loan receivables	7,479	7,817	230,610	245,906
Lease receivables	39,697	89,466	485,345	614,508
Hire purchase receivables	16	17	33,092	33,125
Repossessed stock	-	-	177,654	177,654
Total allowance for expected credit losses	74,271	110,146	1,513,189	1,697,606

The methodology used in the determination of expected credit losses is explained in Note 4.1.9 to Financial Statements.

42.4.1 (d) Movement of the total allowance for expected credit losses during the period

As at 31 December	2018 Rs.'000
Balance as at 01st January 2018	877,844
Net charge to profit or loss (Note 10.1)	829,751
Write-off during the year	(175)
Interest income accrued on impaired loans & receivables (Note 7)	(9,763)
Other movements	(51)
Balance as at 31st December 2018	1,697,606

42.4.1 (e) Sensitivity Analysis : Impact of staging of loans on collective allowance for expected credit losses

The following table illustrates the impact of staging of loans by comparing the allowance, if all performing financial assets were in stage 1 or if all such assets were in stage 2 to the actual expected credit loss recorded on these assets.

	Stage 1 and 2 Actual ECL Rs.000	ECL - If all performing loans in Stage 1 Rs.000	Impact of staging Rs.000
Total allowance for expected credit losses	184,417	89,714	(94,703)

	Stage 1 and 2 Actual ECL Rs.000	ECL - If all performing loans in Stage 2 Rs.000	Impact of staging Rs.000
Total allowance for expected credit losses	184,417	373,801	189,384

The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

42.4.1 (f) Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are contractually past due but not classified as impaired because they are less than 90 days past due. Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

As at 31st December 2018	31- 60 Days Rs.000	61- 90 Days Rs.000	Total Rs.000
Factoring receivables	288	-	288
Gold loan receivables	362,841	5,685	368,526
Loan receivables	186,261	191,789	378,050
Lease receivables	3,908,768	2,798,689	6,707,457
Hire purchase receivables	6,632	4,705	11,337
	4,464,790	3,000,868	7,465,658

42.4.1 (g) Overview of rescheduled / restructured loans and advances (except individually impaired loans and advances)

As at 31st December 2018	Gross Carrying Value			Allowance for ECL			Net Carrying Value
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	
Loan receivables	6,883	79,812	86,695	62	13,167	13,229	73,466
Lease receivables	256,360	428,519	684,879	3,234	87,002	90,236	594,643
	263,243	508,331	771,574	3,296	100,169	103,465	668,109

42.4.2 Credit Quality by Class of Financial Assets

		2018					2017				
	Note	Neither Past Due Nor Impaired Rs'000	Past Due Not Impaired Rs'000	Individually Impaired Rs'000	Total Rs'000	Percentage Rs'000	Neither Past Due Nor Impaired Rs'000	Past Due Not Impaired Rs'000	Individually Impaired Rs'000	Total Rs'000	Percentage Rs'000
Assets											
Cash and bank balances	18	191,556	-	-	191,556	0.52%	297,858	-	-	297,858	1.00%
Placements with banks	19	-	-	-	-	0.00%	65,699	-	-	65,699	0.22%
Securities purchased under repurchase agreements	20	1,768,461	-	-	1,768,461	4.80%	1,200,981	-	-	1,200,981	4.05%
Financial investments held to maturity	28	-	-	-	-	0.00%	4,303	-	-	4,303	0.01%
Debt instruments at amortised cost	28	4,319	-	-	4,319	0.01%	-	-	-	-	-
Factoring receivables	21	163,678	522	1,784,019	1,948,219	5.28%	1,759,209	70,142	228,394	2,057,745	6.93%
Gold loan receivables	22	2,862,617	696,549	-	3,559,166	9.65%	1,837,753	745,307	-	2,583,060	8.70%
Loan receivables	23	274,246	1,987,632	465,603	2,727,481	7.40%	1,453,139	1,204,888	101,135	2,759,162	9.30%
Lease receivables	24	10,895,790	15,320,650	-	26,216,440	71.11%	10,011,182	10,133,842	-	20,145,024	67.89%
Hire purchase receivables	25	17,970	63,680	-	81,650	0.22%	122,296	169,077	-	291,373	0.98%
Other assets	26	370,267	-	-	370,267	1.00%	268,737	-	-	268,737	0.91%
Financial instruments-available for sale	27	-	-	-	-	0.00%	56	-	-	56	0.00%
Equity instruments at fair value through OCI	27	56	-	-	56	0.00%	-	-	-	-	-
Total		16,548,960	18,069,033	2,249,622	36,867,615	100.00%	17,021,213	12,323,256	329,529	29,673,998	100.00%

42.4.2.1 Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

	Past due not impaired					Past due not impaired				
	Less than 30 days 2018 Rs'000	31 to 60 days 2018 Rs'000	61 to 90 days 2018 Rs'000	More than 91 days 2018 Rs'000	Total 2018 Rs'000	Less than 30 days 2017 Rs'000	31 to 60 days 2017 Rs'000	61 to 90 days 2017 Rs'000	More than 91 days 2017 Rs'000	Total 2017 Rs'000
Factoring receivables	234	288	-	-	522	15,028	-	4,798	50,316	70,142
Lease receivables	5,794,384	3,908,768	2,798,689	2,818,809	15,320,650	5,121,697	3,079,831	1,345,034	587,280	10,133,842
Hire purchase receivable	8,377	6,632	4,705	43,966	63,680	57,398	38,120	27,758	45,801	169,077
Loan receivables	942,014	186,261	191,789	667,568	1,987,632	619,538	265,437	159,262	160,651	1,204,888
Gold loan receivables	315,868	362,841	5,685	12,155	696,549	361,250	354,464	17,069	12,524	745,307
Total	7,060,877	4,464,790	3,000,868	3,542,498	18,069,033	6,174,911	3,737,852	1,553,921	856,572	12,323,256

Year ended 31 December 2018

42.4.3 Maximum Exposure to Credit Risk

As at 31 December	2018		2017	
	Maximum Exposure To Credit Risk Rs.'000	Net Exposure Rs.'000	Maximum Exposure To Credit Risk Rs.'000	Net Exposure Rs.'000
Financial Assets				
Cash and bank balances	191,556	31,762	297,858	25,092
Securities purchased under repurchase agreements	1,768,461	-	1,200,981	-
Placements with banks	-	-	65,699	65,699
Factoring receivables	1,332,310	1,114,160	1,899,702	1,647,213
Gold loan receivables	3,548,666	-	2,563,352	-
Loan receivables	2,481,575	1,506,098	2,724,776	1,734,861
Lease receivables	25,601,932	-	19,873,470	-
Hire purchase receivables	48,525	-	252,000	-
Other assets	370,267	222,563	268,737	174,171
Financial instruments available for sale	-	-	56	56
Equity instruments at fair value through OCI	56	56	-	-
Financial investments held to maturity	-	-	4,303	-
Debt instruments at amortised cost	4,319	-	-	-
Total Financial Assets	35,347,667	2,874,639	29,150,934	3,647,092

42.4.4 Offsetting financial assets and liabilities

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed.

	2018			2017		
	Gross amount Rs.'000	Amount subject to netting but do not qualify for offsettling Rs.'000	Net amount Rs.'000	Gross amount Rs.'000	Amount subject to netting but do not qualify for offsettling Rs.'000	Net amount Rs.'000
Financial Assets						
Loan receivables	1,273,422	495,671	777,751	1,491,473	775,254	716,219

42.4.5 Analysis of Risk Concentration

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position.

Rs' 000

As at 31 December 2018	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	191,556	-	-	191,556
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	1,768,461	-	-	-	1,768,461
Factoring receivables	922,711	-	26,910	330,680	6,414	11,921	33,674	-	-	-	-	1,332,310
Gold loan receivables	-	-	-	-	-	-	-	-	-	3,548,666	-	3,548,666
Loan receivables	375,128	67,999	57,468	609,512	448,814	43,778	73,589	-	102,501	485,415	217,371	2,481,575
Lease receivables	1,721,203	1,236,403	2,172,913	4,910,634	1,713,641	1,923,375	9,277,510	3,290	-	1,690,413	952,550	25,601,932
Hire purchase receivables	247	1,230	2,586	11,076	2,486	958	27,577	-	-	2,365	-	48,525
Other assets	-	-	-	-	-	-	-	-	-	-	370,267	370,267
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	56	-	-	56
Debt instruments at amortised cost	-	-	-	-	-	-	-	4,319	-	-	-	4,319
	3,019,289	1,305,632	2,259,877	5,861,902	2,171,355	1,980,032	9,412,350	1,776,070	294,113	5,726,859	1,540,188	35,347,667

Rs' 000

As at 31 December 2017	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total Rs' 000
Cash and bank balances	-	-	-	-	-	-	-	-	297,858	-	-	297,858
Placements with banks	-	-	-	-	-	-	-	-	65,699	-	-	65,699
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	1,200,981	-	-	-	1,200,981
Factoring receivables	1,198,118	6,709	82,817	371,994	192,809	8,144	39,111	-	-	-	-	1,899,702
Gold loan receivables	-	-	-	-	-	-	-	-	-	2,563,352	-	2,563,352
Loan receivables	471,805	54,688	81,645	417,915	153,746	89,075	387,857	-	360,200	-	707,845	2,724,776
Lease receivables	422,300	518,185	1,461,724	4,567,313	765,855	-	5,760,458	-	-	-	6,377,635	19,873,470
Hire purchase receivables	2,161	7,370	12,550	47,474	510	-	-	-	-	-	181,935	252,000
Other assets	-	-	-	-	-	-	-	-	-	-	268,737	268,737
Financial instruments available for sale	-	-	-	-	-	-	-	-	56	-	-	56
Financial investments held to maturity	-	-	-	-	-	-	-	4,303	-	-	-	4,303
	2,094,384	586,952	1,638,736	5,404,696	1,112,920	97,219	6,187,426	1,205,284	723,813	2,563,352	7,536,152	29,150,934

Notes to the Financial Statements

Year ended 31 December 2018

42.5 Interest Rate Risk

Interest Rate Risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institution's financial condition due to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken.

The fluctuation of interest rates is an external factor which is beyond the control of the Company. Though the Company is affected by movements in interest rates to the extent that its asset / liability mismatches gives rise to interest paying liabilities being re-priced faster than its interest earning assets. This in turn affects Net Interest income and Net Interest Yields.

Management of Interest Rate Risk

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing brands. ALCO is the monitoring body for compliance with these limits and assisted by Finance Department. Monitoring includes changes in the Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations. Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing.

Asset liability management encompasses the complete set of techniques used to manage interest rate risk within the broad risk management framework. Interest rate risk analysis is almost always based on simulating movements in one or more yield curve. The strategy of the Company is not to eliminate risk, but to maintain the same within pre-determined acceptance levels.

In setting the Tolerance levels for Interest rate risk, the following metrics are used.

- Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.
- Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.
- Setting the Lending to Borrowing ratio in order to maintain gearing at the desired levels

42.5.1 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Income Statement & Equity.

			Rs. Million
Currency of Borrowings/ Advance	Increase (Decrease) in basis points	Sensitivity of Profit or Loss	Sensitivity of Equity
	2018	2018	2018
Long Term Loans linked to AWPLR	1/ (-1)	(75.26)/75.26	2.13%
	0.5 / (0.5)	(37.63)/37.63	1.06%
	0.25 / (0.25)	(18.82)/18.82	0.53%
	2017	2017	2017
Long Term Loans linked to AWPLR	1/ (-1)	(70.53)/70.53	2.90%
	0.5 / (0.5)	(35.27)/35.27	1.45%
	0.25 / (0.25)	(17.63)/17.63	0.73%

The base ratio considers in the Interest Rate Sensitivity Analysis is the AWPLR. Since 46.66% (2017-43.77%) of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity, due to changes in the Average Weighted Prime Lending Rate.

42.5.2 Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

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

As at 31 December 2018	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Non Interest Bearing Rs'000	Total Rs'000
Financial Assets							
Cash and bank balances	191,556	-	-	-	-	-	191,556
Securities purchased under repurchase agreements	1,758,728	9,733	-	-	-	-	1,768,461
Factoring receivables	396,140	936,170	-	-	-	-	1,332,310
Lease receivables	2,817,065	6,011,249	11,686,715	4,993,187	93,716	-	25,601,932
Hire purchase receivables	34,974	10,967	1,314	1,270	-	-	48,525
Gold loan receivables	1,973,736	1,574,930	-	-	-	-	3,548,666
Loan receivables	808,339	922,092	599,013	145,564	6,567	-	2,481,575
Other assets	-	-	-	-	-	370,267	370,267
Equity instruments at FVOCI	-	-	-	-	-	56	56
Debt instruments at amortised cost	-	-	4,319	-	-	-	4,319
Total Financial Assets	7,980,538	9,465,141	12,291,361	5,140,021	100,283	370,323	35,347,667
Financial Liabilities							
Bank overdraft	321,821	-	-	-	-	-	321,821
Due to other customers	3,121,797	4,126,418	1,393,040	1,030,738	15	-	9,672,008
Debt instruments issued and other borrowed funds	12,306,357	2,060,420	4,946,580	2,078,010	-	-	21,391,367
Other payables	-	-	-	-	-	398,769	398,769
Total Financial Liabilities	15,749,975	6,186,838	6,339,620	3,108,748	15	398,769	31,783,965
Interest Sensitivity Gap	(7,769,437)	3,278,303	5,951,741	2,031,273	100,268	(28,446)	3,563,701

Year ended 31 December 2018

42.5.2 Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities (Contd.)

As at 31 December 2017	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Non Interest Bearing Rs'000	Total Rs'000
Financial Assets							
Cash and bank balances	297,858	-	-	-	-	-	297,858
Placements with banks	65,699	-	-	-	-	-	65,699
Securities purchased under repurchase agreements	608,872	592,109	-	-	-	-	1,200,981
Factoring receivables	485,214	1,379,466	35,022	-	-	-	1,899,702
Lease receivables	1,670,185	4,601,836	9,403,521	4,147,767	50,161	-	19,873,470
Hire purchase receivables	98,153	100,017	51,521	2,309	-	-	252,000
Gold loan receivables	2,074,498	488,671	183	-	-	-	2,563,352
Loan receivables	549,513	1,183,262	852,090	133,323	6,588	-	2,724,776
Other Assets	-	-	-	-	-	268,737	268,737
Financial instruments available for sale	-	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,303	-	-	4,303
Total Financial Assets	5,849,992	8,345,361	10,342,337	4,287,702	56,749	268,793	29,150,934
Financial Liabilities							
Bank overdraft	456,018	-	-	-	-	-	456,018
Due to other customers	4,239,650	3,293,060	834,352	966,546	14	-	9,333,622
Debt instruments issued and other borrowed funds	9,048,306	1,309,152	3,875,310	2,078,010	-	-	16,310,778
Other payables	-	-	-	-	-	555,630	555,630
Total Financial Liabilities	13,743,974	4,602,212	4,709,662	3,044,556	14	555,630	26,656,048
Interest Sensitivity Gap	(7,893,982)	3,743,149	5,632,675	1,243,146	56,735	(286,837)	2,494,886

42.6 Liquidity Risk

Liquidity is generally defined as the ability of a financial institution to meet its debt obligations without incurring unacceptably large losses. Liquidity risk refers to the non-availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments.

An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causing counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

Management of Liquidity Risk

The Company's risk for managing liquidity risk and oversight of the implementation is administered by ALCO. Finance Department manages the Company's liquidity position on a day to day basis.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. A key element of these systems is monitoring and assessing the firm's current and future fund requirement including debt obligations and planning for any unexpected funding needs, regardless of whether they arise from firm-specific factors, or from systemic (economy-wide) factors.

The key elements of the Company's liquidity strategy are as follows.

Company assesses available lines of credit, GAP analysis and volatile liability dependency ratio in order to assess the liquidity risk. In setting the Tolerance levels for Liquidity risk, the following metrics are used.

- Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.
- Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.
- Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks (Interest bearing liabilities maturity within 01 year as a percentage of total lending assets).

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs. In addition, the Company maintains the liquidity ratio prescribed by Central Bank of Sri Lanka.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more sensitive market conditions.

42.6.1 Statutory Liquid Asset Ratio

Statutory Liquid Asset Calculation is performed based on the following calculations as prescribed in section 2, 3 & 4 of the Finance Companies (Liquid Assets) Direction No.04 of 2013.

The Company's liquid asset ratio is 7.5% of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per section 4 of the said direction). Liquid assets are maintained with Sri Lanka Government securities.

42.6.2 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 December 2018.

Repayments of short term loans which are subject to notice are treated as if notice were to be given immediately. However the company expects that banks will not request repayment on the earliest date that the company is required to pay and the table does not reflect the expected cash flows indicated by the company.

As at 31 December 2018	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Financial Assets						
Cash and bank balances	191,559	-	-	-	-	191,559
Securities purchased under repurchase agreements	1,771,223	10,647	-	-	-	1,781,870
Factoring receivables	1,182,533	969,090	-	-	-	2,151,623
Lease receivables	4,044,140	9,019,375	16,055,474	5,893,593	103,442	35,116,024
Hire purchase receivables	70,566	18,076	3,284	2,085	-	94,011
Gold loan receivables	2,010,493	1,794,823	-	-	-	3,805,316
Loan receivables	628,211	1,315,122	659,430	160,269	7,230	2,770,262
Other assets	205,688	46,070	100,604	66,351	5,219	423,932
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	-	-	4,300	-	4,300
Total Financial Assets	10,104,413	13,173,203	16,818,792	6,126,598	115,947	46,338,953
Financial Liabilities						
Bank overdraft	321,821	-	-	-	-	321,821
Due to other customers	3,319,343	4,358,248	1,630,457	688,797	11	9,996,856
Debt instruments issued and other borrowed funds	5,894,445	5,344,473	9,334,898	2,070,062	-	22,643,878
Other payables	398,769	-	-	-	-	398,769
Total Financial Liabilities	9,934,378	9,702,721	10,965,355	2,758,859	11	33,361,324
Net Financial Asset/Liabilities	170,035	3,470,482	5,853,437	3,367,739	115,936	12,977,629

As at 31 December 2017	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Financial Assets						
Cash and bank balances	297,858	-	-	-	-	297,858
Securities purchased under repurchase agreements	618,334	607,200	-	-	-	1,225,534
Placements with banks	66,013	-	-	-	-	66,013
Factoring receivables	747,250	1,384,508	35,037	-	-	2,166,795
Lease receivables	2,652,285	6,831,924	12,699,281	4,823,611	54,719	27,061,820
Hire purchase receivables	135,841	127,002	62,435	2,963	-	328,241
Gold loan receivables	2,122,964	547,661	186	-	-	2,670,811
Loan receivables	656,633	1,443,885	1,044,101	156,621	7,521	3,308,761
Other assets	292,331	59,941	83,936	55,665	2,966	494,839
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,300	-	4,300
Total Financial Assets	7,589,509	11,002,121	13,924,976	5,043,160	65,262	37,625,028
Financial Liabilities						
Bank overdraft	456,018	-	-	-	-	456,018
Due to other customers	4,528,703	3,754,435	1,231,419	1,219,719	14	10,734,290
Debt instruments issued and other borrowed funds	2,951,174	4,277,932	6,539,109	3,853,490	-	17,621,705
Other payables	555,630	-	-	-	-	555,630
Total Financial Liabilities	8,491,525	8,032,367	7,770,528	5,073,209	14	29,367,643
Net Financial Asset/Liabilities	(902,016)	2,969,754	6,154,448	(30,049)	65,248	8,257,385

Year ended 31 December 2018

43. MATURITY ANALYSIS

As at 31 December 2018	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	191,556	-	-	-	-	191,556
Securities purchased under repurchase agreements	1,758,728	9,733	-	-	-	1,768,461
Factoring receivables	396,140	936,170	-	-	-	1,332,310
Lease receivables	2,817,065	6,011,249	11,686,715	4,993,187	93,716	25,601,932
Hire purchase receivables	34,974	10,967	1,314	1,270	-	48,525
Gold loan receivables	1,973,736	1,574,930	-	-	-	3,548,666
Loan receivables	808,339	922,092	599,013	145,564	6,567	2,481,575
Other assets	264,250	61,881	89,367	63,358	10,700	489,556
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	-	4,319	-	-	4,319
Intangible assets	-	-	-	-	83,972	83,972
Property, plant & equipment	-	-	-	-	615,402	615,402
Total Assets	8,244,788	9,527,022	12,380,728	5,203,379	810,413	36,166,330
Liabilities						
Bank overdraft	321,821	-	-	-	-	321,821
Due to other customers	3,121,797	4,126,418	1,393,040	1,030,738	15	9,672,008
Debt instruments issued and other borrowed funds	5,472,998	6,311,011	7,731,258	1,876,100	-	21,391,367
Other payables	583,288	506	1,340	3,091	12,511	600,736
Deferred taxation liability	-	-	-	-	449,603	449,603
Income taxation payable	-	149,015	-	-	-	149,015
Retirement benefit obligations	-	-	-	-	40,789	40,789
Total Liabilities	9,499,904	10,586,950	9,125,638	2,909,929	502,918	32,625,339

As at 31 December 2017	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	297,858	-	-	-	-	297,858
Securities purchased under repurchase agreements	608,872	592,109	-	-	-	1,200,981
Placements with banks	65,699	-	-	-	-	65,699
Factoring receivables	485,214	1,379,466	35,022	-	-	1,899,702
Lease receivables	1,670,185	4,601,836	9,403,521	4,147,767	50,161	19,873,470
Hire purchase receivables	98,153	100,017	51,521	2,309	-	252,000
Gold loan receivables	2,074,498	488,671	183	-	-	2,563,352
Loan receivables	549,513	1,183,262	852,090	133,323	6,588	2,724,776
Other assets	289,248	52,015	70,212	50,545	2,966	464,986
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,303	-	4,303
Intangible assets	-	-	-	-	8,257	8,257
Property, plant & equipment	-	-	-	-	455,140	455,140
Total Assets	6,139,240	8,397,376	10,412,549	4,338,247	523,168	29,810,580
Total Liabilities						
Bank overdraft	456,018	-	-	-	-	456,018
Due to other customers	4,239,650	3,293,060	834,352	966,546	14	9,333,622
Debt instruments issued and other borrowed funds	2,629,286	3,102,022	7,246,370	3,333,100	-	16,310,778
Other payables	758,171	693	722	2,896	12,963	775,445
Deferred taxation liability	-	-	-	-	331,469	331,469
Income taxation payable	-	91,800	-	-	-	91,800
Retirement benefit obligations	-	-	-	-	33,163	33,163
Total Liabilities	8,083,125	6,487,575	8,081,444	4,302,542	377,609	27,332,295

44. COMMITMENTS AND CONTINGENCIES

	2018					2017				
	Rs. '000					Rs. '000				
	On Demand	With in 01 year	1-5 years	More than 5 years	Total	On Demand	With in 01 year	1-5 years	More than 5 years	Total
Commitments										
Commitment for unutilised facilities-Direct credit facilities										
- Factoring	194,468	-	-	-	194,468	411,742	-	-	-	411,742
- Revolving Loans	4,290	-	-	-	4,290	21,238	-	-	-	21,238
Operating lease commitments-Company as lessee	-	71,106	180,506	93,380	344,992	-	75,769	152,546	97,593	325,908
Capital commitments (Note 44.1)	-	63,723	-	-	63,723	-	13,169	-	-	13,169
	198,758	134,829	180,506	93,380	607,473	432,980	88,938	152,546	97,593	772,057
Contingent Liabilities										
Guarantees	-	2,200	-	-	2,200	-	600	-	-	600
	-	2,200	-	-	2,200	-	600	-	-	600
Total commitments & contingencies	198,758	137,029	180,506	93,380	609,673	432,980	89,538	152,546	97,593	772,657

44.1 Capital commitments

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below.

	2018 Rs.'000	2017 Rs.'000
Approved and contracted for	63,723	13,169
Approved but not contracted for	-	-
	63,723	13,169

44.2 Litigation filed by the Company/ against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss 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 litigation against the Company as at 31 December 2018 which would have a material impact on the Financial Statements.

45. EVENTS AFTER THE REPORTING PERIOD

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

46. COMPARATIVE INFORMATION

The comparative information is reclassified wherever necessary to conform to the current year's presentation. However, the Company has not restated comparative information for 2017 for financial instruments within the scope of SLFRS 9.

47. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with the parties who are defined as Sri Lanka Accounting Standard No.24 Related Party Disclosure, details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

47.1 Parent and Ultimate Controlling Party

The Company is 100% owned by Sampath Bank PLC. Hence, Sampath Bank PLC is the parent company and the ultimate controlling party.

47.2 Transactions with Key Managerial Personnel

According to Sri Lanka Accounting Standard-LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all of the three activities mentioned in the above definition(i.e. planning, directing and controlling the activities of the entity).Such KMPs include the Board of Directors of the Company, Managing Director and the KMPs of the Sampath Bank PLC.

	2018 Rs.'000	2017 Rs.'000
Directors' fees & short term employee benefits	38,924	30,580
Total	38,924	30,580

In addition to the above, the Company has also paid for fuel and medical benefits to KMP who are employees of the Company in line with the approved benefit plans of the Company.

47.3 Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFMs)

47.3.1 Loans and advances granted

No loans or advances were given to Key Managerial Personnel and their close family members during the year. (2017- Nil).

47.3.2 Deposits and Borrowings from KMPs are detailed below.

	2018 Rs.'000	2017 Rs.'000
Term/Savings deposits	173,633	46,203
Interest on term/savings deposits	26,366	3,256

No borrowing through debt instruments were made or no investments were made by key management personnel during the year 2018. (2017- Nil)

Year ended 31 December 2018

47.4 Transactions, Arrangements and Agreements involving with Related Entities of KMPs

47.4.1 Operating Lease

	2018 Rs.'000	2017 Rs.'000
Rent Paid	34,600	35,265

Head Office premises of the Company is located at No. 46/12, Nawam Mawatha, Colombo 02, which is owned by Ceylon Ocean Lines Limited, the Ultimate Parent of which is Hayleys PLC.

47.4.2 Loans and Advances

	2018 Rs.'000	2017 Rs.'000
Interest income earned	-	1,152
Service charges earned	-	2,331

Revolving credit facilities have been granted to a related company of a KMP of the Company.

47.5 Transactions with Group Companies

47.5.1 Sampath Bank PLC - Parent Company

The Company has obtained short term loans, term loans, overdraft and bank guarantee facilities from the bank. All the transactions with the bank were on terms and conditions similar to facilities obtained through other banks.

Balance outstanding as at 31 December	2018 Rs.'000	2017 Rs.'000
Investment in government securities		
Opening Balance	8,892	8,100
Investment during the year	841	792
Closing Balance	9,733	8,892
Other receivables	-	497
Term Loan (Only capital)		
Opening Balance	1,484,610	2,124,780
Granted during the year	3,000,000	-
Less : Repayment during the year	(996,310)	(640,170)
Closing Balance	3,488,300	1,484,610

Balance outstanding as at 31 December	2018 Rs.'000	2017 Rs.'000
Short Term Loan (Only capital)	1,750,000	-
Bank Overdraft	263,939	398,214
Total Accommodation obtained	5,502,239	1,882,824
Less : Favourable balances in current accounts with bank	26,470	19,517
Net Accommodation	5,475,769	1,863,307
Net Accommodation as a percentage of Capital Funds	154.64%	75.19%
Transaction during the year		
Expenses		
Interest paid	422,685	230,307
Bank Guarantee fee paid	21	680
Staff training paid (for facilitating staff training)	-	-
Rent paid (for the branch located within Sampath Bank premises)	1,715	1,225
Fees paid for acting as Bankers to the debentures issued in year 2016.	-	205
Other expenses	78	-
Income		
Fee for locating ATM machines at Company's branch premises operations	526	324
Interest Income on short term government securities	22,573	1,973
Interest Income on savings deposits	650	-

The Company has invested in short term government securities through Sampath Bank PLC.

Issue of shares/Dividend		
Proceeds for rights issue of shares	650,000	-
Scrip Dividend (Gross)-number of shares-1,569,242 (2017-1,652,420)	69,721	65,491

Year ended 31 December 2018

47.5.2 Sampath Information Technology Solutions Ltd

Sampath Information Technology Solutions Ltd is a subsidiary of Sampath Bank PLC which is the parent undertaking of Siyapatha Finance PLC.

The Company has obtained Hardware/ Software maintenance services from SITS and payments were made as per the maintenance agreement. Company has purchased Leasing/ Loan Management & Pawning software and same is disclosed below.

Balance outstanding as at 31 December	2018 Rs.'000	2017 Rs.'000
Other receivables	291	146
Transactions during the year		
Hardware/Software maintenance paid	4,167	3,908
Operating lease expenses(Computer hire charges)	93	105

47.5.3 The Company had the following receivable/payable balances with other Group companies

	2018 Rs.'000	2017 Rs.'000
Receivables		
SC Securities Pvt Ltd	124	62
Sampath Centre Ltd	437	219
Payables		
Sampath Centre Ltd	1,092	-

48. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

Regulatory Capital

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka(CBSL) sets and monitors capital requirements for licensed finance companies. Accordingly, finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 10% and a minimum core capital adequacy ratio (Tier I) of 6%.The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.

DIRECT ECONOMIC VALUE GENERATED & DISTRIBUTED

GRI 201-1

Information on the creation and distribution of economic value provides a basic indication of how the Company has created wealth for stakeholders.

For the year ended 31 December	2018 Rs.'000	2017 Rs.'000
Direct Economic Value Generated		
Interest income	6,395,898	4,599,470
Fee & Commission income	278,637	243,899
Other income	288,844	222,685
	6,963,379	5,066,054
Economic Value Distributed		
To Depositors and Lenders		
Interest expense	3,131,770	2,644,284
	3,131,770	2,644,284
Operating Costs		
Depreciation & amortization	66,449	56,063
Fee & commission expense	21	680
Other operating expense	523,623	375,622
	590,093	432,364
To Employees		
Salary & bonus	595,421	513,623
Other benefits	137,845	97,750
	733,266	611,373
Payments to Government		
Income tax expense	161,474	146,624
VAT & NBT on Financial Services	261,271	230,810
Crop insurance levy	5,161	5,232
Debt Repayment Levy	29,988	-
	457,894	382,666
Payments to Providers of Capital		
Interest to debenture holders	543,722	120,007
Dividend to shareholders	69,721	65,491
	613,443	185,497
Economic Value Distributed	5,526,466	4,256,185
Economic Value Retained		
(after payment of dividend to shareholders)	1,436,913	809,869
	6,963,379	5,066,054

ECONOMIC VALUE ADDITION

GRI 201-1

For the year ended 31 December	2018 Rs.'000	2017 Rs.'000
Invested Equity		
Average shareholders' funds	2,934,919	2,204,323
Provision for impairment losses	1,519,948	523,064
Total	4,454,867	2,727,387
Earnings		
Profit attributable to share holders	569,113	554,473
Net impairment charge for loans & other losses	829,751	236,743
Total	1,398,864	791,216
Economic cost (12 months average Treasury Bill rate plus 2% risk premium)	10.92%	11.89%
Economic cost	486,471	324,256
Economic value addition	912,393	466,960

The economic value created by the Company to its share holders during the period is shown in the above analysis.

TEN YEAR SUMMARY

Year ended 31 December	SLFRS/LKAS								SLAS	
	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000	2014 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000	2010 Rs.000	2009 Rs.000
Interest income	6,395,898	4,599,470	2,838,995	1,973,921	1,837,546	1,620,272	1,033,557	555,329	383,463	434,037
Interest expenses	(3,680,060)	(2,764,290)	(1,620,783)	(824,699)	(778,661)	(899,069)	(600,406)	(210,207)	(133,875)	(370,446)
Net interest income	2,715,838	1,835,180	1,218,212	1,149,223	1,058,885	721,202	433,151	345,122	249,588	63,591
Other income	567,459	465,904	312,774	232,315	139,354	114,085	61,610	44,410	39,608	75,380
Operating income	3,283,298	2,301,083	1,530,986	1,381,537	1,198,239	835,287	494,761	389,532	289,196	138,971
Operating expenses	(1,328,499)	(1,048,290)	(808,111)	(679,804)	(547,930)	(431,028)	(224,412)	(178,366)	(108,517)	(108,609)
Operating profit	1,954,799	1,252,794	722,875	701,733	650,309	404,259	270,349	211,166	180,679	30,362
Impairment (charges)/reversals/provision for doubtful debts	(829,751)	(236,744)	(79,189)	(49,275)	(183,217)	(67,237)	(262)	49,324	1,682	(96,055)
VAT & NBT on financial services	(291,259)	(230,810)	(128,500)	(93,305)	(61,536)	(35,740)	(18,100)	(16,207)	(28,574)	(1,852)
Profit before taxation	833,789	785,240	515,186	559,153	405,556	301,281	251,987	244,283	153,787	(67,545)
Tax expenses	(317,268)	(286,378)	(187,904)	(174,629)	(145,379)	(80,301)	(51,752)	(46,268)	(26,477)	(3,738)
Profit for the year	516,521	498,862	327,282	384,524	260,177	220,980	200,235	198,015	127,311	(71,283)

As at 31 December	SLFRS/LKAS								SLAS	
	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000	2014 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000	2010 Rs.000	2009 Rs.000
Cash and bank balances	191,556	297,858	169,333	130,070	88,655	65,378	32,586	29,520	5,322	18,104
Securities purchased under repurchase agreements	1,768,461	1,200,981	777,438	601,679	489,685	323,792	5,341	4,045	-	-
Investments in fixed deposits	-	65,699	-	-	-	-	87,246	-	-	-
Factoring receivables	1,332,310	1,899,702	1,979,243	1,157,136	996,440	1,052,411	566,584	532,458	210,444	135,392
Gold loan receivables	3,548,666	2,563,352	1,768,922	770,839	-	-	-	-	-	-
Pawning receivables	-	-	-	-	456,193	412,753	-	-	-	-
Loan receivables	2,481,575	2,724,776	743,740	286,968	506,526	568,573	-	-	-	-
Lease receivables	25,601,932	19,873,470	13,851,890	9,230,730	3,383,597	2,833,933	2,678,159	2,027,939	479,427	570,483
HP receivable	48,525	252,000	837,560	2,083,571	4,250,553	3,393,593	2,155,384	1,253,322	731,548	917,349
Other assets	1,193,305	932,742	662,612	378,334	246,141	335,131	285,219	276,531	373,179	213,140
Total Assets	36,166,330	29,810,580	20,790,738	14,639,326	10,417,790	8,985,564	5,810,520	4,123,815	1,799,920	1,854,469

Ten Year Summary

As at 31 December	SLFRS/LKAS								SLAS	
	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000	2014 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000	2010 Rs.000	2009 Rs.000
Bank overdraft	321,821	456,018	460,494	163,583	83,921	63,982	62,124	-	32,340	24,128
Customer deposits	9,672,008	9,333,622	3,362,662	1,233,041	-	-	-	-	-	-
Debt issued and other borrowed funds	21,391,367	16,310,778	14,187,266	10,925,421	8,528,922	7,487,912	4,655,317	3,211,375	939,992	1,169,107
Other payables	1,240,142	1,231,877	849,956	706,150	493,303	359,769	216,553	216,198	329,361	275,598
Total Liabilities	32,625,339	27,332,295	18,860,377	13,028,194	9,106,146	7,911,662	4,933,994	3,427,573	1,301,693	1,468,833
Shareholders' Funds										
Stated capital	948,666	635,917	576,975	525,000	525,000	525,000	525,000	525,000	525,000	525,000
Share application money pending allotment	400,000	-	-	-	-	-	-	-	-	-
Statutory reserve fund	139,000	113,000	86,422	70,059	50,831	37,787	26,738	16,726	7,107	288
Investment fund reserve	-	-	-	-	-	58,488	29,988	12,841	-	-
Revaluation Reserve	107,763	56,823	-	-	-	-	-	-	-	-
Accumulated profit/ (loss)	1,945,562	1,672,545	1,266,964	1,016,073	735,813	452,627	294,800	141,675	(33,880)	(139,653)
Shareholders' Funds	3,540,991	2,478,285	1,930,361	1,611,132	1,311,644	1,073,902	876,526	696,242	498,227	385,635
Total Liabilities and Shareholders' Funds	36,166,330	29,810,580	20,790,738	14,639,326	10,417,790	8,985,564	5,810,520	4,123,815	1,799,920	1,854,468

Year ended 31 December	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000	2014 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000	2010 Rs.000	2009 Rs.000
Growth in Interest Income	39%	62%	44%	7%	13%	57%	86%	45%	-12%	-31%
Growth Interest Expenses	33%	71%	97%	6%	-13%	50%	186%	57%	-64%	-36%
Interest Cover ratio	1.23	1.28	1.32	1.84	1.73	1.59	1.42	2.16	2.15	0.82
Growth in Operating Profit	56%	73%	3%	8%	61%	50%	28%	17%	495%	104%
Growth in Profit After Tax(PAT)	4%	52%	-15%	48%	18%	10%	1%	56%	-279%	111%
Earning/(Loss) Per Share-Rs.	8.52	8.70	6.14	7.32	4.96	4.21	3.81	3.77	2.42	(1.36)
Growth in Advances	21%	42%	42%	41%	16%	53%	42%	168%	-12%	-34%
Growth in Deposits and Borrowings	20%	45%	46%	43%	14%	60%	47%	230%	-19%	-48%
Growth in Shareholder's Funds	43%	28%	20%	23%	22%	23%	26%	40%	29%	146%
Debt/Equity Ratio	8.86	10.53	9.33	7.65	6.57	7.03	5.38	4.61	1.95	3.09
Net Assets per Share-Rs.	55.68	44.43	35.67	30.69	24.98	20.46	16.70	13.26	9.49	7.35
Return on Average Total Assets	1.50%	1.91%	2%	3%	3%	3%	4%	7%	7%	-3%
Return on Average Equity	17%	23%	18%	26%	22%	22%	25%	33%	29%	-26%

CAPITAL ADEQUACY

Capital Adequacy is one of the Key measures which illustrate the financial strength and the stability of a finance company. By having a healthy capital adequacy ratio, company can create confidence among its investors and create a positive image among prospective investors. Central bank of Sri Lanka issued a new direction (Finance Business Act Direction No. 03 of 2018) to be effect from 01st July 2018. New Capital adequacy framework has introduced a more risk sensitive approach covering credit risk and operational risk. Market risk was not considered under this framework because the sector exposure to market risk was considered to be minimal.

In accordance with Finance Business Act Direction No. 03 of 2018, every finance company shall at all times maintain the minimum capital adequacy ratios of Tier I - 6% and Tier II - 10% in relation to total risk weighted assets. Tier I, Tier II and Risk weighted assets are defined under this new capital adequacy framework as follows.

TIER I -CORE CAPITAL

Tier I capital represents core capital of the company. Core capital includes shareholder's equity and reserves.

- Tier I Ratio : $\dfrac{\text{Tier I Capital}}{\text{Total Risk Weighted Amount}}$

TIER II-SUPPLEMENTARY CAPITAL

Tier II capital represents supplementary capital such as instruments containing characteristics of equity and debt, revaluation gains and general provisioning/impairment allowances.

- Total Capital ratio : $\dfrac{\text{Total Capital}}{\text{Total Risk Weighted Amount}}$

Risk Weighted Assets

Risk weighted assets are a measure of company's assets and off balance sheet exposures, weighted according to their risks, with each asset class assigned a different risk weightage.

As at 31 December 2018, the Company maintained a Tier I ratio of 9.40% and a Tier II ratio of 12.21% .Both ratios are above the minimum regulatory requirements (Tier I - 6% and Tier II - 10%)set by CBSL.

Computation of Capital Ratios

Item	Amount Rs.'000
Tier 1 Capital	3,349,256
Total Capital	4,349,256
Total Risk Weighted Amount	35,624,097
Risk Weighted Amount for Credit Risk	32,145,422
Risk Weighted Amount for Operational Risk	3,478,674
Tier 1 Capital Ratio, %	9.40%
Total Capital Ratio, %	12.21%

GRI CONTEXT INDEX

GRI 102-55

GRI Standard	Disclosure	Page number(s)	Omission
GRI 101: Foundation 2016 (does not include any disclosures)			
GENERAL DISCLOSURES			
GRI 102: General Disclosures 2016	102-1 Name of Organisation	129	
	102-2 Activities, brands, products and services	20, 36, 37, 38	
	102-3 Location of headquarters	129, Inner back cover	
	102-4 Location of operations	Inner back cover	
	102-5 Ownership and legal form	Inner back cover	
	102-6 Markets served	43, Inner back cover	
	102-7 Scale of the organisation	2, 4, 6	
	102-8 Information on employees and other workers	46	
	102-9 Supply chain	40	
	102-10 Significant changes to the organisation and supply chain	Inner back cover	
	102-11 Precautionary principle	55	
	102-12 External initiatives	7	
	102-13 Membership of associations	Inner back cover	
	102-14 Statement from senior decision maker	10 to12	
	102-16 Values, principles, norms and standards of behaviour	1, 103	
	102-18 Governance Structure	78	
	102-40 List of stakeholder groups	22, 23	
	102-41 Collective bargaining agreements		The company does not have collective bargaining agreements in place.
	102-42 Identifying and selecting stakeholders	22, 23	
	102-43 Approach to stakeholder engagement	22, 23	
	102-44 Key topics and concerns raised	22, 23	
	102-45 Entities included in the consolidated financial statements	129	
	102-46 Defining report content and topic boundary	7, 25, 26, 27	
	102-47 Material topics	25, 26	
	102-48 Restatement of information		No any restatement of Information is presented.
	102-49 Changes in reporting	26	
	102-50 Reporting period	7	
	102-51 Date of most recent report	7	
	102-52 Reporting cycle	7	
	102-53 Contact point for questions regarding Report	7	
	102-54 Claims of reporting in accordance with GRI Standards	7	
	102-55 GRI context index	226, 227	
	102-56 External assurance	7, 228, 229	
MATERIAL TOPICS			
Economic Performance			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	25, 26, 27	
	103-2 The Management Approach and its components	24	
	103-3 Evaluation of the Management Approach		
GRI 201: Economic Performance 2016	201-1- Direct economic value generated and distributed	3, 221-222	
	201-3 Defined benefit plan obligations and other retirement plans	167	

GRI 102-55

GRI Standard	Disclosure	Page number(s)	Omission
Energy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	25, 26, 27	
	103-2 The Management Approach and its components	54	
	103-3 Evaluation of the Management Approach		
GRI 302: Energy 2016	302-1 Energy consumption within the organization	6, 54	
	302-3 Energy intensity	6, 54	
	302-4 Reduction of energy consumption	6, 54	
Employment			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	25, 26, 27	
	103-2 The Management Approach and its components	44	
	103-3 Evaluation of the Management Approach		
GRI 401: Employment 2016	401-1 Employee hires and turnover	48, 53	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	51	
	401-3 Parental Leave	51	
Training and education			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	25, 26, 27	
	103-2 The Management Approach and its components	49	
	103-3 Evaluation of the Management Approach		
GRI 404: Training and education	404-1 Average hours of training per year per employee	44, 49	
	404-2 Programs for upgrading skills and transition assistance programmes	49	
	404-3 Percentage of employees receiving regular performance and career development reviews	44	
Diversity and equal opportunity			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	25, 26, 27	
	103-2 The Management Approach and its components	48	
	103-3 Evaluation of the Management Approach		
GRI 405: Diversity and equal opportunity 2016	405-1 Diversity of governance bodies and employees	47	
	405-2 Ratio of basic salary and remuneration of women to men	51	
Local Communities			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	25, 26, 27	
	103-2 The Management Approach and its components	40	
	103-3 Evaluation of the Management Approach		
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	40, 41	
	413-2 Operations with significant actual and potential negative impacts on local communities		No incidents were recorded in 2018
Customer Privacy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	25, 26, 27	
	103-2 The Management Approach and its components	42	
	103-3 Evaluation of the Management Approach		
GRI 418: Customer Privacy	418-1 Subtantial complaints convening breachers of customers privacy and loss of customer data		No incidents were recorded in 2018

INDEPENDENT ASSURANCE REPORT TO THE SHAREHOLDERS OF SIYAPATHA FINANCE PLC

GRI 102-56

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

INTRODUCTION AND SCOPE OF THE ENGAGEMENT

The management of Siyapatha Finance PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2018 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 221 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' – Core guidelines.

BASIS OF OUR WORK AND LEVEL OF ASSURANCE

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("ICASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards 'In accordance' – Core guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

MANAGEMENT OF THE COMPANY'S RESPONSIBILITY FOR THE REPORT

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting process in line with the GRI Sustainability Reporting Guidelines.

ERNST & YOUNG'S RESPONSIBILITY

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated 10 December 2018. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the ICASL.

KEY ASSURANCE PROCEDURES

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 December 2018.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' – Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

LIMITATIONS AND CONSIDERATIONS

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

GRI 102-56

CONCLUSION

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 221 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 December 2018.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.

Ernst & Young
Chartered Accountants

26 February 2019
Colombo

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF SIYAPATHA FINANCE PLC

EY
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

REPORT ON THE DIRECTOR'S STATEMENT ON INTERNAL CONTROL

We were engaged by the Board of Directors of Siyapatha Finance PLC ("the Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2018.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

SUMMARY OF WORK PERFORMED

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

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

OUR CONCLUSION

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

Ernst & Young

26 March 2019
Colombo

GLOSSARY OF FINANCIAL TERMS

A

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual Basis

Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial Assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

Allowance for impairment

A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Amortization

The systematic allocation of the depreciable amount of an asset over its useful life.

Amortised Cost

The amount at which the financial asset of financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Asset and Liability Committee (ALCO)

A risk-management committee in a finance company that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the finance company's forecast and strategic balance-sheet allocations.

Available -For -Sale financial Assets

Non derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Average Weighted Prime Lending Rate (AWPLR)

AWPLR is calculated by the Central Bank weekly based on commercial banks' lending rates offered to their prime customers during the week.

B

Basis Point (BP)

One hundred of a percentage point (0.01 per cent); 100 basis points is 1 percentage points: Used in quoting movements in interest rates or yields on securities.

C

Capital Adequacy Ratio

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for

International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash

Cash comprises cash on hand and demand deposits.

Cash Equivalents

Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash Flows

Cash flows are inflows and outflows of cash and cash equivalents.

Collectively Assessed Impairment

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

Commercial Paper (CP)

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Reporting date.

Compounded Annual Growth Rate (CAGR)
The rate at which a variable would have grown if it grew at an even rate compounded annually.

Contingencies
A condition or situation existing at the Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contract
An agreement between two or more parties that creates enforceable rights and obligations.

Control
An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Corporate Governance
The process by which corporate entities are governed, it is concerned with the way in which power is exercised over the management and direction of an entity, the supervision of executive actions and accountability to owners and others.

Corporate Sustainability
Business approach that creates long-term consumer and employee value by creating a 'green' strategy aimed toward the natural environment and taking into consideration every dimension of how a business operates in the social, cultural and economic environment.

Cost to Income Ratio
Operating expenses excluding loan/ lease loss provision as a percentage of total operating income.

Credit Ratings
An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk
Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

Credit Risk Mitigation
A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer Deposits
Money deposited by account holders. Such funds are recorded as liabilities.

D

Deferred Tax
Sum set aside for tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

Delinquency
A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful asset.

Derecognition
Removal of a previously recognized financial asset or financial liability from an entity's Statement of Financial Position.

Discount Rate
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

Dividend Cover
Profit after tax divided by gross dividend. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Dividend pay-out ratio
Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

Dividend per share (DPS)
Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

Dividend Yield
Dividend earned per share as a percentage of its market value.

E

Earnings per Share (EPS)
Profit attributable to ordinary shareholders divided by the number of ordinary shares in use.

Economic Value Added (EVA)
A measure of productivity which takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate
Provision for taxation expressed as a percentage of Profit Before Tax.

Employee Retention Ratio
Represents the number of employees retained out of the employees attrition during the year as a percentage of average number of employees for the year end.

Equity Method
The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post- acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Events after the Reporting Period
Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

Expected Loss (EL)
A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

Exposure
A claim, contingent claim or position which carries a risk of financial loss.

F

Factoring
Factoring is a time-honored financial tool used by companies worldwide. It is the purchase of account receivables (invoices) for immediate cash.

Fair Value
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value Through Profit or Loss
A financial asset/liability: Acquired/ incurred principally for the purpose of selling or repurchasing in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

Finance Lease
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Asset
Financial asset is any asset that is cash, an equity instrument of "another" entity or a contractual right to receive cash or another financial asset from another entity.

Financial guarantee contract
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial Instrument
Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Liability
Financial Liability is a contractual obligation to deliver cash or another financial asset to another entity.

Functional and Presentation Currency
These Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency. All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

G

Global Reporting Initiative (GRI)

GRI is a leading organization in the sustainability field. GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development

Going concern

An entity shall prepare Financial Statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Group

A Group is a parent of all its subsidiaries.

Gearing

Long term borrowings divided by the total funds available for shareholders.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

Guarantees

A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfil the contractual obligations.

H

Held for Trading

Debt and equity investments that are purchased with the intent of selling them within a short period of time.

Hire purchase

A hire purchase is a contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

HTM (Held to Maturity) Investments

Held-to-Maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity.

I

International Financial Reporting Standards (IFRS)

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Interest Cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest Margin

Net Interest income expressed as a percentage of average interest earning assets.

Interest Spread

Represent the difference between average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

Interest in Suspense

Interest suspended on non- performing leases, hire purchases and other advances.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired Loans

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment Allowances

Management’s best estimate of losses incurred in the loan portfolios at the balance sheet date.

Impairment Provisions

Impairment provisions are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Individually Assessed Impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Individually Significant Loan Impairment Provision (Specific Impairment Provision)

Impairment is measured individually for assets that are individually significant to the Group.

Integrated Reporting

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long-term in its economic, social and environmental context.

Interest Rate Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Investment Properties

A property (land or a building - or part of a building - or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Investment Securities

Securities acquired and held for yield and capital growth purposes and are usually held to maturity.

K

Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

L

Lending portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

Lifetime Expected Credit Losses

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan/Credit Losses and Provisions

Amount set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollected.

Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

Loan to value ratio (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loss Given Default (LGD)

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

M

Market Risk

This refers to the possibility of loss arising from changes in a value of financial instrument as a result in changes of market variables such as interest rate, exchange rates, credit spread and other asset prices.

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Assets per Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net Interest Income

The difference between income earned on interest bearing assets and costs incurred on financial instruments/ facilities used for funding.

Net Interest Margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

Non Performing Advances

A lease, hire purchase or other advance placed on cash basis (i.e. interest income is only recognised when cash is received), because in the opinion of management, there is a reasonable doubt regarding the collect ability of principal and/ or interest. Rentals receivable in arrears for more than six rentals have been categorised as non-performing. Non-performing advances are reclassified as performing when all arrears rentals are settled in full.

NPA Ratio

The total non-performing leases, hire purchases and other advances expressed as a percentage of total loans and advances portfolio.

O

Off- Balance Sheet Items

Items that are not recognised as assets or liabilities in the statement of financial position, which give rise to the commitment and contingencies in future.

Offsetting of financial statements

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 settled the liability simultaneously.

Operational Risk

Operational risk refers to the losses arising from fraud, negligence, oversight,human error, process errors, system failures, external events, etc.

P

Parent Company

A parent is an entity that has one or more subsidiaries.

Past Due

A financial asset is past due when a counter party has failed to make a payment when contractually due.

Power

The Power is the existing rights that give the current ability to direct the relevant activities.

Probability of Default (PD)

The probability that an obligor will default within a one-year time horizon.

Projected Unit Credit Method (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro- rated on service or as the benefit/ years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Provision Cover

Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on non-performing loans, leases and advances.

Prudence

Inclusion of degree of caution in the exercise of judgment needed in making the estimates required under the conditions of uncertainty, such that asset or income are not overstated and liabilities or expenses are not understated.

R

Related Parties

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Residual Value

The estimated amount that is currently realizable from disposal of the asset, after deducting estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Return on Average Assets (ROA)

Profit after tax expressed as a percentage of average assets

Return on Equity (ROE)

Net Profit after Tax less dividend on preference shares if any, exercised as a percentage of average ordinary shareholders' equity.

Reverse Repurchase Agreements

Transactions involving the purchase of securities by the company and resale back to the seller at a future date and specified price.

Risk Weighted Assets

The sum of on balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

S

Shareholders' Funds

The total of stated capital and capital and revenue reserves.

Sri Lanka Financial Reporting Standards (SLFRSs)

Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka.

They comprise of the followings. Sri Lanka Accounting Standards (SLFRS & LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

Staff turnover ratio

Represents the number of employees attrition during the year as a percentage of average number of employees for the year end.

Stated Capital

All amounts received by the Company or due and payable to the Company - (a) in respect of the issue of shares, (b) in respect of calls on shares.

Statutory Reserve Fund

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003

Substance over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary Company

An entity, including an unincorporated entity which is controlled by another entity called parent.

T

Tier I Capital (Core Capital)

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital (Supplementary capital)

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital (Capital Base)

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

U

Useful Life

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

Value Added

Wealth created by providing financial and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Volatile Liability Dependency Ratio

Short Term borrowings (of maturity less than 12 months) expressed as a percentage of the Total Advances (Lending) Portfolio.

Y

Yield

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

Yield to Maturity

Discount rate at which the present value of future payments would equal the security's current price.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY given that the 14th Annual General Meeting of Siyapatha Finance PLC will be held on 28th May 2019 at 4.30 p.m. at the Board Room of Sampath Bank PLC at No. 110, Sir James Peiris Mawatha, Colombo 02 for the following purposes;

(1) To receive and consider the Report of the Board of Directors on the affairs of the Company and the statement of Audited Accounts for the year ended 31st December 2018 with the Report of the Auditors thereon.

(2) To re-elect Mr. C. P. Palansuriya as a Director under Articles 24(8) of the Articles of Association of the Company.

(3) To re-elect Mr. W. M. P. L. De Alwis as a Director under Articles 24(8) of the Articles of Association of the Company.

(4) To re-elect Dr. H. S. D. Soysa as a Director under Articles 24(8) of the Articles of Association of the Company.

(5) To elect Mr. Y. S. H. R. S. Silva as a Director in accordance with the Article 24(2) of the articles of Association of the Company.

(6) To elect Mr. J. Selvaratnam as a Director in accordance with the Article 24(2) of the articles of Association of the Company.

(7) To elect Mr. J. H. Gunawardena as a Director in accordance with the Article 24(2) of the articles of Association of the Company.

(8) To approve a scrip dividend of Rs.0.50 per share as recommended by the Board of Directors for the financial year 2018 to consider and if thought fit, to pass the following resolution as an Ordinary Resolution:

“It is hereby resolved to approve a dividend of Rs.0.50 per share be distributed in the form of a scrip dividend amounting to a sum of Rupees Thirty Six Million Three Hundred and Forty Three Thousand Six Hundred and Forty Nine (Rs. 36,343,649/-), subject to a dividend tax of 14%. The shares issued in the scrip dividend shall be valued at Rs. 50/- per share which result in Eighty Six (86) shares being issued for each existing ten thousand (10,000) shares held by the shareholder.”

“It is further resolved that the total number of shares to be issued under the scrip dividend shall be Six Hundred and Twenty Five Thousand One Hundred and Eleven (625,111) Ordinary Shares.”

(9) To re-appoint M/s Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.

By order of the Board

S. Sudarshan
Group Company Secretary

30 April 2019

PROXY FORM

I/We ....

of...

Being a member/s of Siyapatha Finance PLC hereby appoint

Mr. C. P. Palansuriya of 118/1, Dr. N. M. Perera Mawatha, Colombo 08	failing him
Mr. W. M. P. L. De Alwis of 40/4, Park Road, Colombo 05	failing him
Mr. H. M. A. Seneviratne, 156/12, Weragala Place, Thalawathugoda	failing him
Dr. H. S. D. Soysa of 19,7/3, Lauries Lane, Colombo 04	failing him
Mr. L. T. Ranwala of Flat No. 18, Rosmead Towers, No. 102 - 2/1, Rosmead Place, Colombo 07.	failing him
Mr. P. S. Cumaranatunga of 325, Park Road, Colombo 5	failing him
Ms. A. Nanayakkara of 122/12, Arnolda Place, Colombo 5	failing her
Mr. Y. S. H. R. S. Silva of 90, Galkanda Road, Aniwatte, Kandy.	failing him
Mr. J. Selvaratnam, 441/5A, 2nd Lane, Cotta Road, Rajagiriya.	failing him
Mr. J. H. Gunawardena, 88, Pirivena Road, Ratmalana	failing him or

Mr/Mrs/Miss ....

of...

as my/our proxy to present me/us and vote at the Annual General Meeting of the Company to be held on 28th May 2019 at 4.30 p.m. and at any adjournment thereof.

		For	Against
(1)	To receive the Audited Financial Statements and the Annual Report of the Board for the year ended 31.12.2018.		
(2)	To re-elect Mr. C. P. Palansuriya as a Director under Articles 24(8) of the Articles of Association of the Company.		
(3)	To re-elect Mr. W. M. P. L. De Alwis as a Director under Articles 24(8) of the Articles of Association of the Company.		
(4)	To re-elect Dr. H. S. D. Soysa as a Director under Articles 24(8) of the Articles of Association of the Company.		
(5)	To elect Mr. Y. S. H. R. S. Silva as a Director under Articles 24(2) of the Articles of Association of the Company.		
(6)	To elect Mr. J. Selvaratnam as a Director under Articles 24(2) of the Articles of Association of the Company.		
(7)	Mr. J. H. Gunawardena as a Director under Articles 24(2) of the Articles of Association of the Company.		
(8)	To approve a scrip dividend of Rs. 0.50 per share for the Financial Year 2018.		
(9)	To re-appoint M/s Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.		

Mark your preference with 'X'

Signed ……………….. day of …………………………2019.

NOTE :

i. Proxy need not be a member of the Company

ii. Instructions regarding completion of Proxy are given on the reverse.

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the form of proxy, after filling in legibly your full names and address, and by signing on the space provided.
2. The completed form of proxy should be deposited at the Registered Office of the Company at 4th Floor, No. 110, Sir James Peiris Mawatha, Colombo 02, not less than 48 hours before, the appointed time for the holding of the meeting.
3. If you wish to appoint a person other than Chairman, Deputy Chairman or a Director of the Company as your proxy, please insert the relevant details at the space provided (below names of the Board of Directors) on the Proxy form.
4. Article 16(6) of the Articles of Association of the Company provides that;

   "Any corporation which is a member of the Company may by resolution of its directors or other governing body authorize such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the company, and the person so authorized shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company".
5. Please indicate with an 'X' in the space provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy, at his discretion, will vote as he thinks fit.
6. In the case of a Company/Corporation, the Proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
7. In the case of a Proxy signed by an Attorney, the Power of Attorney must be deposited at the Registered Office of the Company for registration.

If undelivered, please return to;

Group Company Secretary

Siyapatha Finance PLC

No. 110, Sir James Peiris Mawatha,
4th Floor - Sampath Centre Building
Colombo 02.

CORPORATE INFORMATION

NAME OF THE COMPANY
Siyapatha Finance PLC (formerly known as Sampath Leasing and Factoring Limited)

Registration No.	:	PB 917PQ
Telephone	:	+94117605605
Fax	:	+94117605606
E-mail	:	info@siyapatha.lk
Website	:	www.siyapatha.lk

CREDIT RATING
Fitch Rating Lanka Limited has affirmed Siyapatha Finance PLC's National Long Term Rating of A-(lka) Stable Outlook.

PRIMARY BRANDS, PRODUCTS AND SERVICES
Please refer Capitals Report Section

LOCATION OF HEAD QUARTERS GRI 102-3
No.46/12, Nawam Mawatha, Colombo 02.

REGISTERED OFFICE
No.110, Sir James Peiris Mawatha, Colombo 02

OPERATING COUNTRIES GRI 102-4
Operations are limited to Sri Lanka

OWNERSHIP GRI 102-5
Siyapatha Finance PLC is a fully owned subsidiary of Sampath Bank PLC. Siyapatha Finance PLC does not have any subsidiaries established.

LEGAL FORM GRI 102-5
Sampath Leasing and Factoring Limited was incorporated on 3rd March 2005 under the Companies Act No. 17 of 1982 as a specialized leasing company and re- registered under the Companies Act No. 07 of 2007 on 18th March 2009. Sampath Leasing and Factoring Limited was renamed as "Siyapatha Finance Limited" on 2nd September 2013. Upon the listing of the unsecured subordinated redeemable debentures on the Colombo Stock Exchange on 31 December 2014, the status of the Company was changed from Siyapatha Finance Limited to Siyapatha Finance PLC with effect from 02nd January 2015.

BOARD OF DIRECTORS

Name	Description
Mr. C. P. Palansuriya	Chairman, Non-Independent, Non-Executive Director
Mr. W. M. P. L. De Alwis	Deputy Chairman, Independent, Non-Executive Director
Mr. K. M. S. P. Herath	Managing Director, Executive Director (resigned w.e.f. 28/02/2019)
Mr. H. M. A. Seneviratne	Managing Director, Executive Director (appointed w.e.f. 01/03/2019)
Dr. H. S. D. Soysa	Independent, Non-Executive Director
Mr. L. T. Ranwala	Non-Independent, Non-Executive Director
Mr. P. S. Cumaranatunga	Independent, Non-Executive Director
Ms. A. Nanayakkara	Independent, Non-Executive Director
Mr. Y. S. H. R. S. Silva	Non-Independent, Non-Executive Director (appointed w.e.f. 01/06/2018)
Mr. J. Selvaratnam	Non-Independent, Non-Executive Director (appointed w.e.f. 18/12/2018)
Mr. J. H. Gunawardena	Independent, Non-Executive Director (appointed w.e.f. 29 /01/2019)

AUDITORS
Messrs Ernst & Young, Chartered Accountants No.201, De Seram Place, Colombo 10, Sri Lanka.

Tel	:	+94112463500
Fax	:	+94112697369

LAWYERS
Messrs Nithya Partners Attorneys-at-Law

COMPANY SECRETARY
Mr. S. Sudarshan Chartered Secretary

BANKERS
Sampath Bank PLC
Commercial Bank of Ceylon PLC
Hatton National Bank PLC
Bank of Ceylon
Nations Trust Bank PLC
National Development Bank PLC
Seylan Bank PLC
Deutsche Bank AG
MCB Bank Ltd
Union Bank of Ceylon PLC

MEMBERSHIPS GRI 102-13
Leasing Association of Sri Lanka
Finance Houses Association of Sri Lanka.
Employers Federation of Ceylon (EFC)
Credit Information Bureau of Sri Lanka

MARKETS SERVED GRI 102-6
Our operations are spread across the island covering all provinces except one.

Our primary market segments are individual customers, SMEs and corporate clients.

SIGNIFICANT CHANGES DURING THE REPORTING PERIOD GRI 102-10
There are no significant changes to the organization size, structure, ownership or supply chain during the reporting period.

Designed & produced by
emagewise
Printed by Printage (Pvt) Ltd

සියපත ෆිනෑන්ස්
சியபத பினான்ஸ்
Siyapatha Finance

(Finance Company of Sampath Bank Group)