
Measured Steps 2016

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Calculated, strategized and on the right track, step by step we have built the stairway to new levels of accomplishment. Assisting with this growth has been the backing of a parent company, whose ethics, policies and integrity has been a hallmark of what we offer. Our steps may have been measured but they have not been slow. With an expansion that saw us extend our reach and add more to our already diverse portfolio, our journey will take us far in the ranking as we ascend to greater aspirations and achievements.

Siyapatha
FINANCE P L C
member  **Sampath Bank Group**

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LEADERSHIP

**TAKING OUR BRAND
OF BUSINESS TO
THE FOREFRONT OF
THE INDUSTRY, OUR
LEADERSHIP IS NOT
MERELY INSPIRING
BUT EXEMPLARY.**



REPORT PROFILE

We are pleased to present our Integrated Annual Report concerning our comprehensive performance for the financial year 2016 for 12 months period from 01 January 2016 to 31 December 2016. The most recent previous report published by the Company was for the financial year ended 31st December 2015.

This remains a primary source of information for our stakeholders and it is intended to show the results and direction of the Company.

RESTATEMENT, SCOPE AND BOUNDARIES

This is the third Annual Report in which we have applied GRI G4 'in accordance' – Core guideline publication on sustainability reporting. There are no significant changes in the scope and aspect boundaries of this report.

This report comprehensively covers the operational results, a review of financial performance, risk management and compliance framework, an overview of the company's corporate governance aspects and sustainability practices of Siyapatha Finance PLC. Governance aspects are described in detail referring 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, the listing rules of the CSE and the 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.

There are no re-statement of the financial or non financial information presented in this report.

FORWARD LOOKING STATEMENTS

The management discussion and analysis contains information based on our interpretation of current and future events. The reader may seek expert professional advice when making conclusions on aspects reported.

This report includes forward-looking statements, which relates to the possible future financial position and results of Siyapatha Finance PLC. We do not undertake to update or revise any of these forward- looking statements publicly, whether to reflect new information or future events or otherwise.

ASSURANCE

We obtain the service of independent service providers to assess and assure various aspects of business operations including the elements of external reporting.

- Auditing of the Financial Statements by External Auditors, Messrs Ernst & Young, Chartered Accountants (please refer page 153)
- An independent audit conducted by Messrs Ernst & Young , Chartered Accountants, to verify compliance of GRI G4 sustainability indicators, in conformity with "In accordance – Core" disclosure requirements. Please refer pages 232 - 233.

INQUIRIES

Any inquiries relating to the information presented in the Annual Report should be addressed to :

Chief Operating Officer
Siyapatha Finance PLC
No.46/12, Nawam Mawatha,
Colombo 02

Tel : 0117- 605605
Fax : 0117- 605606

ABOUT US

Siyapatha Finance PLC, formerly known as Sampath Leasing & Factoring Limited a fully owned subsidiary of Sampath Bank PLC, was established on 03rd March 2005 as a specialised leasing company, licensed and regulated by the Central Bank of Sri Lanka to financially service the lower end of the SME/retail customer segment.

Over its 12 years in operation, Siyapatha Finance has grown into the largest subsidiary of the bank and in September 2013 the entity was re-branded with a new identity "Siyapatha" which denotes the theme of "Trust and Excellence", subsequently to receiving a finance company license by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No 42 of 2011 and the Company was listed in the Colombo Stock Exchange on 31st December 2014. Operations of Siyapatha Finance are limited to Sri Lanka and spread across the island covering all nine provinces with 24 branches and a staff strength of about 400 young and energetic employees.

Being 100% owned subsidiary finance company of Sampath Bank - the best commercial bank in Sri Lanka, Siyapatha Finance gains a competitive advantage in the finance market in the country by being trustworthy and stable, which are the two most identical key features a finance company should have to serve their customers with the best service in the country.

Winning the Silver Award at the Annual Reports Competition in 2012 organised by the Chartered Institute of Accountants of Sri Lanka under the specialised leasing company category for the second consecutive year was a remarkable achievement, which indicated a higher level of reporting standards and corporate governance practices maintained by the Company. In 2013 the Company further improved by winning the Gold Award (First in the category) in the Specialised Leasing Company category. Siyapatha Finance has earned for itself a credit rating of "A-(lka)" with a negative outlook from Fitch Ratings Lanka Ltd, which is an internationally accredited rating agency.

OUR HISTORY

2005

- Establishment of Sampath Leasing & Factoring Ltd, as a fully owned subsidiary of Sampath Bank PLC
- Opened first two branches in Kandy and Matara

2010

- Appointment of new Corporate Management

2013

- Licensed as a Finance Company
- Re-brand the entity as "Siyapatha Finance Ltd"
- Product portfolio expands with Pawning Business
- Expanded the channel network to 18 branches

2014

- Appointment of new Chairman to the Board of Directors
- Issuance of its first Listed, Rated, Unsecured, Subordinated, Redeemable Debentures of Value LKR 1Bn

2016

- Appointment of a new Chairman and the Managing Director to the Board of Directors
- Issuance of its Second Listed, Rated, Unsecured, Senior, Redeemable Debentures of Value LKR 2.5Bn
- Addition of four branches to the Channel Network at Gampaha, Kalutara, Trincomalee and Wellawatte, expansion of channel network to 24 branches

MATERIALITY ASSESSMENT

	Aspect	Significance in terms of sustainability context	Materiality	
			Internal Stakeholders	External Stakeholders
Economic				
1	Economic performance	High	High	High
2	Market presence	High	High	High
3	Indirect economic impacts	Low	Low	Low
4	Procurement practices	Low	Low	Low
Environmental				
5	Materials	Low	Low	Low
6	Energy	Moderate	Moderate	Moderate
7	Water	Moderate	Moderate	Moderate
8	Biodiversity	Moderate	Moderate	Moderate
9	Emissions	Moderate	Moderate	Moderate
10	Effluents and waste	Moderate	Moderate	Moderate
11	Products and services	Moderate	Moderate	Moderate
12	Compliance	High	High	High
13	Transport	Low	Low	Low
14	Overall	Low	Low	Low
15	Supplier environmental assessment	Moderate	Moderate	Moderate
16	Environmental grievance mechanisms	Moderate	Moderate	Moderate
Social : Labor practices and decent work				
17	Employment	High	High	High
18	Labor management relations	Moderate	Moderate	Moderate
19	Occupational health and safety	High	High	High
20	Training and education	High	High	High
21	Diversity and equal opportunity	High	High	High
22	Equal remuneration for women and men	High	High	High
23	Supplier assessment for labor practices	Moderate	Moderate	Moderate
24	Labor practices grievance mechanisms	Moderate	Moderate	Moderate
Social : Human rights				
25	Investment	Low	Low	Low
26	Non-discrimination	High	High	High
27	Freedom of association and collective bargaining	Low	Low	Low
28	Child labor	Moderate	Moderate	Moderate
29	Forced or compulsory labor	Moderate	Moderate	Moderate
30	Security practices	Low	Low	Low
31	Indigenous rights	Low	Low	Low
32	Assessment	Low	Low	Low

Materiality Assessment

	Aspect	Significance in terms of sustainability context	Materiality	
			Internal Stakeholders	External Stakeholders
33	Supplier human rights assessment	Low	Low	Low
34	Human rights grievance mechanisms	High	High	High
Social : Society				
35	Local communities	Low	Low	Low
36	Anti-corruption	Moderate	Moderate	Moderate
37	Public policy	Low	Low	Low
38	Anti-competitive behaviour	Moderate	Moderate	Moderate
39	Compliance	High	High	High
40	Supplier assessment for impacts on society	Low	Low	Low
41	Grievance mechanisms for impacts on society	Low	Low	Low
Social : Product responsibility				
42	Customer health and safety	Moderate	Moderate	Moderate
43	Product and service labelling	Moderate	Moderate	Moderate
44	Marketing communications	High	High	High
45	Customer privacy	High	High	High
46	Compliance	High	High	High

Sustainability significance to internal stakeholders	H			1, 2, 12, 17, 19, 20, 21, 22, 26, 34, 39, 44, 45, 46
	M		6, 7, 8, 9, 10, 11, 15, 16, 18, 23, 24, 28, 29, 36, 38, 42, 43	
	L	3, 4, 13, 14, 25, 27, 30, 31, 32, 33, 35, 37, 40, 41		
	L		M	H
Sustainability significance to external stakeholders				

FINANCIAL HIGHLIGHTS



	2016	2015	Change %
Profitability(LKR Mn)			
Gross revenue	3,153.91	2,212.49	42.55%
Total operating income	1,530.99	1,381.54	10.82%
Operating expenses, impairment losses and VAT & NBT on financial services	1,015.80	822.38	23.52%
Profit before taxation	515.19	559.15	-7.86%
Taxation	187.90	174.63	7.60%
Profit for the year	327.28	384.52	-14.89%
Assets & Liabilities(LKR Mn)			
Due to other customers(Deposits only)	3,362.66	1,233.04	172.71%
Loans and receivables	19,181.35	13,529.24	41.78%
Shareholders' funds	1,930.36	1,611.13	19.81%
Total liabilities	18,860.38	13,028.19	44.77%
Total assets	20,790.74	14,639.33	42.02%
Investor Information			
Net asset value per share(LKR)	35.67	30.69	16.23%
Earnings per share-Basic(LKR)	6.14	7.32	-16.12%
Dividend per share(LKR)	1.21	1.10	10.00%
Gross dividend(LKR Mn)	65.49	57.75	13.40%
Other key indicators			
Impairment allowance on loans & receivables	2.19%	2.68%	-18.28%
Return on average assets(%)			
- Before tax	2.87%	4.19%	-31.58%
- After tax	1.81%	2.87%	-37.04%
Return on equity(after tax)(%)	18.35%	25.91%	-29.18%
Cost to income ratio(%)	52.78%	49.21%	7.25%
Liquid assets ratio(%)	7.56%	7.53%	0.39%
Capital adequacy ratios(%)			
-Tier I	10.62%	12.25%	-13.27%
-Tier +Tier II	13.93%	18.34%	-24.06%
Debt/Equity ratio(Times)	4.92	4.42	11.31%
Interest cover(Times)	1.32	1.84	-28.26%
Fitch rating	A-(lka) Negative	A-(lka) Stable	

Financial Highlights

	2016	2015	2014	2013	2012
FINANCIAL ACHIEVEMENTS					
Return on average assets(%)	1.81%	2.87%	2.53%	2.64%	4.03%
Return on average equity(%)	18.35%	25.91%	21.83%	21.74%	25.46%
Growth in profit after tax(%)	-14.89%	47.79%	17.74%	10.36%	1.12%
Growth in assets(%)	42.02%	40.52%	15.94%	54.64%	40.90%
Cost to income ratio	52.78%	49.21%	45.73%	51.60%	45.36%
Capital adequacy ratios:					
Tier I (Minimum ratio of 5%)	10.62%	12.25%	13.95%	12.06%	17.77%
Tier I + Tier II (Minimum ratio of 10%)	13.93%	18.34%	20.92%	12.06%	17.77%

↑43%

3.15BN

TOTAL REVENUE OF LKR 3.15 BILLION
(A GROWTH OF 43%)

↑42%

20.79BN

TOTAL ASSET BASE OF LKR 20.79 BILLION
(A GROWTH OF 42%)

↑173%

3.36BN

CUSTOMER DEPOSITS OF LKR 3.36 BILLION
(GROWTH OF 173%)

19.18BN

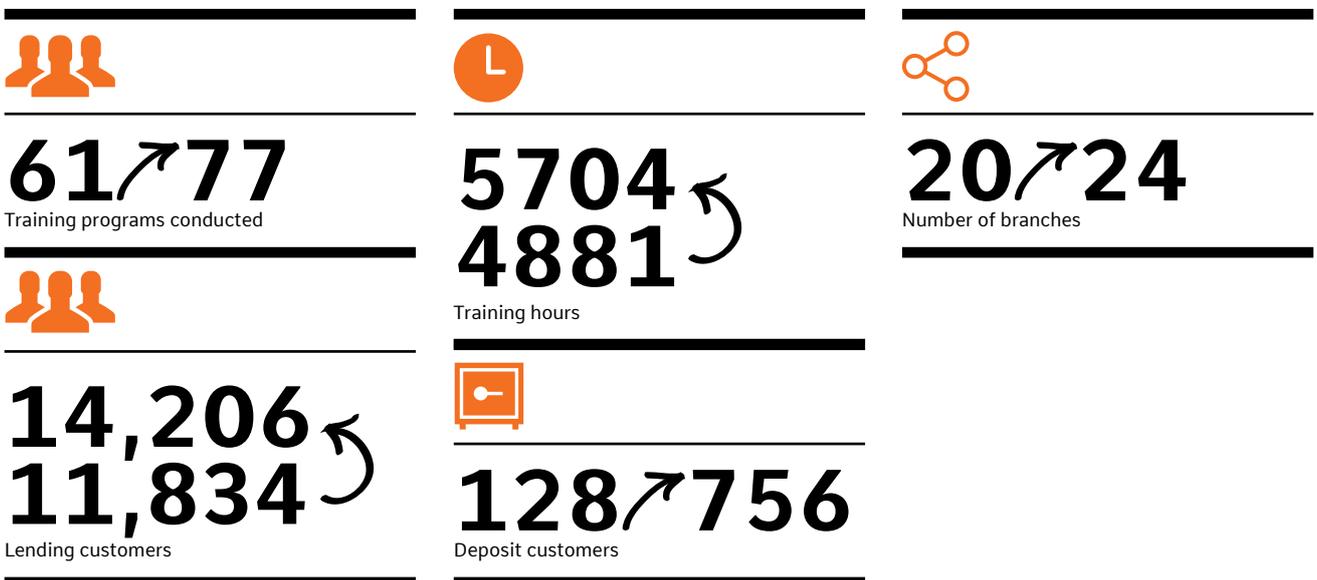
NET ADVANCES PORTFOLIO OF
19.18 BILLION (A GROWTH OF 42%)

1.93BN

SHAREHOLDERS' FUNDS AT 1.93 BILLION
(A GROWTH OF 20%)

NON FINANCIAL HIGHLIGHTS

INDICATOR		2016	2015
HUMAN CAPITAL			
Total number of staff by gender			
-Male	Number	285	241
-Female	Number	105	84
Employee attrition	Number	71	51
Employees who completed 10 years of service	Number	19	9
Training programs conducted	Number	77	61
Training hours	Number	5,704	4,881
Profit per employee(LKR Mn)	Number	0.84	1.17
SOCIAL AND RELATIONSHIP CAPITAL			
Economic value added	LKR Million	158.38	283.72
Significant fines for violation of laws and regulations	Number	None	None
Number of branches	Number	24	20
Lending customers	Number	14,206	11,834
Deposit customers	Number	756	128
Incidents of non compliance with regulations in marketing communication	Number	None	None
CONTRIBUTION TO THE GOVERNMENT			
Taxes paid to Government	LKR Million	434.81	262.59



INTEGRITY

**HONESTY IS A KEY
BUILDING BLOCK
IN ALL THAT WE DO
AND WE VALUE OUR
STAKEHOLDERS
BY CONTINUING TO
STAY TRUE TO THIS
PRINCIPLE.**

2

CHAIRMAN'S MESSAGE



We are mindful of the macro solution of the vehicle industry, and now need to look at different areas of lending for rapid expansion. Mergers and acquisitions are one way of rapid expansion. We are ready to look at well priced competitor companies for mergers at present. Furthermore, along with our parent, we are also looking overseas as an avenue of expansion.

This is my first report as Chairman of Siyapatha Finance PLC. Let me first thank Chairman of Sampath Bank Mr. Channa Palansuriya, and Board of Directors of Sampath Bank for appointing me as the Chairman of Siyapatha Finance PLC, a fully owned subsidiary of the Bank. Also my gratitude to the Board of Directors of Siyapatha PLC for welcoming me as the Chairman.

The outgoing Chairman of Siyapatha, Mr. Channa Palansuriya has guided the company to a high growth company by challenging the staff for better results. My task is hence much easier as the company I took over had clear high volume targets for future.

I have been a Director of Siyapatha PLC for many years and have a good knowledge of challenges faced by the company in the recent past. The stewardship of Siyapatha was taken over by Mr. Saman Herath, the Managing Director in April 2016, I have known the new MD for a long period as we were colleagues at Sampath Bank, and have full confidence of the company performance under his leadership.

Sampath Group consists of the Sampath Bank PLC, Siyapatha Finance PLC, Sampath Center Ltd, S C Securities (Pvt) Ltd and Sampath Information Technology Solutions Ltd. However, the group companies are dwarfed by the parent who contributes 96% to the group profits. The Bank is presently in a high growth trajectory and any attempt to eat into its comparative size by related companies in the group seems futile at present. However, we at Siyapatha will do our best attempt to grow in size and make our share important in the group itself.

Attempts have been made in the past to force merge the large number of Finance/Leasing companies in the country. Although it is perhaps early to evaluate the pros and cons of such attempts, we are aware of relatively high pricing formulae prevailed at the time such merges/acquisitions happened last. We are also aware that our Regulator, the Central Bank of Sri Lanka does favor merging of Finance/Leasing companies in the country. However, unlike last attempt no benefits accrue to the companies who will attempt to take over/merge with another Finance company.

We at Siyapatha are aware of market situation at present, where definitely marketing opportunities are shared between far too many competitors. A study of last two government budgets clearly indicate that the import of far too many vehicles to the country do not have the blessing of the Government. Attempts have already been made to mitigate these imports by reducing the amount of lending that a financial institution can provide to a vehicle owner. The loan to value ratio has been reduced drastically which presently causes Leasing industry to suffer. For the same number of vehicle transactions, the lending is much less than the time before such guidelines were introduced.

In such a scenario, the growth of a company like Siyapatha will be extremely difficult. We are a mid-

sized finance company with limited branch presence. Presently our branch expansion progress is under stress as our expected expansion plan may not be sanctioned by the Regulator.

We are mindful of the macro solution of the vehicle industry, and now need to look at different areas of lending for rapid expansion. Mergers and acquisitions are one way of rapid expansion. We are ready to look at well priced competitor companies for mergers at present. Furthermore, along with our parent, we are also looking overseas as an avenue of expansion.

As a fully owned subsidiary of one of the top ten corporates of the country, we have also decided that Siyapatha should look at lending and other business options that our parent is engaged at present. Subject to Regulatory approval, we can introduce new business lines in future to mitigate the significant size of business that relate to vehicles. Even as we write, adequate attempt is made to increase our exposure in the loan area, as well as factoring and gold financing products. Training of our staff in loan products has started and now we are ready to expand this business activity in the near future.

Sri Lanka had a very challenging year in 2016. Almost all key sectors did not perform well. Hence, the growth is expected to decline to around 4.5% as compared to 4.8%

in 2015, and much higher growth rates prior to that.

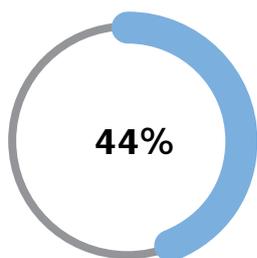
The imports declined in 2016. This is attributed to the high import taxes imposed on vehicles. On a macro basis, this is expected to ease the exchange rate and relax the servicing of foreign debt of the country. Furthermore, the higher exchange rate results further increase vehicle prices, making the vehicle leasing business less attractive. The exchange rate in 2015 was approximately 144.20 Rs / USD which reads 150 Rs / USD by end 2016.

The interest rates of the market kept increasing and presently high rates are being quoted for deposits as well as for lending. Being in an industry where bulk of lending is on fixed rates (leasing) and most funding through variable rate borrowings, the company went through difficult times. Increasing values of gold loans and newly commenced fixed deposit products dampened the downfall to some extent.

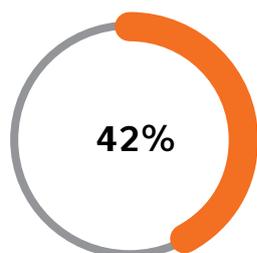
The financial institutions saw a sustained credit growth in 2016. However, more preferred lending was on secured loans for which Banks took a larger market share.

Chairman's Message

Risk and Compliance areas will be strengthened during 2017. Training and Development of the staff is given vital importance. Individual development goals for senior staff will be implemented. For the first time in our history, we have introduced a performance based reward scheme.



Interest Income grew by 44%



Asset base increased by 42%

COMPANY PERFORMANCE

The profit after tax was Rs.327.28 Mn as compared to Rs.384.52Mn achieved in 2015. This has resulted on a lower ROA & ROE amounting to 1.81% and 18.35%. Increased lending resulted in Interest Income to grow by 43.82%, but Interest Expenses increased by 96.53%, hence restricting Net Interest Income to a 6% growth. It is noted that, comparable high business volumes in 2014 and 2015, at relatively low interest rates that prevailed at that time, is the cause of lower profitability today.

The Asset base increased by 42% to Rs.20.79 Bn. Significant growth came from leasing, factoring & gold financing. The company maintained healthy liquidity during the period and Capital Adequacy stood at 10.62% & 13.93% for Tier I and II respectively.

The period also saw four branches being opened. Plans were prepared to increase branch foot print in 2017.

FUTURE PROSPECTS

Assuming that present government intentions on vehicle imports will remain, efforts are being made to increase our exposure to secured lending. Fixed Deposits are gaining momentum, and Savings Products

will come on stream soon. Branch expansion program is ready and awaits Regulator's approval.

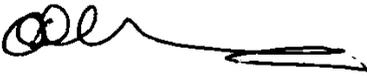
Risk and Compliance areas will be strengthened during 2017. Training and Development of the staff is given vital importance. Individual development goals for senior staff will be implemented. For the first time in our history, we have introduced a performance based reward scheme.

Presently we have many different IT programs in use. Plans are being made to bring a strong core banking solution to resolve the present IT issues faced by the company.

We have bought a property in Borella for a head Office building. Presently plans are awaiting for approval. We plan to commence the construction in the middle of 2017. Funding is expected to be through equity and debt.

APPRECIATIONS

My appreciations are extended to the former Chairman, Mr. Channa Palansuriya, MD Mr. Saman Herath, Board of Directors, Corporate Management and staff of Siyapatha. Our Board consists of senior professionals who have successfully served other organizations including Sampath Bank. To have them on Board makes my job easier as the Chairman. I must respectfully mention here that I have served under some of them during my tenure at Sampath Bank. Finally, I need to appreciate the assistance given to the Company by the Regulator, Central Bank of Sri Lanka and our auditors, Ernst & Young.



M.Y.A Perera
Chairman

07 March 2017

MANAGING DIRECTOR'S REVIEW



The deposit drive would be one of our main priorities in order to reduce the dependency of borrowing exposed to market rates. We intend to introduce value added savings accounts and various types of fixed deposit schemes, ensuring the security of the customers' deposits while paying a higher return.

2016 was a year of many changes for Siyapatha. I assumed my duties as Managing Director in April, and our Chairman, Mr. Channa Palansuriya was appointed as the Chairman of Sampath Bank PLC, our parent organization, and our Director, Mr. Aravinda Perera assumed duties as the new Chairman of the Company from 1st of October after retiring from his illustrious career at Sampath Bank. Mr. Palansuriya remained as a Director, demonstrating his keen interest in the Company. All these changes have strengthened the Board and the strategic directions and guidance on both the financial and non-financial aspects relevant to our industry.

We completed another challenging year for the company with mixed results. The restrictive policies introduced by the government to ease off the pressure on the balance of payment, including the loan to value ratio (LTV) on certain type of vehicles as well as the increase in motor vehicle prices due to upward revision of tariffs and the depreciated value of the rupee against the dollar, had a direct impact on our main sector performances, especially the leasing and loans against vehicles, our core product of the advances portfolio.

Our asset base surpassed Rs. 20 Bn in 2016, a 42 % impressive growth in comparison with the previous year. The main contributing factor for the growth is the 42% of remarkable growth recorded from Lending, whilst maintaining the credit quality of the portfolio. We maintained our NPL ratio at 1.09% well below the industry average, reflecting a strong credit evaluation process and also stringent recovery practices adopted by the recovery team. Liabilities increased by Rs. 5.9 Bn, which is a 45% growth in comparison to the previous year, mainly due to the Deposit growth and the issue of debentures. Shareholders' funds recorded a 20% growth over the previous year mostly due to the retained earnings. We have almost reached

the minimum capital of Rs. 2.0 Bn, which Finance Companies are required to maintain by the end of 2020, according to the direction of the regulator.

PROFITABILITY

We recorded a profit before tax of Rs. 515 Mn and a profit after tax of Rs. 327 Mn in the year 2016 in comparison to the PBT of Rs. 559 Mn and PAT of Rs. 385 Mn recorded in 2015, with a decline of 8% and 15% respectively. The main reason for the decline was the interest cost of funds, being increased by 97% comparing to the previous year, despite the 44% increase in the Interest income from lending.

Out of lending, 76% contributed by leasing and hire purchases, granted on fixed interest rates and these instruments could not be reprised in line with the increase in the funding cost. Most of these contracts carried very low yield rates due to market rates prevailed at the time of granting the facilities.

Our ROA and ROE maintained at 1.81% and 18.35% respectively.

ADVANCES PORTFOLIO

A 42% growth was recorded in comparison to the previous year in the advances portfolio, which was increased by Rs. 5,652 Mn. The major contribution came from Leasing, Rs. 3,375 Mn growth, a 30% increase when compared with the previous year. The effective contribution from our dedicated marketing team was the driving force behind this impressive growth. Gold financing recorded a steady growth of Rs. 998 Mn, a 129% growth comparing to the

previous year. While recording a high growth, we managed the market risk of the gold financing portfolio by mainly accommodating short term facilities. Factoring a recorded a growth of Rs. 822 Mn, a 71% growth in comparison to the previous year.

FUND BASE

Our fund base mainly consists of borrowings from banks, deposits collected from the public and the debentures. We became a licensed Finance company in 2013 and started collecting customer deposits in June 2015. In 2016, we recorded a 173% growth in deposits, as Fixed Deposits. Being a Finance company fully owned by a stronger commercial bank taking care of the safety, the convenience of the customers and competitive interest rates resonated for the growth. In September 2016, we issued senior, unsecured, redeemable debentures amounting to Rs. 2.0 Bn worth of debentures with the intention of enhancing to a total of Rs. 2.5 Bn in the event of over subscription. We had an impressive response from individuals and institutional investors, oversubscribing the issues within a few hours, which is a testimony of the public's confidence in the Company.

Our Capital Adequacy ratios were at 10.62% and 13.93% for Tier I and Tier I+II, respectively which was well above the minimum requirement of 5% and 10% imposed by the regulators.

BRANCH OPERATION

Our Branch network expanded in 2016, with the addition of 4 new branches in Gampaha, Kalutara, Trincomalee and Wellawatte. In addition, we converted our Kandy gold financing center into a fully-fledged branch catering to all the needs of the customer.

We have developed a business model at our branches, which caters to the SME segments, taking care of all their financial needs under a single roof. We revamped the business models of most of our branches in order to achieve operational excellence and continue to improve in order to provide a superior brand of customer service. All our marketing teams are being trained to become financial advisers capable of handling all customer needs. Instead of focusing on a single product, we expect them to offer a total solution to the customer.

PRODUCT DEVELOPMENT

In 2016, we were aggressive in product development, mainly in the lending area, introducing various types of loan products in order to cater to the customer base. Our new product range included personal loans, business loans and an overdraft type of business revolving loans, catering to the working capital requirements of the customers. The gold financing unit introduced a special scheme to support their customers to purchase gold articles with special arrangements with selected jewellery shops.

Managing Director's Review

COST TO INCOME

The cost to income ratio for the year was 52.8% recording slightly above the benchmark of 50% mainly due to branch expansion. We have appointed a cross-functional team, looking at various processes with the objective of minimizing wastage and improving efficiency to minimise the ratio. Special attention is paid to the branch opening cost, including the capital expenditure and overhead cost to optimise the expenditure without compromising service standards.

RISK MANAGEMENT INTERNAL CONTROLS

The management of risk is an integral part in the financial services sector and in the current dynamic environment; enterprise wide risk management is crucial to the success, as well as the sustainability of an entity. We have identified the criticality of risk management and have established a robust system to identify, analyse, assess, plan and monitor risks. We have adopted an integrated view in defining the framework of risk management, whilst ensuring the achievement of strategic objectives in adherence to guidelines set by the supervisory bodies and regulators.

The systematic screening in sanctioning credit and a close monitoring system, that we have adopted, basically ensures the credit quality of the financial assets of the company in terms of mitigating credit risk. Detailed manuals and documented processes have been established through operational risk management activities in order to

minimize people and process errors. Further a set of comprehensive and vigorous internal controls at all stages of the company would guarantee the smooth functioning of the processes whilst ensuring the efficient delivery of expected results.

We continuously monitor the market with a view to minimize interest and liquidity risk with the effective fund management strategies adopted by the Assets and Liability Management Committee (ALCO) mainly to manage the Net Interest Margins (NIM), which is the main contributing factor of our profitability.

CSR AND SUSTAINABILITY INITIATIVES

We are committed to meet our corporate social responsibility objectives and intend to develop a formal governance structure with the participation of the key management and the rest of the team members covering social and economic issues concerning the activities of our company in line with the guidelines set forth by the governing body.

As a responsible corporate citizen, we have initiated measures to minimise paper wastage, we use scanned images of the documents instead of using printed paper/ photo copies for the approval process and the storing of important documents. We use e-mails and other IT systems for all internal communications, reporting and credit approvals, in order to minimise paper usage.

Out of the Leasing portfolio 16% of facilities amounting Rs. 2.3 Bn have been granted on environment friendly Hybrid vehicles, which in turn would reduce the emission and the usage of the fossil fuel.

FUTURE OUTLOOK

The business model of the financing companies is rapidly changing due to the dynamics of the market, including volatile interest rates, and higher costs of vehicles and other restrictions. As a result we are compelled to change the business model from traditional leasing to loan products with a wider scope of covering all the need of our customers, which would be termed and priced in line with the market rates. Gold financing and factoring would be further strengthened while more contribution is expected from the portfolio. We will continue to support the development of the SME segment, identifying their needs and providing financial solutions and helping them create wealth.

The deposit drive would be one of our main priorities in order to reduce the dependency of borrowing exposed to market rates. We intend to introduce value added savings accounts and various types of fixed deposit schemes, ensuring the security of the customers' deposits and convenience while paying a higher return.

We are carefully evaluating the operating models of our branches and the departments in order to improve the processors with a view

of improving the productivity, efficiency and effectiveness of customer service by automating wherever possible and centralizing functions of the branches to minimise the duplication of resources and to optimise the overhead cost. Building a loyal customer base with relationship management and cross selling would be a key priority in formulating strategies in our business model.

We will continue with the branch expansion drive covering all major strategic locations. We will relocate some of the existing branches for greater convenience for the customers, especially supporting the SME segments.

We are looking for a robust IT System platform catering to all our internal and external customer needs, improving our efficiency whilst offering diversified products to customer needs.

We continue to invest in developing the knowledge and skills of our Siyapatha team, providing them with opportunities to improve their skills while identifying the gaps. We will continue with the 360-degree performance appraisal system to monitor their performance and implement a Performance Based Reward Scheme, thus rewarding the teams for their great achievements. We have planned for more employee engagement activities including get - togethers, sports festivals, and various activities for their spouses and children to create

a work life balance. Our main focus is to make Siyapatha a great place to work.

We are planning to formulate a CSR Steering Committee with the specific term of reference in 2017, to provide a more structural approach to our community engagement. A senior team headed by the Managing Director including the Head of HR and the Head of Branches will be appointed to the committee for a structured approach.

We firmly believe that community engagement is fundamental to a socially responsible CSR model and a series of activities will be developed and implemented to achieve this objective. Our intention is to encourage the teams at the branches to organize and participate in CSR projects with the intention of more interaction and engagement with the community.

APPRECIATION

In conclusion, I would like to thank our former Chairman Mr. Channa Palansuriya for his foresight and visionary direction during the period he served as the Chairman to make Siyapatha a vibrant company and also the new Chairman, Mr. Aravinda Perera and all the other Directors for all the strategic directions and the guidance given to me. I would like to thank the Chairman and the Board of Directors of our parent company, Sampath Bank PLC

for the synergistic support given to us. I take this opportunity to thank the former CEO, Mr. Roshan Nanayakkara, who resigned from the service with effect from May 2016, for his unstinted service to Siyapatha, in turning the Company around and making it a profitable organization. I would like to extend my heartfelt gratitude to my team at Siyapatha, for their exceptional commitment, contribution and loyalty towards the Company. I wish to thank our regulators for their direction, and the cooperation extended to us by the officials of the Central Bank of Sri Lanka and our Auditor, Ernst & Young. My sincere gratitude also goes out to our customers, suppliers and strategic business partners for their understanding and business support. I look forward to their continued patronage in the coming years to achieve our goals and make Siyapatha the most effective finance company in this country.



Saman Herath
Managing Director

07 March 2017

INTEGRATED MANAGEMENT DISCUSSION & ANALYSIS

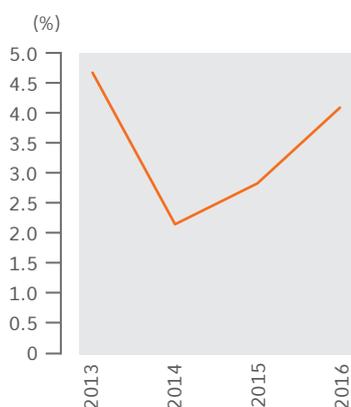
OPERATING ENVIRONMENT

1. COUNTRY REVIEW GROWTH IN GDP

The Country's GDP for the year reached 4.38% in 2016 from 4.84% in 2015. This is led by the growth in the industry sector of 6.69% from being at 2.07% in 2015 while Services recorded a slow pace at 4.18% from 5.74% in 2015. The sectoral importance of agriculture has shrunk further in year 2016 while recording a negative growth of 0.46%. The agriculture sector appeared to be shocked by long dry spells and flood conditions prevailed during the year.

INFLATION

Inflation(%) (Based on CCPI)



Inflation for the year 2016 as measured by NCPI on YoY basis is 4.2%. YoY inflation for the food group was reported to be at 2.3% while that of non-food group was reported at 5.8%. Inflation remained in the mid to low single digit territory during the year 2016.

2. REVIEW OF THE PERFORMANCE OF THE INDUSTRY OF NON-BANKING FINANCIAL INSTITUTIONS

PERFORMANCE OF THE INDUSTRY

Based on the performance figures for the first 09 months of 2016 (provisional figures by CBSL), 79% of the sector balance sheet is represented by loans and this share has been on the increasing trend. Sector reliance on bank borrowings have also increased along with a decreasing trend of deposit share.

The LFC/SLC sector credit recorded a notable growth of 24.2% of YoY as at 30th September 2016 compared to a growth of 30.1% YoY in the previous corresponding period. Credit growth was mainly driven by secured loans and finance leasing. However, the asset quality was subdued amidst credit growth. The provision coverage ratio has gradually improved and companies have become more prudent in general provisioning.

Borrowings of the sector were predominantly from the banking and finance sector (60%) followed by debenture issues and foreign borrowings.

Sector profits of the first three quarters of year 2016 were similar to the previous corresponding period. NIM has abated due to increase in interest expense and upward trend in interest rates. Increase in operating cost has adversely affected the profitability.

PRUDENTIAL REGULATORY MEASURES

The underlying of economic performance and prudential regulatory measures has strengthened the stability of the country's financial sector.

In regard to the new regulations, a number of regulatory policies were introduced in 2016 to strengthen risk management and public confidence of the finance sector.

- ⊙ New regulatory framework was designed to strengthen and streamline the existing policies and practices in respect to the opening, closure and relocation of business places.
- ⊙ The regulation of the 'Maximum Loan to value Ratio' in respect to loans and advances for the purpose of purchase or utilization of motor vehicles was introduced in 2016. This was further tightened in early 2017 by imposing a 50% Loan to Value ratio on motor cars, sport utility vehicles and vans, which have been used in Sri Lanka for less than one year after its first registration.

CBSL has also issued directions on a minimum amount of Core Capital by Licensed Finance Companies for the safety and soundness of the sector. As per the new direction LFC should maintain an unimpaired core capital at level not less than LKR 400 Million until 31st December 2017 and LKR 2.5 Billion by 1st January 2021. CBSL further reserved the rights to impose maximum ceiling of deposit liabilities and borrowings, freeze distribution of dividends and repatriation of profits, and to restrict the expansion of business in the event of non compliance with the said direction.

CHANGES IN THE TAX SYSTEM

Increase in Financial Services VAT (FSV) from 11% to 15% has adversely impacted the industry-wide profitability of Non-Bank Financial Institutions.

STAKEHOLDER ENGAGEMENT

A stakeholder is an individual or group affected by our business operations or who may affect the environment in which we operate. Identifying stakeholders is vital to our business operations in achieving our business targets and goals. We connect with our stakeholders to identify and address their concerns to maintain a desired balance in the distribution of value created. Formal mechanisms are in place for engaging with each group of stakeholders for which responsibility is shared across the organization. This is key to our future, enabling us to identify opportunities for improving our business model, driving innovation and providing key inputs to our strategic planning process.

Following stakeholders can be prioritised who are directly related to our business operations;

- 1 Customers
- 2 Employees
- 3 Investors
- 4 Community and Environment
- 5 Regulators
- 6 Suppliers and Service Providers

OUR STAKEHOLDER ENGAGEMENT PROCESS

- 1 Identify stakeholder groups and issues
- 2 Establish objectives, scope and time lines for engagement activities
- 3 Prioritise stakeholder groups and determine engagement mode
- 4 Allocate necessary resources and conduct engagement with stakeholders
- 5 Evaluate results and effectiveness of the process
- 6 Determine the need for further engagement
- 7 Prioritise findings for further action
- 8 Formulate necessary policies and procedures for stakeholder engagement activities
- 9 Communicate policies, procedures and time lines and the implementation and implement them
- 10 Report to stakeholders

	Stakeholder	Engagement Mechanism	Frequency of engagement	Concerns of Stakeholders	Our responses/ achievement
1	Investors	Annual General Meeting Extra Ordinary General Meeting Annual Reports Interim Financial Statements Corporate Website Disclosures and Announcement on CSE	Annual Whenever necessary Annual Quarterly 24/7 Whenever necessary	Financial performance and position of the company Ethical practices of the company Good governance of the company Going concern of the company Return On Equity	Ensure sound financial performance and sustainable return on investment Safeguarding the quality of assets Maintain reputation and credibility of the Company Transparent and responsible stewardship Shareholder views on key governance and policy matters

Integrated Management Discussion & Analysis

	Stakeholder	Engagement Mechanism	Frequency of engagement	Concerns of Stakeholders	Our responses/ achievement
2	Customers	ATL & BTL Promotions, SMS Alerts Social Media Interactions Customer Call Centre Customer Surveys via telephone calls Feedback from Visiting Customers Customer Complaint Handling Mechanism Official Website	Regularly Regularly Regularly Regularly Regularly Regularly	Satisfaction on services offering Innovative products Increase of customer communication channels Promotions on services Customer recognition and rewards	Maintain Service Excellence Effective Marketing Communications Affordability of Services and Convenience Maintain Data Security and Customer Privacy Financial Education and Literacy Effective Complaint Resolution Process
3	Employees	Directives and Circulars Open Door Policy Grievance Procedure Departmental Meetings Training Get-Together/ Events Intranet	Whenever necessary Regularly Regularly Regularly Regularly 24/7	Rewards and recognition Ethical practices Work life balance Job safety Health and safety in working environment Employee development	Management of Recruitment, Retention and Turnover Performance and reward management (Competitive rewards & benefits, performance based pay etc) Training & Development Value Driven Corporate Culture Effective handling of Grievances Maintain high level occupation health & safety standards Ethical Employment Practices Employee well being and Work - Life balance

	Stakeholder	Engagement Mechanism	Frequency of engagement	Concerns of Stakeholders	Our responses/ achievement
4	Regulators	Directives/ Circulars/ Guidelines & Other Operating Instructions Press releases Meetings and Forums Periodic returns On site & Off site Supervision Training Programs	Whenever necessary Whenever necessary Whenever necessary As specified	Compliance with rules and regulations Taxes paying to government Policy decisions affecting to industry	Compliance with regulations On time submission of regulatory returns and payments Rectification of actions on supervisory concern Response and Contribution at Meetings/ Forums
5	Community and Environment	Press releases, Conferences and Media Briefings Public Events Delivery channels CSR Projects	Whenever necessary Whenever necessary Regularly Regularly	Building of social welfare Projects to save environment community empowerment	Community Engagement through CSR Activities Transparency and Good Governance Ethical Business Conduct
6	Suppliers and service providers	Interactions through purchasing policy Feedback forms Meetings "On-site visits and meetings"	Regularly Whenever necessary Regularly Periodically	Going concern of the company Regular payments Continuous communication and ethical behaviour	Encourage Fair and Equitable Procurement Practices Multiple Supplier Registration Process Promoting transparent and ethically responsible business practices

Integrated Management Discussion & Analysis

FINANCIAL REVIEW

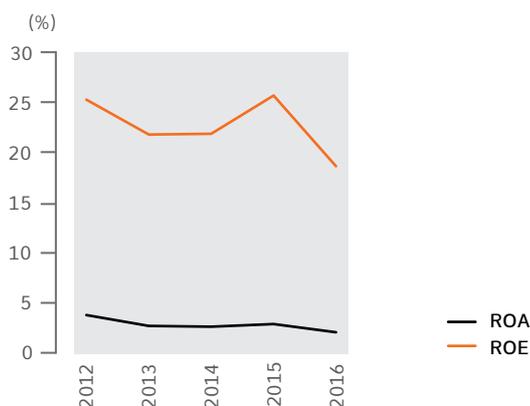
The Company has faced many challenges during 2016, which stem from the rising trend in interest rates, the mismatch of assets and liabilities in terms of interest rate sensitivity and management of costs. Despite such challenges, the Company has achieved a steady growth in lending and deposit portfolios.

ANALYSIS OF FINANCIAL PERFORMANCE

PROFITABILITY

The Profit Before Tax for the year 2016 reached a total of LKR 515.19 Million and a Profit After Tax of LKR 327.28 Million in comparison to the LKR 559.15 Million and LKR 384.52 Million recorded respectively in 2015. The decline in profitability has adversely impacted profitability ratios for the year, the Company has recorded ROA and ROE of 1.81% and 18.35% as opposed to the recorded 2.87% and 25.91% in 2015. Return on Assets (ROA) declined due to a growth in asset base and narrowed NIMs.

ROA & ROE(%)



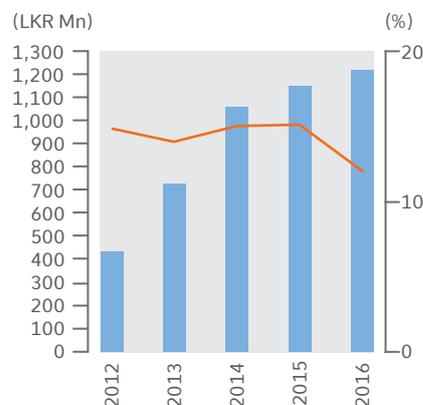
	2016	2015	Change
	LKR' 000	LKR' 000	%

Interest Income	2,838,995	1,973,921	43.82%
Less: Interest Expense	1,620,783	824,699	96.53%
Net Interest Income	1,218,212	1,149,222	6.00%
Net Fees and Commission Income	137,303	80,133	71.34%
Other Operating Income	175,471	152,182	15.30%
Total Operating Income	1,530,986	1,381,537	10.82%
Less: Provision for Impairment	(79,189)	(49,275)	60.71%
Operating Expenses	(808,111)	(679,804)	18.87%
VAT & NBT on Financial Services	(128,500)	(93,305)	37.72%
Profit Before Taxation	515,186	559,153	-7.86%
Taxation	(187,904)	(174,629)	7.60%
Profit After Tax	327,282	384,524	14.88%
Other Comprehensive Income, net of Taxes	(2,279)	(1,979)	-15.16%
Profit for the Year	325,003	382,545	-15.04%

REVENUE

The Company managed to record a NII of LKR 1.21 Billion in 2016 compared to LKR 1.14 Billion in 2015. NIM increased only by 6% (LKR 68.99 Million) despite the increase in interest income by 43.82%. Growth in interest income is attributable to the growth in loans and advances in the main, coupled with improved asset quality. However, the increase in interest expenses has substantially narrowed the growth in NIM, mainly due to the vulnerability of the funding base with the rising trend of interest rate that prevailed during the year.

Net Interest Income (LKR Mn) & Net Interest Margin(%)



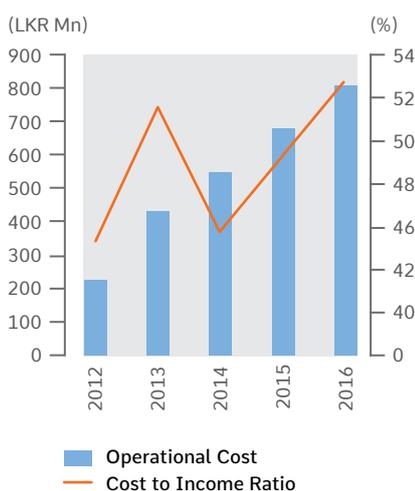
■ Net Interest Income
— Net Interest Margin

The Net Fee and Commission Income has grown by 71% due to the increase in fee and commission income from sources directly associated with loans and advances.

OPERATING EXPENSES

The Company's Operating expenses grew by 18.87%, from LKR 679.8 Million to LKR 808.11 Million stemming from higher personnel expenses triggered by Salary increments and the increase in the number of staff. Hence, the Cost to Income ratio has increased to 52.78% during the year from 49.21% recorded in 2015.

Operational Expenses(LKR Mn) & Cost to income Ratio(%)



TAXATION

The VAT & NBT on financial services has increased by LKR 11.8 Million (by 37.72%) in 2016 with both attributable to the changes in applicable rates and increase in revenue base.

The Corporate Tax rate applicable to the Company is 28%. The Effective Tax rate for the year has increased to 36.47% in 2016 (31.23% - 2015) due to disallowable expenses for tax purposes and an increase in Financial services VAT in the main.

ANALYSIS OF STATEMENT OF FINANCIAL POSITION

TOTAL ASSETS

The Total Asset base of the Company has increased by LKR 6.15 Billion (42%) to LKR 20.79 Billion from LKR 14.64 Billion in 2015. This resulted from the strong growth in Loans & Advances. The Net assets per share of the Company are LKR35.67 as of 31st December 2016.

Composition of Advances (LKR' Million) 2016 & 2015 are as follows.

Product	2016	2015	Change	
	LKR Mn	LKR Mn	LKR Mn	%
Leasing/ Hire Purchase	14,689.45	11,314.30	3,375.15	29.83%
Loans	743.74	286.97	456.77	159.17%
Factoring	1,979.24	1,157.14	822.11	71.05%
Gold Financing	1,768.92	770.84	998.08	129.48%
Total	19,181.35	13,529.24	5,652.11	41.78%

Loan products were launched during 2016 and stood at LKR 743.74 Million by December 2016. Gold Financing products have achieved 129% growth over 2015. The Gold financing portfolio stood at LKR 1,768.92 Million in its 4th year of operation from the initial launch.

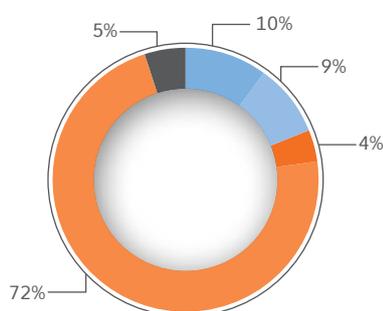
Asset Financing (Leasing/ Hire Purchase) has grown to LKR 14.69 Billion (by LKR 3.38 Billion, 29.83%) from LKR 11.31 Billion in 2015. The increase in the leasing portfolio was evident since October 2014 following the abolishment of VAT for the leasing product.

Non Interest Earning Assets which is 3.62% of total assets, recorded at LKR 752.22 Million in 2016 with an increase of LKR 319.94 Million (grew by 74.01%). The main reason being the increase in Property, Plant & Equipment by LKR 204.08 Million due to acquisition of land for the proposed headquarters branch. It was further increased for the interior costs for 4 newly opened branches and new recruitments for business expansion.

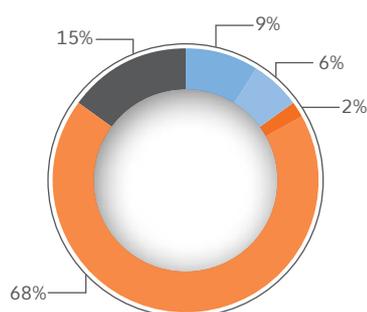
Integrated Management Discussion & Analysis

However, the Company was successful in maintaining its credit quality as witnessed through the low Non Performing ratio of 1.09% in comparison to the industry average of 5.72%(September 2016-provisional).

Advances Mix-2016



Advances Mix-2015



The Company computes its impairment based on the incurred loss model, which has 02 key components, namely collective impairment and individual

impairment for identified individually significant contracts based on predetermined threshold limits and triggers decided by the Company. The threshold limits and triggers mentioned above are reviewed annually in reference to the risk appetite of the Company.

Provision for impairment has increased by 60% amounting to LKR 30 Million (approx.). Such increase is partially attributable to the growth in loans and advances portfolio and improvements made to the existing impairment models.

DEPOSITS

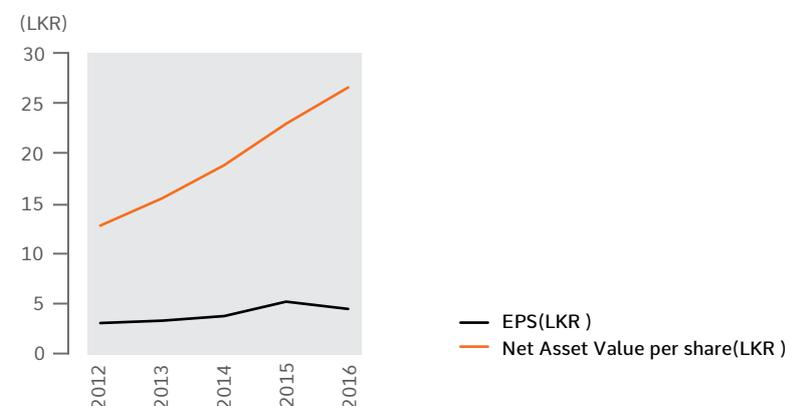
The Fixed Deposits base stood at LKR 3.36 Billion level and the achieved growth for the year is 173% (LKR 1.23 Billion in 2015).

EQUITY AND BORROWINGS

EQUITY

Shareholders' Funds increased to LKR 1.93 Billion from LKR 1.61 Billion in 2015. The increase of 19.81% over the previous year was achieved though the profits made during the year.

EPS & Net Asset Value Per Share(LKR)



FUND BASE

The Funding Base of the Company has increased to LKR 18.01Billion from LKR 12.32 Billion, an increase of 46.16% Billion. Such funds were sourced to support the expansion in the assets base.

	2016 LKR Mn	2015 LKR Mn	Change LKR Mn	%
Due to Banks	11,032.50	9,968.71	1,063.79	10.67%
Due to Customers	3,362.66	1,233.04	2,129.62	172.71%
Debentures	3,615.26	1,020.60	2,594.66	254.23%
Securitized	-	99.49	(99.49)	-100.00%
Commercial Papers	-	0.21	(0.21)	-100.00%
	18,010.42	12,322.04	5,688.38	46.16%

The Company has issued Senior, Unsecured, Redeemable Debentures amounting LKR 2.5 Billion in September 2016. The Company also issued Debentures of LKR 1.0 Billion of Unsecured, Redeemable, and Subordinated Debentures worth LKR 1.0 Billion issued in 2014 for a period of 5 years.

LIQUIDITY

The Company maintained the statutory liquid asset ratio above the level prescribed by the Central Bank of Sri Lanka. A better strike off between profitability and liquidity was maintained in order to avoid the adverse impact on the profitability.

DIVIDENDS

The Board of Directors of the Company has approved a final scrip dividend of LKR 1.21 per share subject to approval of shareholders at the AGM to be held on 28th March 2017.

CAPITAL ADEQUACY

The capital adequacy ratios stood at 10.62% (Tier I) and 13.93% (Total Capital Adequacy) as at 31st December 2016. The capital adequacy ratios slightly declined in 2016 due to the increase in risk weighted assets despite the growth in profits added to the shareholders' funds. Declaring dividends in the form scrip made the retention of profits.

The Company has also issued unsecured, subordinated, redeemable debentures in 2014, which qualifies for Tier II to improve the total capital base on the Company.

Notably, both the ratios remained well above the minimum statutory requirement of 5% and 10% respectively.

EXTERNAL RATING

The Company's rating assessment is at A – with a negative outlook. The 100% ownership with Sampath Bank, involvement in the strategic direction of the Company through Board representation was amongst the major factors in the support of the rating.

Integrated Management Discussion & Analysis

INVESTORS' INFORMATION

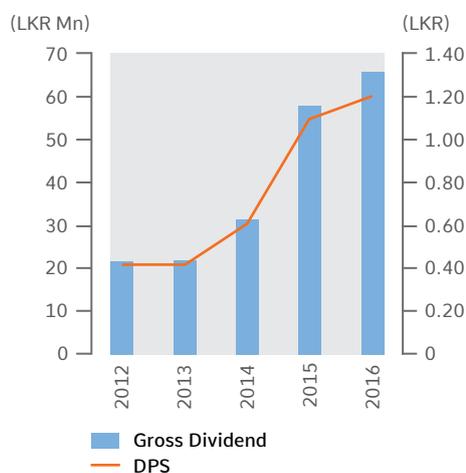
VALUE CREATION FOR SHAREHOLDERS

	2016	2015	Change
Net profit for the period(LKR Mn)	327.28	384.52	-14.89%
Earnings per share(LKR)	6.14	7.32	-16.18%
Shareholders' funds(LKR Mn)	1,930.36	1,611.13	19.81%
Net Assets value per share(LKR)	35.67	30.69	16.22%
Dividend per share(LKR)	1.21*	1.10	10.00%
Dividend yield	19.71%	15.02%	31.22%
Market price per share - year end(LKR)	N/A**	N/A**	

*The Board of Directors have recommended a scrip dividend of LKR 1.21 per share on 54,124,726 ordinary shares, totalling to LKR 65.49 Million subject to approval of Shareholders of the Company.

N/A**-This is not applicable as the Company's shares are currently not traded on Colombo Stock Exchange.

Gross dividend & Dividend per share



Shareholders' funds & Net assets value per share



DISTRIBUTION OF SHARE OWNERSHIP

	As at 31-12-2016			
	No of shareholders	%	No of shares	%
1-1,000 shares	7	87.50%	7	0.00%
1,001-10,000 shares	-	-	-	-
10,001-100,000 shares	-	-	-	-
100,001- 1,000,000 shares	-	-	-	-
over 1,000,000 shares	1	12.50%	54,124,719	100.00%
	8	100.00%	54,124,726	100.00%

INFORMATION ON SHARES

Stated Capital as at 31 December 2016 was represented by the number of shares in issue as given below.

	As at 31 December 2016		As at 31 December 2015	
	Number	LKR	Number	LKR
Ordinary Shares	54,124,726	576,975,000/-	52,500,000	525,000,000/-
Total	54,124,726	576,975,000/-	52,500,000	525,000,000/-

SHAREHOLDER INFORMATION

Shareholders' list as at 31 December 2016

Name	No: of Shares	%
Sampath Bank PLC	54,124,719	100.00%
Mr. M.A.Abeynaike	01	0.00%
Mr. S.G. Wijesinha	01	0.00%
Dr.H.S.D.Soysa	01	0.00%
Mr. W.M.P.L. De Alwis	01	0.00%
Mr. M.Y.A.Perera	01	0.00%
Mr. Ranjith Samaranayake	01	0.00%
Mr.S. Sudarshan	01	0.00%
	54,124,726	100.00%

PUBLIC HOLDINGS

The percentage of ordinary shares held by the public as at 31 December 2016 was 0%.

Directors'/ CEO's Holding in Shares as at 31 December 2016

Name	Position	No: of Shares
Mr. M.Y.A. Perera	Chairman	01
Mr. M.A.Abeynaike	Deputy Chairman	01
Mr. S.G. Wijesinha	Director	01
Dr.H.S.D.Soysa	Director	01
Mr. W.M.P.L. De Alwis	Director	01
Mr. Ranjith Samaranayake	Director	01

Integrated Management Discussion & Analysis

INFORMATION ON LISTED DEBENTURES

(I). MARKET VALUES

	Highest (LKR)		Lowest (LKR)		Period End (LKR)	
	2016	2015	2016	2015	2016	2015
Debentures -2014/2019	Not Traded	99.98	Not Traded	99.98	Not Traded	99.98
Debentures - 2016/2019	100.00	N/A	100.00	N/A	100.00	N/A
Debentures - 2016/2021	100.00	N/A	100.00	N/A	100.00	N/A

N/A-Not Applicable

(II). INTEREST RATES

	2016		2015	
	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%	N/A	N/A
Debentures -2016/2021	13.50%	13.50%	N/A	N/A

N/A-Not Applicable

(III). INTEREST RATE OF COMPARABLE GOVERNMENT SECURITIES

	31-12-2016	31-12-2015
6 months treasury bill	10.70%	7.43%
1 year treasury bill	11.30%	7.90%
5 year treasury bond	13.07%	10.88%

(IV). CURRENT YIELD & YIELD TO MATURITY

	2016		2015	
	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%	8.88%
Debentures Issued-September 2016 3 year Fixed rated(13.00% p.a. payable annually)	13.00%	12.93%	N/A	
Debentures Issued-September 2016 5 year Fixed rated(13.50% p.a. payable annually)	13.50%	13.49%	N/A	

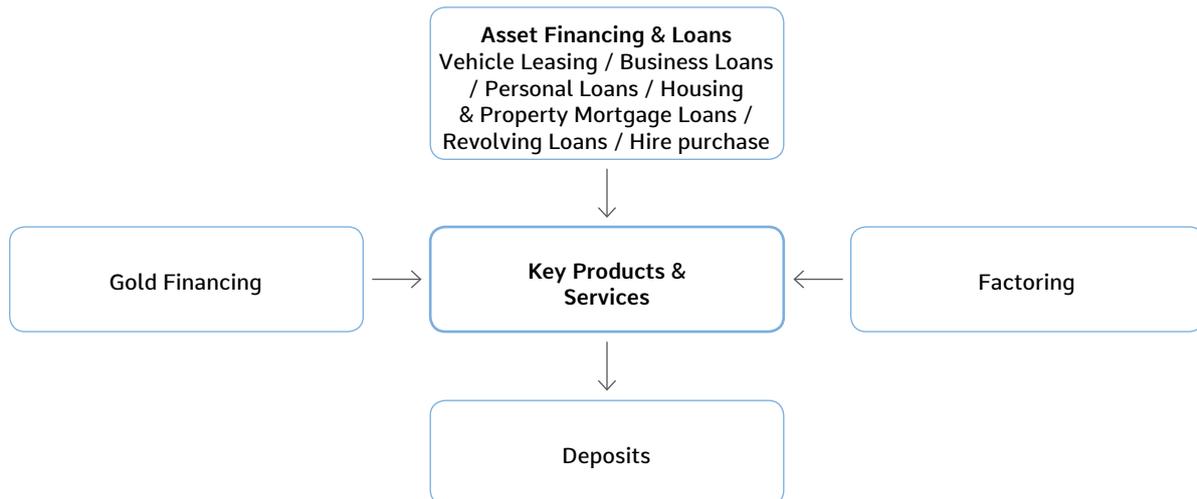
N/A-Not Applicable

(V). RATIOS

	31-12-2016	31-12-2015
Debt to Equity Ratio (Times)	4.92	4.42
Interest Cover(Times)	1.32	1.68
Quick Asset Ratio (%)	154.01%	110.25%

BUSINESS MODEL

MAIN BUSINESS ACTIVITIES AND BUSINESS SEGMENTS



ASSET FINANCING

1. LEASING

A finance lease is a contractual agreement where the owner (lessor) of the equipment /asset, transfers the right to use the equipment/asset to the user (lessee) for an agreed period of time in return for a periodic rental. The entire risk incidental to the usage of the asset is transferred to the lessee, who has to bear the cost of insurance, maintenance and repairs. The lessor agrees to transfer the title of the equipment/asset to the lessee at the end of the lease period, once all rentals are paid.

The product is governed by the Finance Leasing Act No. 56 of 2000.

Hire purchase is a type of instalment credit where the borrower, referred to as the hirer, agrees to take an asset on hire at a stated rental, which is inclusive of the repayment of principal as well as interest, with an option to purchase the asset at the end of the contractual period. The hirer is responsible for insuring and maintaining the asset. The product is governed by the Consumer Credit Act 29 of 1982.

Siyapatha Finance PLC offers a wide range of finance leasing and hire purchase solutions for a diversified range of customer segments: The following product range/ branches are currently marketed by the company.



Integrated Management Discussion & Analysis

ASSET FINANCING

1. LEASING

LIFESTYLE LEASING

Target Market - Individual executives, professionals and corporate entities
 Asset Category - Brand new and unregistered motor cars and vans
 Description - Facilitating customers with structured lease rentals to match fluctuations in their monthly cash in-flows



AGRI LEASING

Target Market – Farmers, land owners, earn and pay category
 Asset category – Brand new and registered agricultural vehicles and machinery
 Description - Facilitating customers to purchase brand new or registered agricultural vehicles and machinery on monthly and seasonal rental payment



SANIN CASH

Target Market - Mass market
 Asset Category - Registered motor vehicles
 Description - Facilitating customers in purchasing registered vehicles and borrow monies on the existing assets for personal and business needs.



TUK-TUK LEASING

Target Market - Earn and pay category, SME sector
 Asset Category - Brand new and registered three wheelers
 Description - Facilitating customers in purchasing brand new or registered three wheelers with simple documentation, one-day facility approval and a convenient payment mechanism through an island wide Sampath Bank branch network.



BUDDY TRUCK LEASING

Target Market - SME sector
 Asset Category - Brand new and registered buddy trucks and lorries
 Description - Facilitating customers to purchase brand new or registered buddy trucks and lorries with simple documentation, one-day facility approval and a convenient payment mechanism through the island wide Sampath Bank branch network.



2. BUSINESS LOANS

Business Loans will be granted for Individuals (With a Business Registration) or Business entities within a specific pre-determined market segment in order to financially enable them to fulfil their identified business operational cash flow needs. This product is governed by the Law of Contract under the Common law.



Target Market – SME's & Small / Medium Corporate entities
Description - A finance facility will be granted to the customer / business entity either on a suitable security by evaluating the profile and the credit worthiness of the customer for following business purposes.

- a) Short Term Business Cash flow / working capital need
- b) Enhancement / Addition of fixed assets
- c) Upgrading / Improving business premises
- d) Purchase of property / Assets
- e) Any other business requirement

Siyapatha Finance
BIZNESS
LOAN
Your immediate companion

3. PERSONAL LOANS

Personal Loans will be granted for Individuals within a specific pre-determined market segment in order to financially enable them to fulfil their identified personal needs. This product is governed by the Law of Contract under the Common law.



Target Market

- a) Permanent Employees – State and Private Sector
- b) Description - A finance facility will be granted to the customer, either on a suitable security, by evaluating the profile and the credit worthiness of the customer for following personal purposes.
 - To Purchase Assets
 - To facilitate Domestic & Foreign Education
 - For Travelling & Leisure Purpose
 - For Weddings / Life Events
 - For Financial management / Formal Debt Settlement
 - Any other agreed personal requirement acceptable to the company

Siyapatha Finance
PERSONAL LOAN
Improving your lifestyle together

Integrated Management Discussion & Analysis

GOLD FINANCING

The Company offers attractive advances for a minimum interest rate, against gold articles, which enables customers to make part settlements while ensuring the security of the article and privacy of the transaction.



Gold Loan

Target Market – Individual mass market & SME sector

Description–The Company offers attractive advances for a minimum interest rate against gold articles, which enables customers to make part settlements while ensuring the security of the article and privacy of the transaction.



Business Gold Loan

Target Market - Small & Medium Entrepreneurs

Description - Financing facilities will be given to short term money seekers to fulfil their instant money needs against



Gold Dream

Target Market – Individuals who are planning for their weddings, and individuals who intend investing in gold for future consumption,

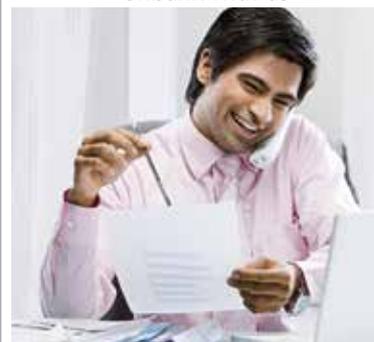
Description - Financing facilities will be given to purchase gold by holding the asset as a security against the disbursement



FACTORING

Factoring is a working capital solution designed specifically for entities that do businesses on credit terms. This advance is one of the most expeditious methods of advancing money on invoices generated for products delivered, or services rendered, on credit. Factoring enables customers to increase and maintain a positive cash flow within their business.

In factoring, account receivables (credit sales) are financed, at a discount and advance upfront 70% -80% of the volume of invoices. Factoring helps to expedite the progress of the business, while transferring the hassle of cash flow and debt management to the factor.



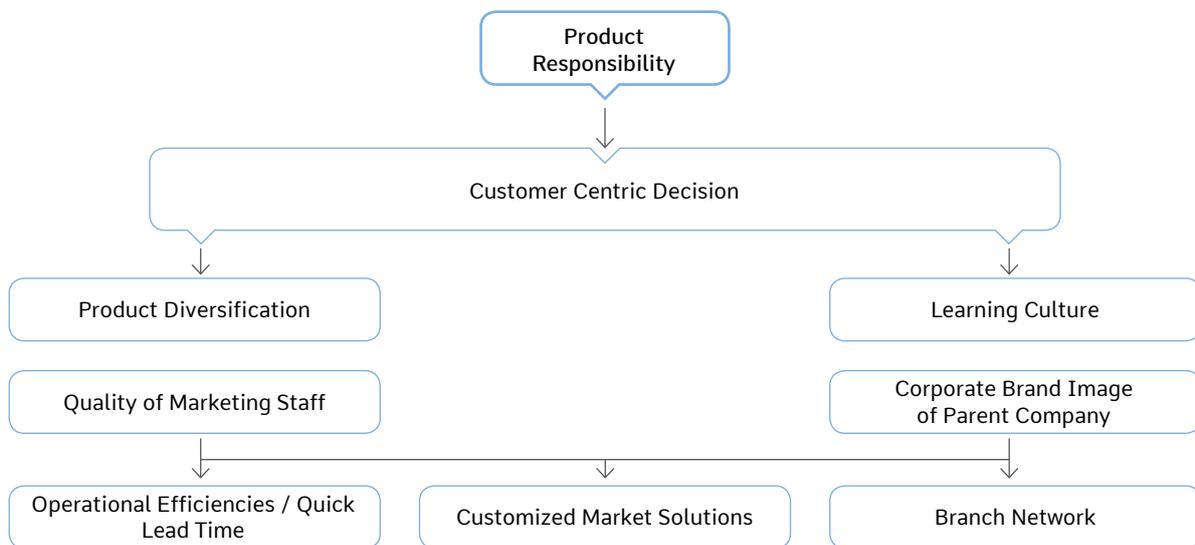
FIXED DEPOSITS

The Company accepts term deposits from the public with the assurance of an unmatched return while ensuring the security of the investment. Term structures ranging from one month, up to five years, are available in the investment plan. Interest payments are made on monthly, quarterly, annually and maturity basis.

Siyapatha Finance
FIXEPOSITS
Unmatched returns and reliability



OVERALL PRODUCT RESPONSIBILITY

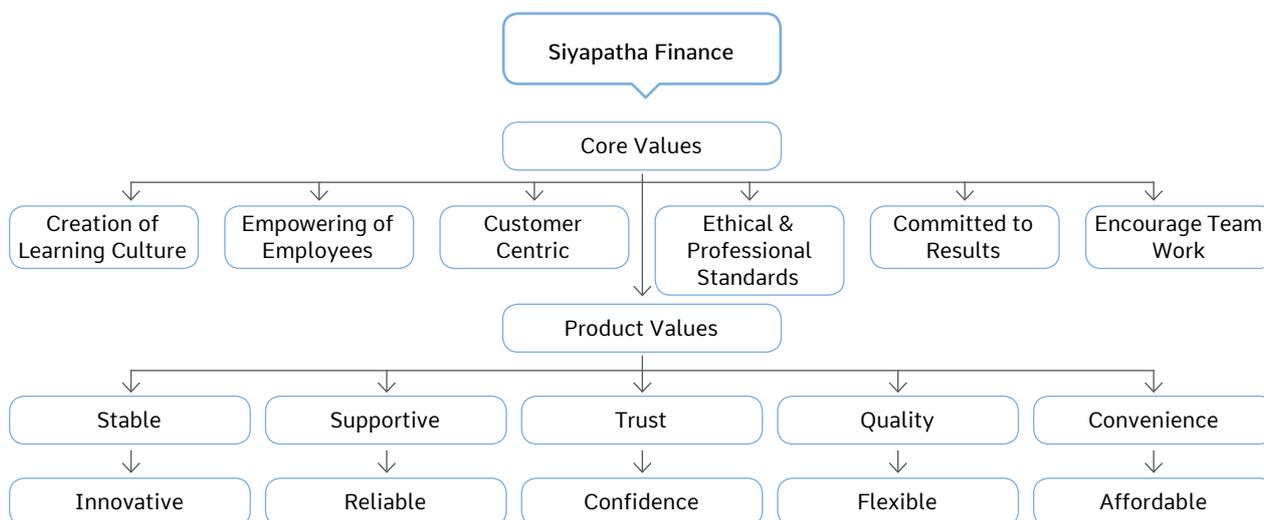


Overall, product responsibility is managed and differentiated through a customer centric decision making model, which is a result of product diversification coupled with the learning culture stemming from the holding company Sampath Bank PLC.

There are no non compliance with regulatory and voluntary codes concerning products and service information and labelling (G4-PR4).

Integrated Management Discussion & Analysis

CORPORATE BRAND & PRODUCT BRAND VALUES



THE EXTENT OF IMPACT MITIGATION OF ENVIRONMENTAL IMPACTS OF PRODUCTS AND SERVICE (G4-14,EN27)

- Even though we do not quantify the environment impacts, as a responsible company, as a policy, Siyapatha Finance PLC does not lend for vehicles that are over 25 years old, to mitigate the environmental pollution made by old vehicles.
- Hybrid and electric powered vehicles are promoting by facilitating them in a good in manner.

No sale of banned or disputed products was reported during the year under review. (G4-PR6)

CUSTOMER HEALTH AND SAFETY (G4-PR1)

The impact of health and safety is assessed and improved in the following areas:

- As a policy, Siyapatha Finance PLC does not lend for vehicles that are over 25 years old. Lease inquiries for such vehicles will be rejected directly at the initial stage.
- Financing vehicles which the company perceives as being used for unethical businesses, will not be facilitated or encouraged.
- High quality printing materials are used for marketing and promotional campaigns to ensure customers are not harmed due to chemical exposure
- Promotional materials made out of polythene are not used for marketing campaigns.
- The Company to date has not been in breach of any regulations and/or voluntary codes concerning health and safety of customers.

There are no incidents of non compliance with regulations and voluntary codes concerning the health and safety impacts of products and services. (G4-PR2)

Siyapatha Finance PLC does not engage in or promote any kind of anti-competitive behaviour, antitrust or monopolistic practices. Therefore we have not been subjected to any litigation in this regard, during the reporting period. (G4-S07)

Type of Information	Yes
The sourcing of components of the product or service	✓
Content, particulars with regard to substance that might produce an environment or social impact	N/A
Safe use of product or service	✓
Disposal of the product and environment / social impact (G4-PR3)	N/A

OBTAINING CUSTOMER FEEDBACK (G4-PR5)

Customer satisfaction is assessed and maintained by an independent unit called the Customer Satisfaction Feedback Collection Unit, which is centralized at the head office of the Company. Our customer satisfaction measures have a two stage approach.

1. At the inception of the facility.

Customer satisfaction is assessed by way of a one-on-one phone conversation in which the following information is collected.

- ⦿ Customer assessment of the level of satisfaction with the particular marketing officer and his behaviour during the overall process.
- ⦿ Whether the facility was obtained as per the customer's expectations.
- ⦿ Level of satisfaction on the support given by the particular branch.
- ⦿ Customer's willingness to recommend Siyapatha Finance PLC to other potential customers.

2. At the time of settling the facility.

Customers who are at the stage of completing their leasing period and who are willing to settle their lease prematurely, are contacted in advance to offer further services. Here the customer feedback is gathered under the following criteria:

- ⦿ Level of satisfaction on the service granted by the Company.
- ⦿ Customer's willingness to obtain another facility from the Company.
- ⦿ In the customers point of view, areas to be developed or improved within the Company.

CUSTOMER SURVEY METHODOLOGIES

- ⦿ Through the Customer Satisfaction Feedback Collection Unit.
- ⦿ Customer feedback boxes are placed at each branch.

Overall performances of marketing officers/branches are evaluated by considering the customer satisfaction percentage/ ratio, received through the survey. Any complaint against a marketing officer/branch/Company will receive immediate attention. The marketing officer/branch is directly relevant to the complaint shall be responsible for providing a one time solution to the customer, while ensuring that the Company's interests and reputation are safeguarded.

In the event the Company is unable to provide an immediate solution, an acknowledgement letter/ email is sent to the customer, stating a resolution period.

Through customer surveys, the Company is able to build a rapport with existing customers, which results in customer loyalty. This leads to long term customer retention and repeat business. Mechanisms for customers to provide feedback

- ⦿ Telephone
- ⦿ In person
- ⦿ Email
- ⦿ Customer suggestion boxes
- ⦿ Letters

Customer feedback channels will always be accessible to customers in order to encourage them to provide feedback on their rating of the Company services. They are also educated on how such a complaint could be made.

Customer feedback channels are well equipped to handle customer complaints and to give a resolution.

No substantiated complaints regarding breaches of customer privacy and losses of customer data, was reported during the year under review. (G4-PR8)

There are no incidents of non compliance with the laws and regulations concerning the provisions and use of products and services. (G4-PR9)

Integrated Management Discussion & Analysis

MARKETING COMMUNICATIONS AND BRANDING

As it means a Lotus (Siyapatha), which blooms in mud, Siyapatha Finance is blooming in the financial services pond of diverse opportunities. All corporate communications are developed based on the purity of the lotus that delivers trust and excellence (Yahapatha – Oba Wetha), as per the brand mantra of the company.



Marketing Communications published



Marketing Promotional Gifts Items

BRANCH PROMOTIONS



No non-compliance with applicable laws and regulations were reported during the year under review, concerning Marketing Communications, including Advertising, Promotion and Sponsorship by type of outcomes. (G4-PR7)

CHANNEL NETWORK EXPANSION

During the year 2016, the customer reach of Siyapatha Finance expanded via four new Branch Openings at Gampaha, Kalutara, Trincomalee & Wellawatte, which provide all products and services of Siyapatha Finance.

Apart from the expansion of branches above, there are no other significant changes in relation to structure, ownership or supply chain during the year. (G4-13)



Branch Opening – Gampaha



Branch Opening – Kalutara



Branch Opening – Trincomalee



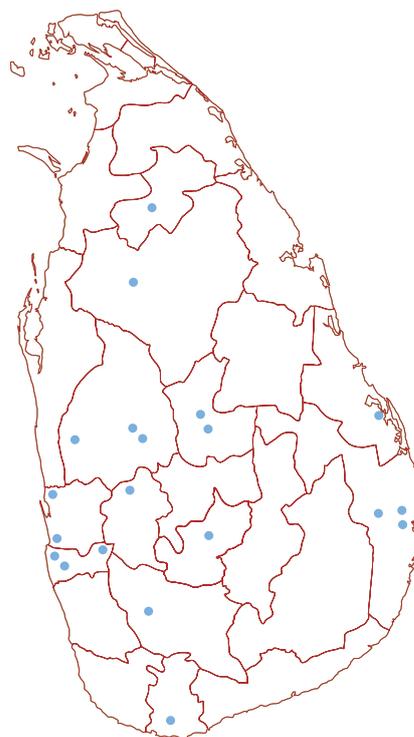
Branch Opening – Wellawatte



Integrated Management Discussion & Analysis

EXISTING BRANCHES OF SIYAPATHA FINANCE

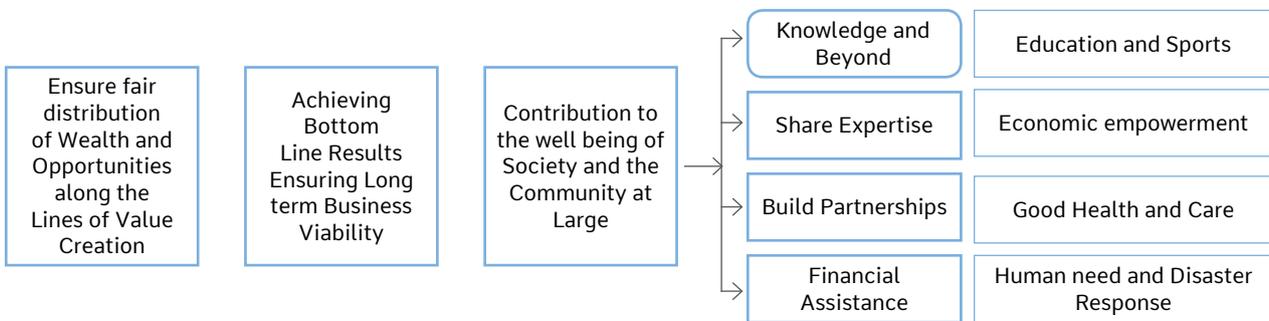
	Region / Branch	Telephone Number	Address
1	Head Office	0117 605 605	No.46/12, Nawam Mawatha , Colombo 02
2	Matara	0417 605 605	No.5B, Hakmana Road,Matara
3	Kalutara	0347 605 605	No. 169, 169/1/1, Main Street , Kalutara
4	Wellawatte	0117 605 205	No. 226, Galle Road, Wellawatte
5	Nugegoda	0117 605 680	No. 189 , StanleyThilakarathne Mawatha, Nugegoda
6	Rathnapura	0457 605 605	No. 186, Main Street Rathnapura
7	Avissawella	0367 605 605	No. 20, Ratnapura Road, Avissawella
8	Negombo	0317 605 605	No. 287, Main Street, Negombo
9	Gampaha	0337 60 5605	No. 3A, Mangala Road, Gampaha
10	Peliyagoda	0117 605 625	No.304, Negombo Road, Peliyagoda
11	Kuliyapitiya	0377 605 615	No 50/52, Kurunegala Road , Kuliyapitiya
12	Katugasthota	0817 605 605	No 274/A, Katugasthota Road, Kandy
13	Kandy	0817 605 627	No. 192/1/1 , Kotugodella Street , Kandy
14	Ampara	0637 605 605	No. 32 , D S Senanayake Street , Ampara
15	Nuwara-Eliya	0527 605 605	No. 28, Kandy Road, Nuwara Eliya
16	Kurunegala Metro	0377 605 605	No. 254C, Colombo Road , Kurunegala
17	Kurunegala	0377 605 625	No. 16, Colombo Road, Kurunegala
18	Anuradhapura	0267 605 605	No. 213/4, Maithreepala Senanayaka Mawatha, Anuradhapura
19	Kegalle	0357 605 605	No. 137, Kandy Road, Kegalle
20	Vavuniya	0247 605 605	No. 156, Bazar Road, Vavuniya
21	Sainthamaruthu	0677 605 605	No.1610, Main Street, Sainthamaruthu
22	Kalmunai	0677 605 625	No. 172/4, Batticaloa Rd, Kalmunai
23	Batticaloa	0657 605 605	No. 257 , 259, Trinco Road, Batticaloa
24	Trincomalee	0267 605 605	No. 273/A, 273/1/1, Central Road, Trincomalee



CORPORATE SOCIAL RESPONSIBILITY (CSR)

Being a responsible corporate citizen in the island, Siyapatha Finance has made strong the society around them, while increasing the values of the shareholders' by improving performance in education and sports, economic empowerment, good health care and human needs and disaster response. Our focus is on addressing current social issues, support and empowering communities, particularly, in the areas where we operate.

The company builds the same professionalism and commitment to sustainability via the following business and social activities. Thus Siyapatha Finance builds long-term relationships with communities that will also bring long-term value to the company. Siyapatha Finance also encourages employees to participate in local community programs by volunteering their time.



There were non fines or non monetary sanctions for non compliance with laws and regulations related to the society or environment. (G4-SO8, EN29) There were no grievances about the impacts on the society and environment. (G4-SO11, EN34)

OPERATIONAL STRUCTURE

The company will appoint a CSR Committee with representatives from different divisions , who are voluntary committed and selected irrespective of their grades. This helps to increase collaboration and unity among the members of the staff. The CSR committee will be responsible for maintaining the transparency and diversity of CSR initiatives to give society the highest level of benefits. Anyway within the year a number of CSR initiatives & activities were conducted such as donations to flood victims & knowledge sharing conferences organised in universities.

Integrated Management Discussion & Analysis

MANAGEMENT COMMITTEES

1. ASSET AND LIABILITY COMMITTEE (ALCO)

Interest rate risk and liquidity risk related tolerance limits are established by the Board Integrated Risk Management Committee (BIRMC) of the Company and approved by the Board of Directors. The set tolerance limits are reviewed by the BIRMC to make necessary amendments to reflect the changes of the Company and the industry.

The ALCO is the management forum that undertakes formulation, monitoring and review of Asset Liability Management (ALM) strategies and their implementation at Siyapatha Finance PLC, to be in line with the tolerance limits set by the BIRMC.

The purpose and objectives of ALCO have been established as follows:

- To review and manage changes to the Company's balance sheet, including achievement of strategic objectives in relation to positive or negative growth.
- To consider and agree on the Company's interest rates on lending and borrowing and make changes based on the economic outlook and interest rate environment.
- Review sources of funding, identify and assess the impact of new sources of funding.
- Review the overall cash flow position as shown by the cash flow report and consider the impact of other inflows and outflows as they affect overall liquidity.

- Review and approve the company's contingency funding plans.
- Review net interest income trends including forecast position, variances from the planned net interest rate margin, and detail any required actions as appropriate.
- Monitor the impact on net interest margin, reserves and profit, from changes in volatility in interest rates.
- Review the maturity of assets and liabilities.
- Monitor the Company's asset and liability product pricing.
- Authorize new product proposals according to set benchmarks, incorporating the costs of liquidity and cost of funds premium.

2. MANAGEMENT COMMITTEE MEETING

The Management Committee meeting is held once a month

The quorum of the meeting comprises the Managing Director as Chairman and all other department/unit heads.

The main agenda of the meeting covers diverse topics such as resolving inter departmental issues/ bottle necks, tactical and strategic matters, new marketing campaigns, product development, industry related matters, macro economic issues, review of monthly performance, future targets and objectives.

Minutes are circulated to all participants and follow up matters are monitored on a monthly basis.

3. PROCUREMENT COMMITTEE

The Committee was set up in early 2014 to ensure transparency and good governance in the purchasing process of fixed assets and stationary items.

The Committee comprises of the following members

- Chief Operating Officer
- Head of Finance
- Manager- Administration

The Committee has the discretion to invite other officials to the Procurement Committee meeting to add their expertise in technical areas, such IT and engineering.

The Procurement Committee ensures that the procedure is followed in purchasing decisions.

Listed below are few of the key procedures

- All suppliers have to be registered with the company
- A minimum of three quotations are mandatory for each purchasing initiative

A Committee meeting is called whenever there is a requirement to purchase equipment/stationary for a particular department, and/or for a specific purpose.

The Procurement Committee plus a representative from the division/s requesting the purchase, will evaluate three quotations with regards to:

- Cost and quality
- Reputation of supplier and track record.
- Suitability
- Warranty and after sales service



Supplier Evaluation Criteria

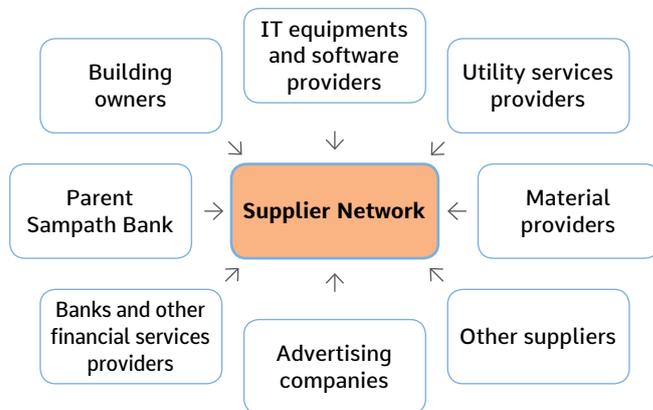
Supply Chain

The Company's supply chain ranges from small companies to multinationals and it adopts best practices to create values under the supply chain.

Since we source a vast majority of our funding from banking institutions, we have to recognise the "Supply chain" management link with funders. (G4-12)

Suppliers	Origin of Suppliers
Parent - Sampath Bank	Local
Banks and other financial services providers	Local
Vehicle vendors	Local
Advertising companies	Local
Building Owners	Local
Utility Service providers	Local
IT equipments and software providers	International/Local
Material providers	Local
Other suppliers	Local

Integrated Management Discussion & Analysis



We intend to improve our supplier screening process by including labour, environment, human rights and social screening aspects. (G4-LA14, EN32, SO9, HR10)

TENDER REVIEW COMMITTEE

All vehicles repossessed by the company are disposed through a public tender process.

The Company calls for the tenders through advertisements placed in all three languages, in reputed newspapers.

The sealed bids are opened after the closing dates, in the presence of the Tender Committee members comprising the following:

- Managing Director.
- Chief Operating Officer.
- Head of Recoveries.
- Manager-Loans.
- Head of internal Audit.

The offers are sorted according to value and the highest tender is approved, provided the offer is within the expectations of the company.

HUMAN CAPITAL MANAGEMENT

During our 12-year journey, our employees have stood as the roots of the organization's success. Their competency, efficiency and professionalism support the strategic planning process. The Siyapatha Human Resources (HR) team has set out to be the best HR Managed Finance Company in Sri Lanka by attracting, sustaining, and inspiring great people, with great passion, working for a great purpose that will make SIYAPATHA a happy place to work. With the strategic guidance of the Board of Directors, the HR team focuses on sustainable and profitable growth across the organization. Competent people who believe in success, with a development oriented culture, in which performance is aligned with values. It provides a positive Human Resources service experience for applicants and employees who collaborate with all departments of the company to recruit develop, support, and retain diversely talented employees. HR will pro-actively contribute to workplace solutions and services through leadership, excellence, innovation, and engagement, to enrich the work and learning environment for our people. The Siyapatha People Development Framework shows the strategic initiatives of developing the Company's business strategy, learning & development strategy, people management strategy & leadership and management strategy to enhance the overall performance. Thereby, management effectiveness, rewards and recognition, involvement and empowerment, learning and development strategies are measured by the actions we had taken for the improvement of performance for sustainable development of the business and performance.



Integrated Management Discussion & Analysis

HR STRATEGIC GOALS AND OBJECTIVES 2016-2018

In today's challenging, dynamic and complex business environment, our people's approach is to drive a people-driven organization with the guidance of Sampath Bank. The HR Team is committed to the task of developing and providing innovative services that support and align with the company and department goals. Key areas of focus during the next three years will involve: expanding work delivery models through the Agile Organization Initiative; implementing new succession planning programs; expanding employee engagement efforts; developing performance-based compensation management systems and implementing new technology in new human resources initiatives.

VISION
To be The Best HR managed finance company in Sri Lanka by, attracting, sustaining, and inspiring great people, with great passion, working for a great purpose who will make SIYAPATHA a happy place to work.

The HR Strategic Plan sets the direction for the Department to address the HR trends and challenges of the company. The overall purpose of the Strategic HR Planning is to:

Ensure adequate 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. HR strategic plan focuses on the key areas below.

				
Goal 1 Talent Attraction and Retention	Goal 2 Talent Development	Goal 3 Happy place to work	Goal 4 Work-Life Balance	Goal 5 Value Added HR

THE WAY FORWARD WITH NEW LEADERSHIP

In 2016, Siyapatha began a new journey under the new leadership of Chairman, Mr. Aravinda Perera and Managing Director Mr. Saman Herath. Under the direct guidance and support of these experienced professionals in the Banking and Finance Sector, Siyapatha executed a lot of positive initiatives indicating a long way of success.



CADRE COMPOSITION AND DIVERSITY (G4-LA12)

We are always passionate about our employees and they become the ambassadors of the organization. Siyapatha possesses the much diversified cadre composition, not just a Banking & Finance background, but also other sectors, ranging from industry professionals to school leavers. We believe in simplifying working practices with a flatter structure, which improves better communication and effective decision-making. We have a well-balanced organization structure, which leads to career development opportunities. Our executive grade represents a higher percentage of the total carder.

We are more focused on retaining implicit knowledge and we encourage our employees to bring new knowledge into the company. Reflecting the rapid expansion of the business, the work force grew by 20% at present to 390 comparison to 325 in 2015. (G4-09)

Grade	Age					
	30<		30-50		50>	
	M	F	M	F	M	F
MD					1	
Senior Manager			2	3	3	
COO			1			
Manager 1			7		1	
Manager 2			5	2		
Senior Officer			10	2		
Officer	1		18	4		
Senior Executive	8	3	40	5		
Executive	70	18	46	13	1	
Assistant	65	49	6	6		
Total	144	70	135	35	6	

(G4- LA12)

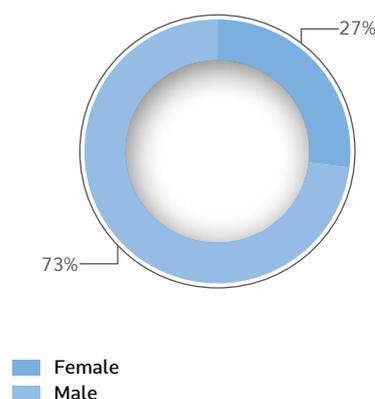
Due to the nature of our business, a larger share of our workforce is male, particularly in marketing activities. A major portion of our cadre is dominated by male employees with 285 in a number with the balance being female staff. However, more opportunities are offered for female employees who engage in back office functions marking 105 staff numbers.

Province	Age		
	30<	30-50	50>
Western	131	103	6
Eastern	25	17	
North Central	6	2	
Southern	6	8	
Central	17	15	
Sabaragamuwa	8	11	
North Western	17	12	
North	6		

(G4-10)

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

Carder 2016 - Gender Analysis

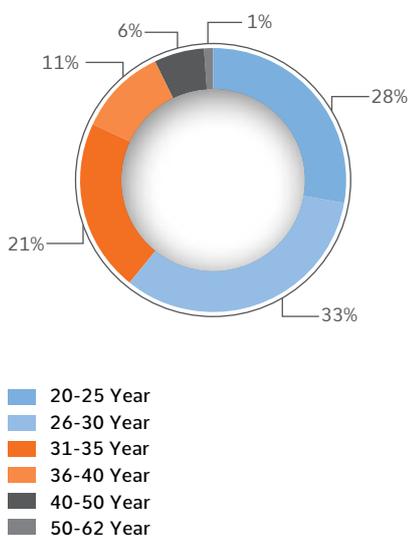


To be competitive against global challenges, we merge the talents of the millennial generation with industry professionals to drive the business with the incorporation of modern technology. All employees irrespective of age have equal opportunities to progress in their careers by improving their own skills and competencies relating to their specific areas of work.

Integrated Management Discussion & Analysis

Majority of our employees (82%) are below 35, which represents an energetic and dynamic workforce. This dynamism drives our success ahead of our competitors.

Age wise Analysis -2016



EQUAL JOB OPPORTUNITIES AT SIYAPATHA

We provide equal opportunities for all citizens of the country irrespective of their age, gender, religion or caste. We do not employ forced labor or child labor. (G4-HR5, HR6) We serve a larger community covering all ethnic groups of the country and all citizens have an equal opportunity to join us for excellent career development opportunities. The number of job opportunities was further increased during the year through the expansion of the branch network.

Our HR policy and procedure manual consists of 16 criteria that direct employees towards strategic business objectives.

PEOPLE DEVELOPMENT



We have in place, a well-structured, and transparent performance management mechanism to evaluate employee performance, enabling and motivating them to work at their best, whilst supporting employees to meet the goals set for them by the organization as well as the company objectives. We have a performance management scheme in place with the best and current practices in HR management. Employee appraisals seek to provide an unbiased evaluation of an employee's performance in terms of the pre-agreed key performance indicators set for the year, both individual as well as team based. The evaluation is based on evaluation of KPI Customer focus team work initiatives and communication and attitude & professionalism. These assessments along with the employee development activities align with the expansion and sustainable growth of the organization. Our strategic objectives are united with organizational, financial, customer and operational excellence with the achievement of the human capital development of the organization. In this context the objective setting of performance has become an important function in the process

of annual performance appraisal. Performance objectives are set with a clear target, a key drive and a positive mindset of the employees. The significance of appraisals differs from managerial categories and others based on their KPI's and competencies.

Through the performance management system, every employee in the organization gets the opportunity to review his or her performances annually. Employees are promoted to their enhanced job roles considering their knowledge, skills, attitudes and competencies. This is carried out through an unbiased procedure with the branch expansion of Siyapatha. Following the review meeting based on performance, employees are promoted to the relevant grades, with due recognition. (G4-LA11)

In order to recognize, reward and motivate employees considering their individual and overall performance, while adhering to the policies and procedures of the company, annual salary increments and promotions were announced to ensure that the company possessed competent human capital to achieve our present and future corporate objectives, while also ensuring transparency and equity to motivate and retain critical talent in the year 2016.

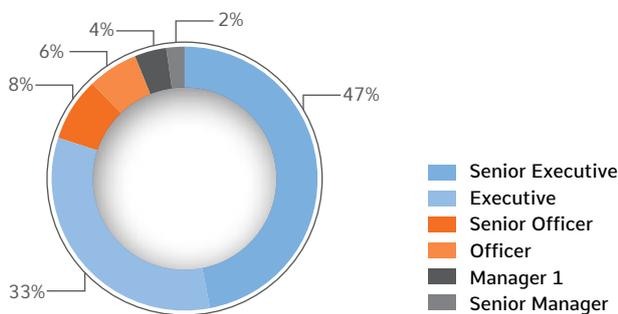
Grade	Factoring	Finance	Deposit	Gold Financing	Information Technology	Insurance	Marketing	Operations	Recovery	Risk & Compliance	Total
Manager 01				M-1	M-1						2
Manager 02		F-1									1
Senior Officer							M-3		M-1		4
Officer	F-2			M-1		M-1				F-1	5
Senior Executive		M-2	F-1	M-4	M-2		M-18 - F-1	M-1	M-1		30
Executive	F-1	F-1 - M-2		M-1		M-1		F-2			8
Total	3	6	1	7	3	2	22	3	2	1	50

Prime objective of the performance based recognition leads to,

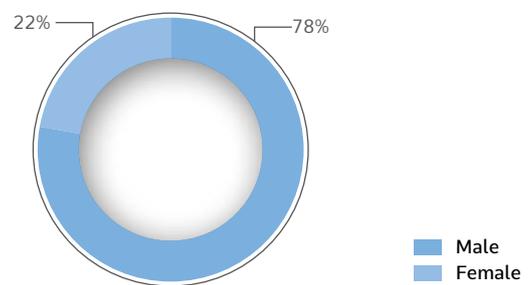
- Becoming the preferred employer of choice. (People Branding)
- The motivation and retain of the high performers (Recruitment Strategy)
- Attraction of the best talent from the labor market. (Talent Attraction)
- Focus on external market competitiveness and to standardize the salaries with benchmarked Companies. (Peer Comparison)
- Maintenance of the internal equity and to streamline the compensation system within the Company. (HR Value Addition)
- The recognition and rewarding of the employees' contribution to the organization and improve employee loyalty. (Rewards and Culture)
- Ensuring that employees balance their work life. (Work Life Balance)
- Identifying and developing under-performers. (Learning and Development)

In the year of 2016, the promotions percentage was well over 15%, from the total cadre. Out of that Marketing department and Gold Financing department got the highest promotion percentages. (G4-LA11)

Grade Wise Promotion Analysis -2016



Promotions for 2016- Gender wise Analysis



In addition to the promotions, new recruits will get the opportunity to review their performance for the first six months, and based on the review, they will be eligible to become a confirmed employee in the permanent cadre. 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. (G4-LA11)

Integrated Management Discussion & Analysis

ON BOARDING

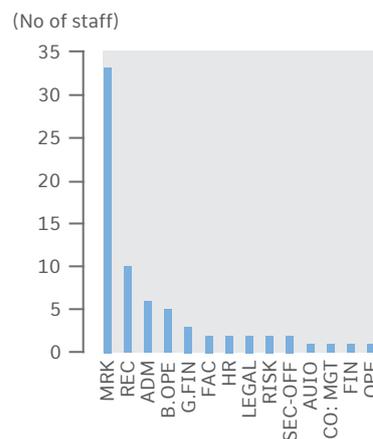
Siyapatha possesses a professional, well thought out and flexible recruitment process that ensures that the company recruits people for the jobs that suit their talents and capabilities and caters to realizing equal opportunity and diversity. This is done on a structured basis carefully intended to balance out the vacant job requirements with employee aspirations. Due training is offered within this process, supporting eligible employees to take up their new job responsibilities with ease and competence. During the year, Siyapatha has recruited 146 employees, which is 16.6% higher than the previous year. This growth aligned with the branch operational expansion and future prospective analysis. Out of 146 recruitments, 79% recruitments were made to the direct work force. (G4-LA 1). Recruitments were done across the country by attracting competent candidates across the country. The highest number of recruitments were from the western province due to branch network's concentration in the area.

LA -1

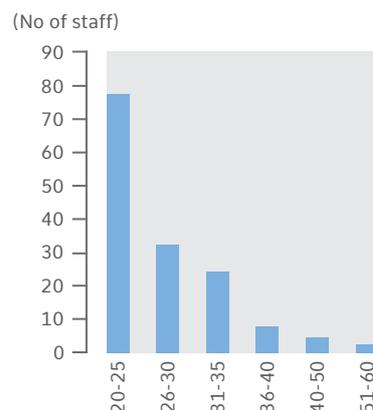
New Recruits

Province	30<		30-50		50>		Total
	M	F	M	F	M	F	
Central	3	4					7
Eastern	18	2	3				23
North	2	3	1				6
North Central							0
North Western	7	1	1				9
Sabaragamuwa	1	2	3	1			7
Southern	1		1				2
Western	36	22	25	7	2		92
Total	68	34	34	8	2	0	146

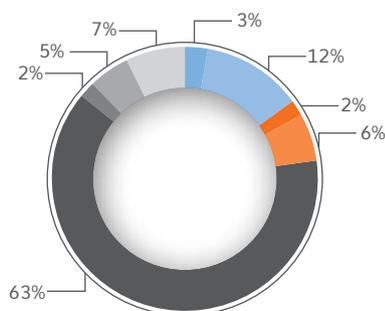
Recruitment 2016 - Department wise



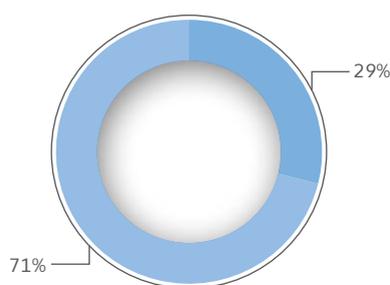
Recruitment 2016 - Age Wise



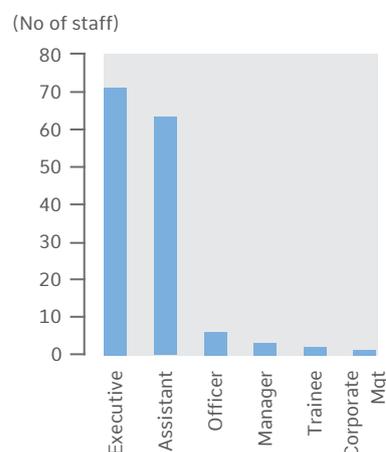
Recruitment Distribution by Province -2016



Recruitment 2016- Gender Wise



Recruitment 2016 - Grade Wise



Further, Siyapatha attracts candidates from both internal and external sources, impartially with top competent talent. However, on a policy priority would be in the internal employees before considering external in order to build up their careers. We have a systematic approach to attract candidate from the local universities, professional bodies as well as school leavers with the best fit.

EMPLOYEE ATTRITION

Siyapatha accepts and respects the employee right to change the careers , and employees are required to provide a one-month's notice period if they wish to leave the organization. (G4-LA4)

Due to Market and Industry fluctuations and employee personal reasons, 71 employees have resigned from the company and have provided the due notice for the resignation. (G4-LA1)

Resignations

Province	30<		30-50		50>		Total
	M	F	M	F	M	F	
Central	3	2			-	-	5
Eastern	5	-	3				8
North		1	2				3
North Central			1				1
North Western	2	1	3				6
Sabaragamuwa	1		1				2
Southern			1				1
Western	9	9	20	5	1	1	45
Total	20	13	31	5	1	1	71

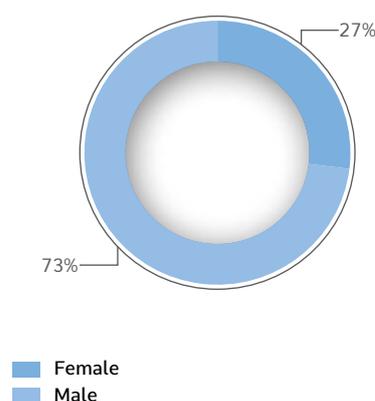
21% of our employees are having more than four years of experience with the Company, which proves the Company's ability to retain experienced staff. Due to market demand and personal reasons, 70 employees have resigned from the Company with prior notice.

EMPLOYEE MOBILITY

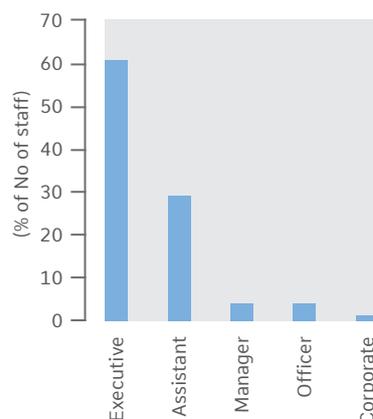
The internal transfer of employees among departments and branches are considered based on the business needs and employee requests in order to enhance the balance of their work life. Internal transfer forms give a clear idea about transferring details. This year we have given over 50 internal transfers for the betterment of the employee and the organization performance. Employee mobility leads to develop the team culture and enhance employee competencies to groom future leaders.

With regard to operational changes in the process, process re-engineering or system modifications with the active participation of relevant team

Resignation 2016 - Gender Wise



Resignation 2016 - Grade wise



Integrated Management Discussion & Analysis

members and done with the consultation of the employees to get their feedback and inputs to smooth out the function of the new process or system. We process an efficient communication channel to inform any operational changes and the changes are communicated to all employees on time, as team members are fully aware of these changes, additional notice period is not required. (G4-LA4).

RETENTION AFTER MATERNITY

Siyapatha follows the Shop and Office Employees Act in determining the terms of maternity leave and related benefits to female employees. In compliance to the Act, female employees are entitled to 84 working days leave for the births of their first and second child and 42 days for their third child. Female employees are also encouraged to take two hours for feeding entitlement after returning from maternity leave. During the year under review, 10 employees went on maternity leave, corresponding to 10% of the total female employees. Out of 10 employees 7 employees returned to work while 3 employees are currently on maternity leave. The retention rate corresponded to 100% percent, whilst 7 employees were employed for the last 12 months after their return from maternity leave. (G4-LA3)

TRAINING & DEVELOPMENT

One of our core competitive factors is our ability to develop people. Our people development programs help our teams to be the best they can be, irrespective of level or role. Employees' competencies are

linked with our business strategy. Employee leadership development programs are focused on future leaders of the business. We always encourage professional and academic advancements for all employees, which sharpen their knowledge, skills and abilities by imparting modern work practices. Our key objective is to inculcate a learning culture among the teams. After critically analyzing the training and development needs of the organization/departments and individuals, we provide a wide range of training and development opportunities to enhance employee soft and technical skills. To enhance employee soft skills and technical skills, out of the 71 training programs, which were arranged, 42% of sessions have been organized for soft skills development and 58% trainings were conducted for the development of technical skills.

We focus on developing employees soft skills by providing more training on following aspects;

- Leadership
- Communication
- Team Work
- Goal Setting/Planning
- Coaching & Mentoring
- CRM
- Negotiation

The Chairman and the Board had approved the Learning and Development budget for the 2016 marking 36 % increase comparing to the previous year.

Total Training Investment	LKR (000)	Increment
Year 2015	1,760	36%
Year 2016	2,400	

(A) INTERNAL TRAINING

We have the necessary proficiency to recommend extensive learning exposure within the network for our employees to raise and uplift their skills. The on the job training and timely job rotation is cost effective and practical for the Company. In the reporting year, 15 employees were cross- trained in the organization as internal resource persons and successfully used to conduct internal training in programs to improve technical expertise, operational knowledge and the corporate value system. (G4-LA10)



(B) EXTERNAL TRAINING

External training programs give employees maximum exposure to the current and best practices in the industry through institutes such as City and Guilds, the Central Bank of Sri Lanka, CIMA, the Chartered Institute of Sri Lanka, IPM, the British Council and AAT and other professional bodies. This year, Siyapatha organized a professional language skills program for the employees in the Executive category for a time span of 03 months resulting to enhance their communication and leadership skills.



(C) INDUCTION PROGRAM

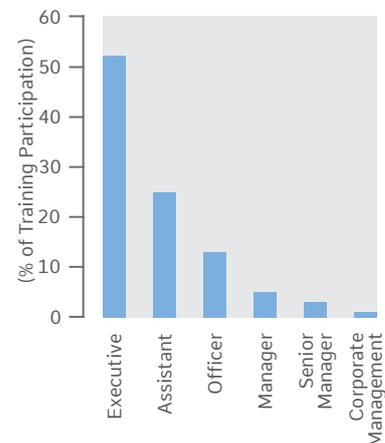
We continue to conduct the induction program, which supports our new employees to familiar with our corporate culture and perform effectively in order to support to understand their new job roles. The program conducts for a week in order to ensure the employees' familiarization of HR process operations, processes, systems, procedures and corporate ethics. It covers organization's values, principles, standards and norms of behaviour (such as codes of conduct, codes of ethics). G4-56. First priority is given on employee health and safety procedures at the induction programme to make all the new recruits aware about the company health and safety policy. (G4LA -8) This also entails on-the job training at the head office, all departments and at the branch level. Networking opportunities are also extensive with peers and the management to get familiar and build team spirit. In 2016, HR initiated an 'Employee Activity book' in addition to the induction program, and was effectively used to evaluate employee performance from the beginning of their employment.

Year	2012	2013	2014	2015	2016
No of Training Program	8	12	39	61	71
Total Investment yearly / LKR '000	116	760	1,106	1,760	2,462
Training Hours /Hrs	168	975	2308	4881	5704

Out of the total number of training hours, 87% of training hours have been allocated to Executive Grade employees. Training hours per employee indicates as 14.6 hours and Training Investment per employee is LKR 6, 300/- . Considering the cadre composition of the Company, male employees have taken part in a higher number of training programs than female employees. (G4 –LA 9)

We believe that all employees of the company must sharpen their knowledge in order to be competitive in the volatile market and perform better than our competitors. It is our responsibility to train our team to achieve the corporate objectives.

Grade wise Training Participation - 2016



We believe that in order to achieve the sustainable growth it's critical to develop the high quality leadership pipeline within the company. We have put in place a number of initiatives to build the leadership pipe line. A progressive approach in developing the successors and the critical talents, Individual Development Plan (IDP) and Management Development Plans are put in place.

Integrated Management Discussion & Analysis

We have continued to invest the people development activities to unleash their true potential, During the year we have invested Rs. 2.4 Mn , marking the investment growth of 32 % compared to the previous financial year.

We intend to strengthen the scope of our programmes human rights, anti corruption policies and procedures and to health and safety aspects. (G4-SO4, HR2)

EMPLOYEE WORK LIFE BALANCE AND ENGAGEMENT ACTIVITIES

The Company is fully aware of the importance to create a conducive environment for the employees. Pro-active steps have been taken to support employees to cultivate a positive mind towards work responsibilities and adopt a healthy lifestyle, both physically and mentally. This in effect, underscores the Company's efforts towards minimising absenteeism and sustaining high productivity levels.

Work life balance has the positive impact on employee well being, motivation and productivity. The organization continues to sustain the building of harmony, fellowship and team spirit in the organization. In the reporting year, the society initiated several events and programs for the staff members, including New Year Celebrations, Religious activities and sports events. Sports events such as Cricket tournaments, Volleyball tournaments along with Religious activities guarantee an employee's peace of mind minimizing stress. The Siyapatha Team always provides a helping hand for those who need shelter and support in society. In the year 2016, Employees gathered for a greater cause to help the victims of flood and other natural disasters, which boost team culture on the platform of humanity. Mentoring and coaching and counselling sessions were conducted to uplift the employee well-being activities



3. Inter Finance Company - Quiz Competition



4. Mercantile Volleyball Championship -2016



1. CRIB Governors' Trophy Cricket Tournament



5. A helping hand to a flood victim to construct her house



2. Annual Pirith Ceremony



6. Helping hand to flood victims – delivery of goods

WELFARE MEASURES (G4- LA2)

Siyapatha has initiated a comprehensive term including a series of facilities and amenities prone to employees to enhance the employee welfare and upgrade their living standards year by year. Employees are much benefited through the enhancement facilities.

Employees who are in permanent carder is eligible for welfare benefits except the interns.

Some of these facilities are,

Welfare Benefits	Permanent staff	Fixed Term Contract	Interns/ Trainees
E- Medicine, doctor consultation facility via online	Entitle	Entitle	Not Entitle
Distress loan facility			
Death donation scheme			
Hospitalization cover			
The vehicle loan scheme			
Personal accident covers			
Special risk cover for the recovery officers			
Relocation expenses reimbursement			
Mobile expenses reimbursement			
Subscriptions payments			
Bonus			
Salary Increments			

REWARDS AND RECOGNITION

HR as a Business Partner, it gets quite challenging to keep the employees motivated in the dynamic business environment. We recognize and encourage our employees to build a performance driven culture, where values of integrity, responsibility and respect, are highly admired. Strategic HR decisions are centric with employee development activities and stakeholder satisfaction factors. Employee branding is important as we are expanding into new markets, to recruit new people and to face new challenges of business.

The Company recognises that its future success continues to depend upon the capacity of our staff and is committed to supporting the Company's Performance review process with a fair and equitable reward and recognition system. The Company aims to create a climate for performance excellence at every level for individual and team performance. The Company also recognises the need

for supervisors and employees to discuss and negotiate possible reward mechanisms, both when planning performance expectations and during the performance review as part of the process.

The reward mechanism at Siyapatha supports our business strategy and sufficient to attract and retain high-performing individuals. Motivation factors of the employees has been shown from the roots of physiological, behavioral, cognitive and social. To optimize the employee well-being, we have introduced many employee recognition initiatives via reward and recognition of employee performance and creativity. The reward process enables the employee to ascertain the career prospects within the Company whilst being rewarded for performance purely on merit. The (G4 – LA13)



MODERN WORK ENVIRONMENT

During the last few years, we set ourselves a challenge to re-engineer our processes and systems to improve efficiency. We expect a competitive advantage in the market by aligning with new technologies. Our modern work environment enhances employee satisfaction and mitigates risks of occupational diseases and work related fatalities. Fire, first aid and health & safety programs improve our team alertness of disaster management and emergency

Integrated Management Discussion & Analysis

situations. The Company has a policy based on the timely 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 (G4-LA5). There is 100% employee representation at department level in this Committee. As a result, the company maintained a total of zero work related fatalities, injuries and occupational diseases in the year 2016 (G4-LA6). Since the company operates in the service industry, there are no employees in occupational activities, which have a high risk of occupational diseases, however, the Company always aligns with health and safety standards set by relevant official bodies (G4-LA7).

Siyapatha always adheres to the provisions of the health and safety policy which, has been approved by the Board and Shop and Office Act 1954 to ensure the health and safety welfare of the employees and to promote a safe work environment and to mitigate potential risks to the employees at work place occupation.

GRIEVANCE HANDLING AND EMPLOYEE WELL BEING

Employees are encouraged to openly discuss issues and concerns or feedback on policies and practices within the workplace with their immediate supervisors. The heads of departments and branches are guided and advised by the HR department at the head office to follow an "open dialogue" policy in their day- to- day management of operations.

If employees are unable to effectively address their grievances within their departments, they can recourse to the formal

process, which is structured and independent and mediated by the Head of HR. We maintain a fair, open and confidential grievance handling procedure; employees are encouraged to communicate with the senior management. At present, the company has an 'Open Door Policy' for grievance handling. The HR department has the strength to monitor and review employee grievance issues through a proper procedure and review system, whilst maintaining relevant documents relating to the same.



The "We Care" concept, initiated by the HR department and personally maintains the grievances of each employee. It is composed of branch visits and discusses grievances; suggestions for upgrades and ways in which to motivate employees.

There are no significant grievances happened during the period. The minor grievances have been addressed and resolved. (LA -16)

One HR Officer is specially trained for counselling and grievance handling and she maintains all grievances in a strictly confidential manner. If there is anything to be addressed, an HR officer deals directly with the respective department head or senior management member, if and when needed it will be directed to the Head of HR, COO or MD. This year's highest grievance percentage reported by

female employees while the male work force had their concerns too.

The Whistle blower Policy under the purview of Internal Audit is also a structured mechanism, which is in place to ensure employees can avail from addressing their concerns on employee rights, violation or misdeeds, confidentially of the any issue raised under this policy remain at the Board Level.

Due to fair and equal treatment, and open door policy of the company employees can freely exchange their views, ideas and grievances with the top management and there is no necessity for Trade Unions or employee councils to handle their grievances. Even though we value the right of employees to organize and collective bargain, at the moment we do not consist of any collective agreement within the organization. (G4-11)

At present, the company has an 'Open door policy' for grievance handling. The HR Department has the strength to monitor and review employee grievance issues through a proper procedure and review system, whilst maintaining relevant documents relating to the same.

During the period of assessment, there were no grievances raised by our employees related to a discrimination or human right violation. We have not received any complaints on human right violation from our customers against our employees. In the event that any discrimination occurs, we have the formal disciplinary policy to resolve the issue. (G4-HR3, HR12)

HUMAN RIGHTS MANAGEMENT APPROACH

Siyapatha's value system is fully aligned according to employment and work-related policies set out by the International Labour Organization. The Company concedes and conforms to the International Labour Standards and the Universal Declaration of Principles of Human Rights therein. The Company is fully committed, and firm measures have been progressively adapted to safeguard human rights in the organization. Any disciplinary action against employees do not violate human rights of the individual and physical punishments are strictly prohibited under any circumstances.

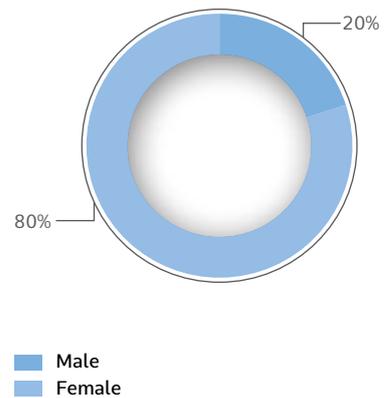
On the other hand Siyapatha is a member of the Employer Federation of Ceylon, which handles all its employee relation concerns within its professional and legal background where we seek advice on ethical and lawful behaviour, and matters related to organizational integrity.

HR PRODUCTIVITY MEASUREMENTS

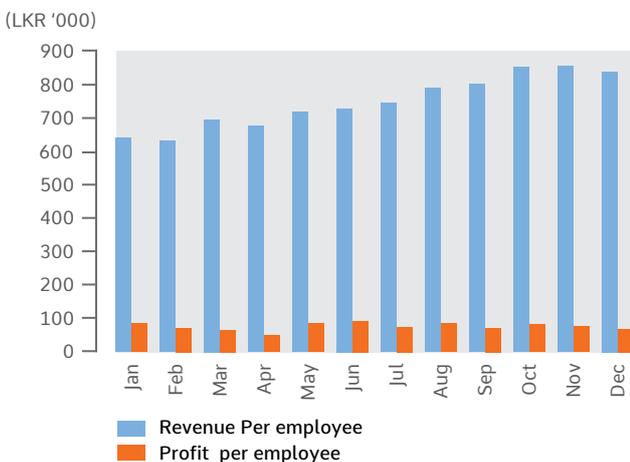
With the expansion of the organization, the amount of data that HR has to keep track of and make reports on is always growing. As every plan needs to be reviewed at a certain point in order to ensure best practices. HR dash boards are useful to analyze performance and identify areas for improvement in an organization. Every month the HR dashboard is prepared and presented in order to evaluate the performance of the HR processes. By monthly comparisons and reviews, we re – engineer processes in order to supply a better service for our employees.

Employee productivity indicators as set out in the table demonstrate a progressive trend with substantial improvement over the past three years- endorsing the Company's HR management policies and practices underscoring the quality of delivery.

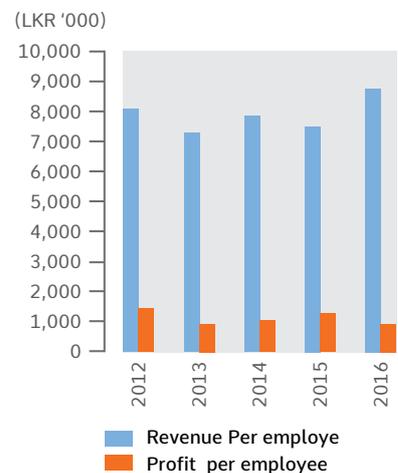
Salary Distribution by Gender



Revenue / Profit Per Employee - 2016



Revenue / Profit per Employee 2012-2016



Integrated Management Discussion & Analysis

VALUES, PRINCIPLES & NORMS

HR department takes necessary initiatives to make employees knowledgeable on organization's values, principles, standards and norms of behaviour and prominent role is played in the orientation of new recruits in this regard. Head of HR is primarily responsible in supervising these aspects.

A manual of Code of Business Conduct and Ethics (in English language) is given to all employees.

REMUNERATION POLICY

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 MD of the Company on all aspects of HR functions, including the revision of staff salaries and of any major organizational changes needed for effective management and salary and compensation. Remuneration ratio by gender and employee category.

Grade	Female	Male
Manager 2	1	0.98
Senior Officer	1	1.17
Officer	1	1.02
Senior Executive	1	1.21
Executive	1	1.07
Assistant	1	0.98

Remuneration ratios do not differ with gender, the changes of the ratio is due the number of years of service of the employees/gender composition. (G4-LA13)

STATUTORY OBLIGATIONS

The Company is committed to uphold the principles, laws and regulations governing labor in Sri Lanka. All statutory obligations have been met, including the contributions to the Employees' Provident Fund, Employees' Trust Fund and maintaining the gratuity scheme as required. We always comply with the guidance given by the Central Bank of Sri Lanka, in our policies. In terms of employee relations, the Company focuses on maintaining a healthy relationship with its employees. The Company always encourages fair labor 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.

A Board approved 'Stakeholder Communication Policy' is practiced within the Company and this ensures effective communication, which is in the best interest of our stakeholders. Our communication culture encourages open communication systems with employees, where top-down and bottom-up communication channels are effectively used. All strategic decisions are communicated amongst corporate management and operational decisions/changes in systems, are communicated to all staff members through the communication mechanism implemented within the Company.

Tables: Talent Development

Gender Wise			
	Cadre %	No of Trained Heads	Training %
Male	76%	573	68%
Female	24%	204	32%

Grade Wise - Trained Heads/Hrs

Grade	Male		Female	
	No of heads	No of hrs	No of heads	No of hrs
Assistant	112	808	88	666
Executive	228	1,910	76	1,048
Senior Executive	90	922	11	195
Officer	48	415	16	262
Senior Officer	32	336	4	17
Manager 2	22	167	2	17
Manager 1	17	95	2	5
Senior Manager	16	95	7	23
Corporate Management	6	19	-	-
Total	571	4,767	206	2,233

(G4-LA9)

INFORMATION TECHNOLOGY DEPARTMENT

During 2016, the IT Department continued to cater to the Company's business goals by maintaining a successful IT operations environment. In the light of the envisaged plans for business expansion, emphasis was made on strengthening the physical resources in the IT Department and on creating a stable foundation for meeting the future demands of new system implementations. The changes effected in 2016 enabled the IT Department to witness a significant expansion in hardware, security, networking and human

resources, which enriched its capability to offer a more robust service to the end users.

The technological gains of this exercise also contributed towards facilitating high availability of our internal systems, which was further validated by the establishment of a new Disaster Recovery Centre to enhance the IT system support level and thereby strengthening the business continuity plans of the Company.

Maintenance of high security standards is an essential factor in mitigating the operational risk of any business entity. To cater to this

requirement, an advanced firewall was installed by the Company to protect our IT systems from internal and external threats and to provide granular control over network activity.

With regard to new application software, the IT Department made arrangements for automating the loan processing operations through vendor-supplied software. Though limited in number, the in-house systems development team made a noteworthy contribution towards the delivery of new application software and assisted the internal operations by introducing the SMS Alerts System, Document Management System, MIS Portal, and the Common Reports Portal along with major enhancements to the in-house developed HR System.



BOARD OF DIRECTORS





DIRECTORS' PROFILE

1. MR. MAHAWADUGE YASALAL ARAVINDA PERERA CHAIRMAN (NON-EXECUTIVE, NON- INDEPENDENT)

Mr. Aravinda Perera retired as the Managing Director of Sampath Bank PLC on 12th September 2016 and has over 30 years of experience in the Banking Sector. He was appointed as an Independent Non-Executive Director of Hayleys PLC with effect from 12th September 2016 as well as the Chairman of the Audit Committee of Hayleys PLC. Mr. Perera has also been appointed as a member of the Board of Directors of Hayleys Industrial Solutions (Pvt.) Ltd and Fentons Limited.

He is a Fellow Member of the Chartered Institute of Management Accountants (UK) (FCMA) and a Fellow of the Institute of Bankers - Sri Lanka (FIB). He holds an MBA from the Post Graduate Institute of Management, University of Sri Jayewardenepura, and being a Chartered Engineer (C. Eng), is a member of the Institute of Engineers (Sri Lanka) (MIESL), as well.

He was appointed as the Chairman of Siyapatha Finance PLC with effect from 7th October 2016. Currently he serves as a member of the Board Integrated Risk Management Committee, Board HR & Remuneration Committee and Board Credit Committee.

Mr. Aravinda Perera was honoured with the 'CEO Leadership Achievement Award 2016' by the Asian Banker and was also the recipient of the prestigious 'Platinum Honors-2014' award, awarded by the Postgraduate Institute of Management Alumni (PIMA) of Sri Jayewardenepura University.

Mr. Aravinda Perera served Sampath Bank as an Executive Director and as a member of many Board sub committees during his tenure at Sampath Bank. Presently, he serves as a Director of SC Securities (Private) Limited which is a subsidiary of Sampath Bank PLC. He represents Sampath Bank as a Director of Lanka Bangla Finance Limited in Bangladesh and serves as a Director of Colombo Stock Exchange. He is also a Consultant to the Board Credit Committee and Board Strategic Planning Committee of Sampath Bank PLC.

2. MR. MOHAN ASOKA ABEYNAIKE DEPUTY CHAIRMAN (NON-EXECUTIVE, INDEPENDENT)

Mr. Abeynaike was a Director of Sampath Bank PLC from July 1995 to December 2011. He was the President of the Institute of Chartered Accountants of Sri Lanka and a member of the Securities and Exchange Commission of Sri Lanka. Mr. Abeynaike has been Chairman/Director of several Companies and public sector organizations and is a Fellow of the Institute of Chartered Accountants of Sri Lanka. He was appointed as a Director of Siyapatha Finance PLC on 28th March 2012.

He is the present Chairman of the Board Related Party Transactions Review Committee and a member of the Board Credit Committee and Board Audit Committee. During the year, he also served as the Chairman of Board Integrated Risk Management Committee.

Mr. Abeynaike currently holds the position of Chairman of Asia Pacific Investments (Pvt) Ltd. and Senior Director of Pan Asia Banking Corporation PLC.

3. MR. KOTHWALA MUDIYANSELAGE SAMAN PRIYANTHA HERATH MANAGING DIRECTOR (EXECUTIVE DIRECTOR)

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.

He later went on to take 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.

A result oriented person, Mr. Herath contributed largely to the development of Sampath Bank. He was appointed as Managing Director of Siyapatha Finance PLC with effect from 5th April 2016.

He currently serves as a member of the Board Integrated Risk Management Committee, Board Credit Committee, Board HR & Remuneration Committee, Board Related

Party Transactions Review Committee and Board Corporate Governance Committee.

He is a fellow Member of the Chartered Institute of Management Accounts of UK (FCMA, UK) as well as the Chartered Global Management Accountants (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.

4. DR. HENNEDIGE SRINATH DILANJAN SOYSA DIRECTOR (SENIOR, NON-EXECUTIVE, INDEPENDENT)

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.

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 was appointed to the Board of Siyapatha Finance PLC as a Director on 1st January 2011 and holds the Chairmanship of the Board Credit Committee and memberships in the Board Audit Committee and Board HR and Remuneration Committee. During the year he served as a member of the Board Integrated Risk Management Committee.

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

5. MR. SUNIL GAMINI WIJESINHA DIRECTOR (NON-EXECUTIVE, NON-INDEPENDENT)

Mr. Sunil Wijesinha is a Chartered Engineer, a Chartered Management Accountant FCMA (UK) and has a MBA from the University of Sri Jayewardenepura. He counts vast experience in the fields of Industry, Finance and Management Consultancy, spanning both the public and private sectors in Sri Lanka. He has served on the Boards of Directors in many state organizations and public and private companies including Sri Lankan Airlines Limited, MILCO, Colombo Dockyard, Sri Lanka Standards Institution, State Plantations Corporation, National Institute of Plantation Management, Maturata Plantations Limited and Asiri Surgical Hospitals PLC. He is the former Chairman and Managing Director of Dankotuwa Porcelain PLC.

Mr. Wijesinha was appointed to the Board of Siyapatha Finance PLC on 22nd October 2008 and he is the present Chairman of the Board Corporate Governance Committee and a member of the Board Audit Committee and Board Related Party Transactions Review Committee of Siyapatha Finance PLC.

His experience in the financial services sector includes having been on the Boards of Sampath Bank PLC (as Deputy Chairman), National Development Bank PLC (as Chairman), Merchant Bank of Sri Lanka PLC (as Managing Director), Employees' Trust Fund Board (as Chairman), Merchant Credit of Sri Lanka (as Chairman), Lanka Securities (Pvt) Limited, DNH Financial (Private) Limited and DFCC Vardhana Bank PLC.

Mr. Wijesinha has specialized in Industrial Engineering/Productivity and is a well-known proponent of Japanese style management.

He currently serves as the Chairman of Watawala Plantations PLC, Watawala Dairy Ltd., RIL Property Ltd and United Motors Lanka PLC, Director of BizEx Consulting (Private) Limited and Sampath Centre Limited, He is a Past President of the National Chamber of Commerce of Sri Lanka and a Past Chairman of the Employers' Federation of Ceylon.

Directors' Profile

6. MR. PARAKRAMA MAITHRI ASOKA SIRIMANE **DIRECTOR (NON-EXECUTIVE, INDEPENDENT)**

Mr. Sirimane is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and holds a MBA with Distinction from the University of Swinburne, Victoria, Australia.

He has held several key corporate positions, including the positions of Chief Financial Officer of Sri Lanka Telecom PLC and Managing Director/Chief Executive Officer of Mercantile Leasing Limited.

He was appointed as a Director to the Board of Siyapatha Finance PLC on 3rd August 2010. He is the Chairman of Board Audit Committee, as well as member of the Board Corporate Governance Committee and Board Related Party Transactions Review Committee. During the year he served as the Chairman of Board Related Party Transactions Review Committee, member of the Board Integrated Risk Management Committee and Board HR & Remuneration Committee.

He currently serves as a Director/Chief Financial Officer of E.B Creasy & Co PLC and some of its Subsidiaries.

7. MR. CHANNA PRABODHA PALANSURIYA **DIRECTOR (NON-EXECUTIVE, NON-INDEPENDENT)**

Mr. Channa Palansuriya earned his Master of Business Administration from Open University of Malaysia. He counts 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 to being a Board member of the BOI for ten years, he has added experience in Government Administration. 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.

Having served as the Chairman of Siyapatha Finance PLC till October, 2016 he is the Chairman of Board Integrated Risk Management Committee at present.

He was also a Board Member of Sri Lanka Institute of Textile & Apparel, Chairman of Apparel Exporters' Association 200 gfp during 2006-2008 and Chairman of GC Lanka Clothing (Pvt) Limited till 2013.

He currently serves as the Chairman of Sampath Bank PLC, Chairman of Style-Kraft Sportswear (Pvt) Limited (Canada), Deputy Chairman of National Livestock Development Board, Director of Orit Apparels Lanka (Pvt) Limited and Orit Trading Lanka (Pvt) Limited, Executive Committee member of Joint Apparel Association Forum (JAAF), Apparel Exporters Association gfp and Sri Lanka Apparel Sourcing Association (SLASA).

8. MR. WATUTANTHRIGE MAHIMAN **PRASANTHA LAL DE ALWIS** **DIRECTOR (NON-EXECUTIVE, INDEPENDENT)**

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. 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 was appointed to the Siyapatha Board on 25th February 2011. He is the Chairman of Board HR & Remuneration Committee and holds memberships of Board Integrated Risk Management Committee, Board Corporate Governance Committee and Board Related Party Transaction Review Committee of Siyapatha Finance PLC.

He was a member of the Consumer Affairs Authority, Board of Sri Lanka Foreign Employment Agency and Official Language Commission in Sri Lanka.

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, including subjects of Banking in LL.M Programme and Sri Lanka Law College. He

currently serves as a Director of Softlogic Holdings and Coral Sands Hotel (Pvt) Ltd. He was appointed as Honorary Consul of Seychelles in Sri Lanka in October 2013. He is also a Member of Board of Management Centre for Human Right Development - University of Colombo and Law faculty Board of University of Colombo.

9. MR. RANJITH SAMARANAYAKE
DIRECTOR (NON-EXECUTIVE, NON-INDEPENDENT)

Mr. Samaranayake has extensive experience as Head of Finance & Planning at National Savings Bank, Commercial Bank of Ceylon PLC and Sampath Bank PLC. He counts over 40 years' experience of managing Finance Management in the financial services sector and holds a Bachelor of Commerce (Accountancy Special) Degree from the University of Peradeniya.

Mr. Samaranayake functioned as an Accountant (Grade III) in the National Savings Bank from January 1975 to August 1979. He then joined the Commercial Bank of Ceylon PLC where he went on to the position of Senior Deputy General Manager (Finance & Planning).

Mr. Samaranayake was appointed as a Director to the Board of Siyapatha Finance PLC on 28th March 2012 and he is a Member of the Board Audit Committee and Board Related Party Transactions Review Committee. During the year he also served as a member of the Board Credit Committee.

Currently Mr. Samaranayake serves as the Group Finance Director of Sampath Bank PLC and is also a Director of Sampath Information Technology Solutions Ltd.

10. MR. LASITH THARAKA RANWALA
DIRECTOR (NON-EXECUTIVE, NON-INDEPENDENT)

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 is also responsible for Marketing, Deposit Mobilization, Electronic Banking and Credit Cards. Mr. Ranwala is also the Overall Pillar Head for the CSR activities of the Bank. He has over 15 years' experience in the Banking Industry in roles of increasing responsibility in Marketing & Retail Banking. During this period he had stints in 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 include the 'Brand Leadership Award in 2006' and 'Marketing Professional of the year in 2014' at the CMO ASIA Global Brand Excellence Awards. Mr. Ranwala is the Vice 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 was appointed as a Director to the Board of Siyapatha Finance PLC on 28th July, 2015 and he is a Member of Board Credit Committee and Board Integrated Risk Management Committee.

11. SATHANANTHAN SUDARSHAN
GROUP COMPANY SECRETARY

CORPORATE MANAGEMENT TEAM



SAMAN HERATH
Managing Director



RAJEEV DE SILVA
Chief Operating Officer



HASUNI GAYASHA
Head of Finance



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



SHAMA SELVARATNAM
Head of Factoring



SAJEEWA DODANWATTE
Head of Recoveries



DUSHYANTHA DE SILVA
Head of Credit Administration



AJANTHA KUMARA
Head of Gold Financing

OTHER KEY MANAGERS



HISHAM ZIARD

Senior Regional Manager - Deposits



THILAK ADIKARI

Senior Regional Manager - Credit



MANJULA BALASURIYA

Manager - IT



AKALANKA PREMARATNE

Manager - Loan Products



DAMITH SHAMINDA

Manager - Internal Audit



SAMPATH HIMENDRA

Manager - Operations



NIMASHA KUMARASIRI
Manager - Finance



LAKMINI PERERA
Manager - Factoring



MALAKA ASIRIWARDANA
Manager - Administration



ARUNA NAWARATHAN
Manager - Recoveries



AMILA LIYANARACHCHI
Manager - Insurance



ASIRINI WANNIARACHCHI
Assistant Manager - Legal

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



ANURA JAYASINGHE
Branch Manager - Peliyagoda



BUDDHIKA RATNAYAKE
Branch Manager - Matara



MOHAMED PRIMSATH
Branch Manager - Sainthamaruthu



S.M.FAIZ
Branch Manager - Kalmunai



ASHOKA RUPASINGHE
Branch Manager - Ampara



CHAMARA PERERA
Branch Manager - Kuliya

Branch Managers



BHATHIYA ASANKA KUMARA
Branch Manager - Kurunegala - Metro



SALIYA MALUDDENIYA
Branch Manager - Kandy



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 - Kalutara



HARSHA RATHNAYAKA
Branch Manager - Head Offices



SANDARUWAN SOMARATHNA
Branch Manager - Kurunegala



ANURADHA DESHAPRIYA
Branch Manager - Anuradhapura



RASHMIKA MALSHAN
Branch Manager - Wellawatta

Branch Managers



MANOJ UDAYAKUMARA
Branch Manager - Nugegoda



NELUM VIPULASENA
Branch Manager - Vauniya



SUJEEWA HETTIARACHCHI
Branch Manager - Rathnapura



L.H.M DHANUSHKA
Branch Manager - Awissawella



ANANDA JAYAKODY
Branch Manager - Kegalle

INNOVATION

**ACCESSIBILITY,
CONVENIENCE AND
AN EXTENDED REACH
ARE VITAL IN ORDER
TO BE COMPETITIVE
AND WE HAVE MADE
SUBSTANTIAL
INVESTMENTS TO MAKE
THIS VISION A REALITY.**

3

CORPORATE GOVERNANCE

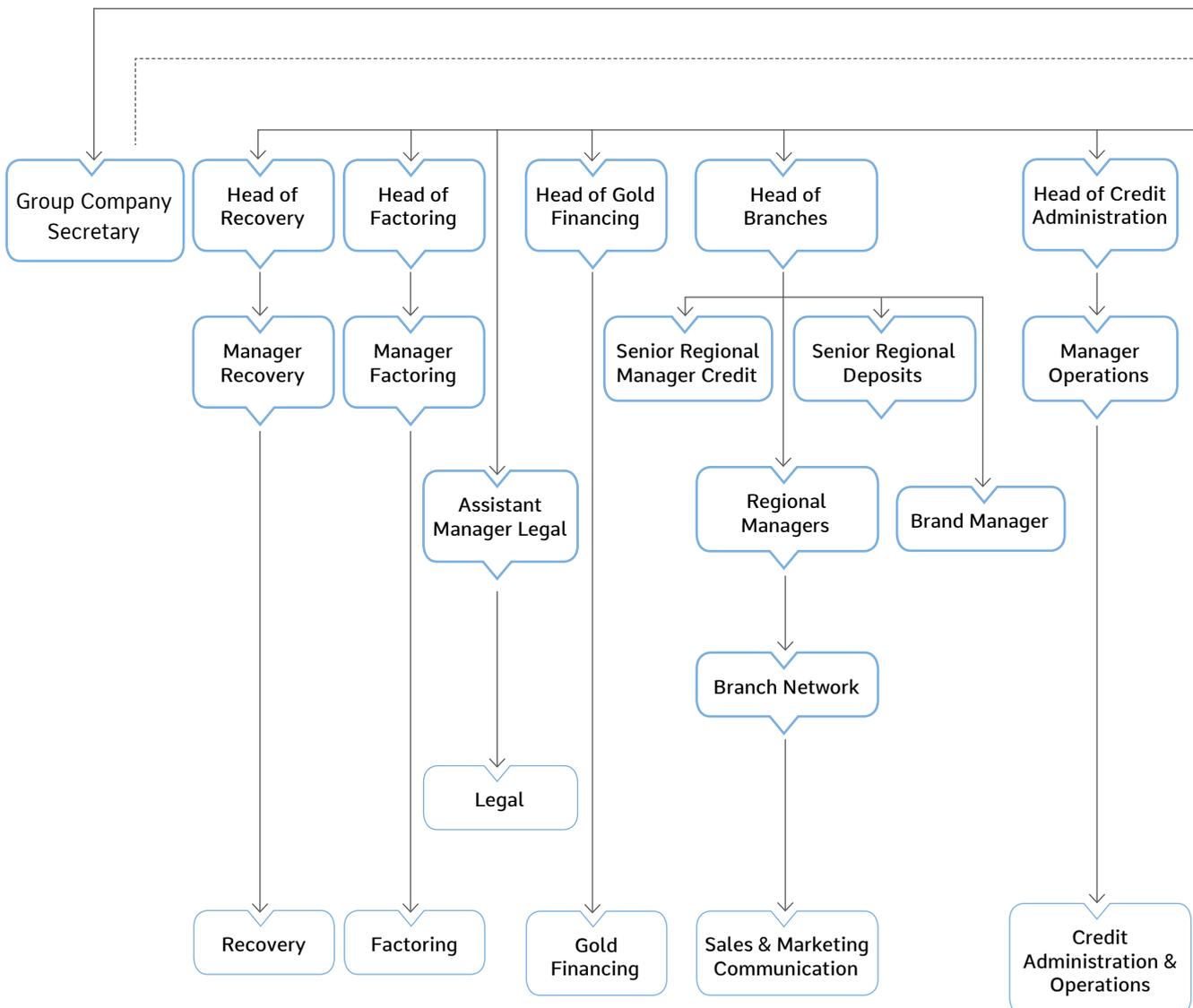
ORGANIZATION STRUCTURE

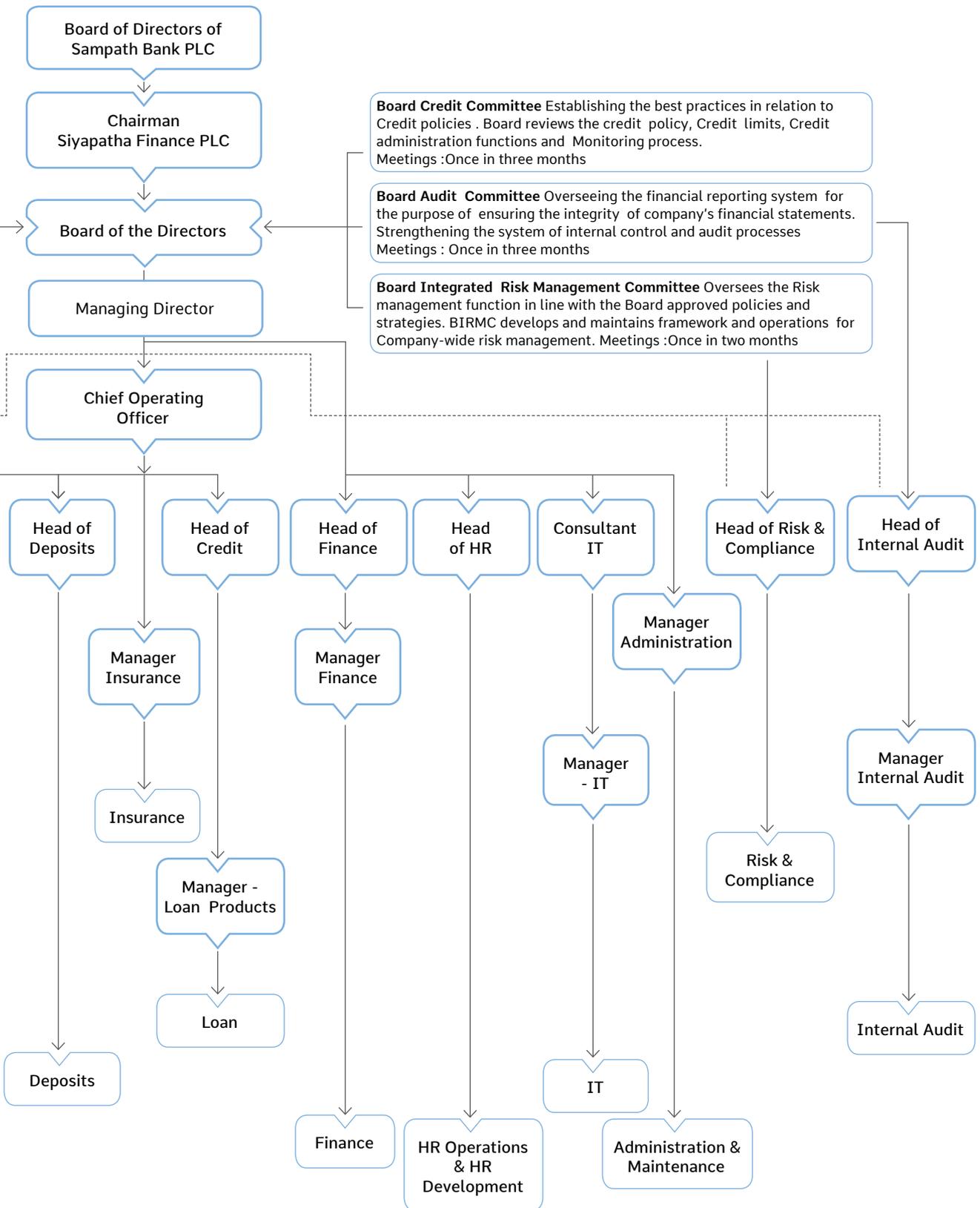
—>	Functional Reporting
-----	Administrative reporting
○	Functions & Functional Head
○	Department

Board HR & Remuneration Committee Focus on Human Capital Management and determine the remuneration policies. Mitigate operational risk involved in HR and Compensation .
Meetings : Biannually

Board Corporate Governances Committee This emanates from the Main Board. Company secretary would keep the Main Board informed of all statutory governance issues.
Meetings : Once in three months

Board Related Party Committee Adopting policies/procedures to review all RPTs. Reviewing overseeing existing policies/procedure. Reviewing in advance all RPTs in compliance with the provision of the Code of Best practice (issued by SEC) and listing rules.
Meetings: once in three months





Corporate Governance

DIRECTORS' ATTENDANCE & COMMITTEE MEMBERSHIPS

Directors' Attendance for the year 2016

Director	Board Meetings	Board Audit Committee	Board Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Board Related Party Transactions Review Committee
Mr. Mahawaduge Yasalal Aravinda Perera	14		4				
Mr. Mohan Asoka Abeynaike	13	12	5	2			
Mr. Kothwala Mudiyanseelage Saman Priyantha Herath	11**		4	-*		1***	1****
Mr. Sunil Gamini Wijesinha	13	10				2	3
Dr. Henedige Srinath Dilanjan Soysa	14	14	5	4	7		
Mr. Parakrama Maithri Asoka Sirimane	14	14	4		7	3	3
Mr. Watuthantrige Mahiman Prasantha Lal De Alwis	14		4		7	3	2
Mr. Channa Prabodha Palansuriya	13						
Mr. Ranjith Samaranyake	15	14		4			
Mr. Lasith Tharaka Ranwala	15			4			
Total No. of Meetings	15	14****	5	4	7	3	3

*Mr. K. M. S. P. Herath was appointed to the Board Credit Committee w. e. f. 27.09.2016. During last year he was excused for one meeting.

** Mr. K. M. S. P. Herath was appointed to the Board w. e. f. 05.04.2016. During last year he was excused for one meeting.

*** Mr. K. M. S. P. Herath was appointed to the Board Corporate Governance Committee w. e. f. 27.09.2016.

****Mr. K. M. S. P. Herath was appointed to the Board Related Party Transactions Review Committee w. e. f. 27.09.2016.

***** The Board Audit Committee had 12 meetings during the year 2016 and 2 separate Board Audit Committee Meetings were held without the presence of the Executive management.

Committee Composition as at 31st December 2016

Director	Board Meetings	Board Audit Committee	Board Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Board Related Party Transactions Review Committee
Mr. Mahawaduge Yasalal Aravinda Perera	C*			M			
Mr. Mohan Asoka Abeynaike	M	M	C	M			M
Mr. Kothwala Mudiyanseelage Saman Priyantha Herath	M		M	M****		M***	M****
Mr. Sunil Gamini Wijesinha	M	M				M	M
Dr. Henedige Srinath Dilanjan Soysa	M	M	M	C	M		
Mr. Parakrama Maithri Asoka Sirimane	M	C	M		M	C	C
Mr. Watuthanthrige Mahiman Prasantha Lal De Alwis	M		M		C	M	M
Mr. Channa Prabodha Palansuriya	M**						
Mr. Ranjith Samaranyake	M	M		M			
Mr. Lasith Tharaka Ranwala	M			M			

C- Chairman M – Member

*Mr. M.Y.A. Perera was appointed as the Chairman w. e. f. 07.10.2016

** Mr. C.P. Palansuriya stepped down as the Chairman w. e. f. 07.10.2016

*** Mr. K. M. S. P. Herath was appointed to the Board Corporate Governance Committee w. e. f. 27.09.2016

**** Mr. K. M. S. P. Herath was appointed to the Board Related Party Transactions Review Committee w. e. f. 27.09.2016

***** Mr. K. M. S. P. Herath was appointed to the Board Credit Committee w. e. f. 27.09.2016

Corporate Governance

THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 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	Responsibility
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A DIRECTORS

A.1 THE BOARD

Complied

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	<p>Board meetings are planned well ahead and the dates of meetings, which are scheduled monthly, are finalised at the beginning of the calendar year.</p> <p>Board meetings are mainly focused on reviewing the performance of the Company and other routine matters. The Board spends more time on strategic planning and the Company's direction in the future. Key Officers in their monthly presentations to the Board, focus 100% on their performances and future plans to achieve the strategic vision. Special Board meetings are convened whenever necessary. These meetings ensure that prompt action is taken to align the business processes to achieve the expectations of all stakeholders. During the reviewed period 15 Board meetings were held.</p> <p>Please refer the 'Number of Meetings held and attendance' table given on page 80 of the Annual report.</p>	Board of Directors and Company Secretary
A.1.2	Responsibilities of the Board	Complied	The Board, while acting in line with the organization and the Group's 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 is tabled, discussed and approved by the Board.	Board of Directors



Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
A.1.2 Contd.	Responsibilities of the Board	Complied	<p>During the last few years the Board recognized the importance of Human Capital and recruited to the Corporate management, individuals who are capable and talented with the required skills, experience and knowledge to accept any challenge that the Company may face in the future. The Board also implemented a succession plan; with a view to ensure that there will be a strong successor to shoulder the responsibilities of the Company if it becomes necessary.</p> <p>The Board takes necessary steps to fulfil 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 will ensure that all applicable laws and regulations and adherence to the organization's and the group's 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.</p>	Board of Directors
A.1.3	Agreed procedure on seeking independent professional advice	Complied	A Clear, formulated and approved procedure is in place for the Directors to seek independent professional advice as and when required. The Board's Sub-Committees advise the Board on various matters under their purview, when necessary.	Board of Directors and Company Secretary
A.1.4	Advice and services of the Company Secretary	Complied	A 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 the Board needs clarifications are referred to the Company Secretary, who is a Chartered Secretary. He provides such information after obtaining necessary professional advice whenever required.	Board of Directors/ Company Secretary

Corporate Governance

THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 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	Responsibility
A.1.5	Independent judgment of Directors	Complied	All Directors are free to bring independent judgment to the decision making of the Company and for the decisions taken by the Board on issues of strategy, performance, resources and standards of business conduct. The Company Secretary with a view to indicate the rationale in, which decisions are arrived at, records different arguments and the ideas in detail.	Board of Directors/ Company Secretary
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 fulfil 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 highest standards. Board Papers/Committee papers are dispatched in advance to the Directors.	Board of Directors/ Company Secretary
A.1.7	Training for new and existing Directors	Complied	The Directors have recognized the need for continuous training and the expansion of knowledge and take part in such professional developments, as they consider necessary in assisting them to carry out their duties as Directors. Market experts and professionals services are obtained to share new knowledge from time to time. The Company Secretary informs the Directors of any training program relevant to them to participate in.	Board of Directors/ Company Secretary

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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A.2 CHAIRMAN AND MANAGING DIRECTOR (MD)

Complied

The 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 the 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	The 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 with one individual. There is a clear division of responsibilities between conducting the business of the Board and the 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.	Board of Directors
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Corporate Governance

THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 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	Responsibility
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A.3 CHAIRMAN'S ROLE

Complied

The 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 the Board functions. He also provides leadership to the Board and effectively manages the Board while preserving the order and facilitating effective discharge of the Board's functions.

A.3.1	Role/ Functions of the Chairman	Complied	<p>The following functions of the Chairman were approved by the Board</p> <ul style="list-style-type: none"> ● Provide leadership to the Company and the Board of Directors. ● Ensure that the Board works effectively and discharges its responsibilities. ● Ensure that the Board discusses all key and appropriate issues, 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 ensure that Directors receive adequate information in a timely manner. ● Encourage all Directors to make a full and active contribution to the Board's affairs and 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 Directors. ● Not to engage in activities involving the 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. 	Board of Directors
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Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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A.4 FINANCIAL ACUMEN

Complied

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 six Board members out of the ten Directors are qualified accountants with 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	<p>The Chairman of the Audit Committee, Mr. P. M. A. Sirimane and Mr. M. A. Abeynaike are Fellow Members of the Institute of Chartered Accountants of Sri Lanka.</p> <p>In addition, the Board includes a Non-Executive Director, who is the Group Finance Director who holds a Bachelor of Commerce (Accountancy Special) Degree from the University of Peradeniya.</p> <p>Further Mr. M. Y. A. Perera, who is the Chairman of the Company, is a Fellow Member of the Chartered Institute of Management Accountants, UK and Mr. S. G. Wijesinha is also a Fellow Member of the Chartered Institute of Management Accountants (UK).</p> <p>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 the Chartered Global Management Accountants (CGMA).</p> <p>These members of the Board have the ability to offer guidance on matters of finance to the Board.</p>	Board of Directors
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Corporate Governance

THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 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	Responsibility
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A.5 BOARD BALANCE

Complied

The Code requires that a balance be maintained between the Executive and Non-Executive Directors (NEDs) so 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 NEDs	Complied	Nine out of ten 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.	Board of Directors
A.5.2 & A.5.3	Independence of NEDs	Complied	Four out of the nine 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.	Board of Directors and Company Secretary
A.5.4	Annual Declaration of NEDs	Complied	Every NED of the Company has submitted 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.	Board of Directors and Company Secretary
A.5.5	Annual Declaration by the Board on the independence of Directors	Complied	The Board has determined the independence of its 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: Mr. M. A. Abeynaike, Mr. P. M. A. Sirimane, Dr. H. S. D. Soysa and Mr. W. M. P. L. De Alwis.	Board of Directors and Company Secretary
A.5.6	Alternate Director	Complied	Mr. P. M. A. Sirimane, who is an Independent Non-Executive Director, has been appointed as the alternate Director to Mr. S G Wijesinha, who is a Non-Executive Director.	Board of Directors and Company Secretary



Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
A.5.7 & A.5.8	Requirement to appoint a 'Senior Non-Executive Director' and making himself available for confidential discussions	Complied	The Chairman of the Company is a Non-Independent Director. Therefore 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.	Board of Directors and Company Secretary
A.5.9	Conducting meetings with NEDs only	Not Applicable	The Managing Director, Mr. K. M. S. P. Herath attends the Board Audit Committee meetings only by invitation. The Board Audit Committee met twice with the External Auditors without the presence of the Executive Management.	Company Secretary
A.5.10	Recording of concerns in Board minutes	Complied	Deliberations raised by the Directors are part of the Board meetings and the Company Secretary adequately details such information in the minutes. Rather than only noting down the decisions, the Company Secretary always records the means by which the decision is arrived at. All minutes are kept in a detailed manner.	Board of Directors and Company Secretary

A.6 SUPPLY OF INFORMATION

Complied

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 ensures that the Directors receive adequate information in a timely manner. Every effort is made 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, wherever 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 that arise at Board meetings.	Board of Directors , Company Secretary and Executive Management
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Corporate Governance

THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 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	Responsibility
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 the 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.	Executive Management and Company Secretary

A.7 APPOINTMENT TO THE BOARD

Complied

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	New appointments and the re-election of Directors to the Board are considered and recommended by the Nomination Committee of the Parent Company. Based on such recommendations of the parent Company, final decisions are taken by the Siyapatha Board as per the procedure approved by the Board to appoint new Directors, which is a formal and transparent procedure. Further, 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.	Nomination Committee of Parent Company, Board of Directors and Company Secretary
A.7.3	Disclosure of required details to Shareholders on new appointments to the Board	Not Applicable	Since the Parent Company holds 100 % of the shares and the Nominations Committee of the parent Company nominates the new appointments to the Board, this requirement is not applicable.	Company Secretary

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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A.8 RE-ELECTION

Complied

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 is to re-elect by rotation at least one-third of the Directors at Annual General Meetings. A procedure is in place to elect Directors who join the Board during the year to make themselves available for election at the subsequent Annual General Meeting.	Board of Directors and Company Secretary
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A.9 APPRAISAL OF BOARD PERFORMANCE

Complied

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 Chairman evaluates the performance of the Board with the Board's assistance. The Board's Sub-Committees carry out a self-assessment process annually to ensure that they function effectively and efficiently with the objective of facilitating continuous improvement and to be in line with the good governance.	Board of Directors and Company Secretary
A.9.3	Disclosure of criteria used for the performance evaluation	Complied	Please refer the Board Human Resources and Remuneration Committee Report for details of the criteria considered for performance evaluation of the Board.	Board of Directors and Company Secretary

A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS

Complied

The Code requires that details of the 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 - 67. (b) Other business interests – page 149 (c) Remuneration – Note 43.2 on page 213 (d) Status of independence - page 147 (e) Details of Board meetings and Board Committee meetings held during the year - page 80	Company Secretary
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Corporate Governance

THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 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	Responsibility
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A.11 APPRAISAL OF MANAGING DIRECTOR (MD)

Complied

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	Complied	At the beginning of each financial year, the Board meets 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. The Board, to ensure the performance is achieved carries out a yearly assessment of performance of the MD.	Board of Directors and Company Secretary
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B DIRECTORS' REMUNERATION

B.1 REMUNERATION PROCEDURE

Complied

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 conflicts 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.	Board of Directors and Company Secretary
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 Board appoints the Chairman of the Committee.	Board of Directors
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.	Board of Directors and Company Secretary
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's 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 and an additional fee for either chairing or being a member of a Board or a Committee.	Board of Directors of Parent Company, Board of Directors

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
B.1.5	Ability to consult the Chairman and/or CEO 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.	Board of Directors and Company Secretary

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 the Directors

B.2.1	Remuneration packages of Executive Directors	Complied	The Managing Director was appointed with effect from the 5th April of 2016 and his remuneration is based on the Group Remuneration Policy.	Board of Directors of the Parent Company, Board of Directors and the Company Secretary
B.2.2	Competitiveness of the levels of remuneration	Not Applicable	Directors are paid for their contribution based on the Group Remuneration Policy.	Board of Directors of Parent Company, Board of Directors and Company Secretary
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.	Board of Directors of parent Company, Board of Directors and Company Secretary
B.2.4	Performance based remuneration of Executive Directors	Not Applicable	During the year under review, the Company did not provide for a performance-based remuneration for Executive Directors.	Company Secretary

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Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
B.2.5	Executive share options	Not Applicable	No Executive Share Option Schemes were granted during the year.	Company Secretary
B.2.6	Designing the remuneration of Executive Directors	Complied	The remuneration of the Executive Director is determined by the Parent Company in line with the Group Remuneration Policy.	Board of Directors of Parent Company, Board of Directors and Company Secretary
B.2.7 & B.2.8	Early termination of Executive Directors	Not applicable	Other than the nominal fee, Directors are not entitled to any other benefits from the Company.	Company Secretary
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.	Board of Directors of Parent Company, Board of Directors, Company Secretary

B.3 DISCLOSURE OF REMUNERATION

Complied

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 43.2 of the Financial Statements for the aggregate remuneration paid to Non-Executive Directors.	Head of Finance of the Company
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Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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C RELATIONS WITH SHAREHOLDERS

C.1 CONSTRUCTIVE USE OF ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS

Complied

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 interest.

C.1.1	Use of Proxy Votes	Not applicable	The Parent Company holds 100% of the shares.	Company Secretary
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.	Board of Directors Company Secretary
C.1.3	Availability of Chairmen of Board Committees	Complied	All Board members are present at the AGM.	Board of Directors/ Company Secretary
C.1.4 & C.1.5	Adequate notice of AGM to shareholders together with summary of the procedure	Complied	Annual Reports are dispatched to all Shareholders/Debtenture holders of the Company, whereas a form of proxy together with the notice of the meeting detailing the summary of procedure as per legal requirements giving adequate notice is dispatched to shareholders.	Company Secretary

C.2 COMMUNICATION WITH SHAREHOLDERS

Not Applicable

The Code requires to effective communication with shareholders.
This section is not applicable since the company is a fully owned subsidiary of Sampath Bank PLC

C.2.1	Channel to reach all shareholders of the Company	Not Applicable	This section is not applicable since the Company is a fully owned subsidiary of Sampath Bank PLC.	Company Secretary
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Corporate Governance

THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 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	Responsibility
C.2.2	Policy and methodology for communication	Not Applicable	This section is not applicable since the Company is a fully owned subsidiary of Sampath Bank PLC.	Company Secretary
C.2.3	Implementation of the policy and methodology for communication with shareholders	Not Applicable	This section is not applicable since the Company is a fully owned subsidiary of Sampath Bank PLC.	Company Secretary
C.2.4 & C.2.6	Contact person in relation to shareholder matters	Not Applicable	This section is not applicable since the Company is a fully owned subsidiary of Sampath Bank PLC.	Company Secretary
C.2.5	Process to make all directors aware of major issues and concerns of shareholders	Not Applicable	This section is not applicable since the Company is a fully owned subsidiary of Sampath Bank PLC.	Company Secretary
C.2.7	Process of responding to shareholder matters	Not Applicable	This section is not applicable since the Company is a fully owned subsidiary of Sampath Bank PLC.	Company Secretary

C.3 MAJOR AND MATERIAL TRANSACTIONS

Not Applicable

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 the acquisition or disposal of assets greater than half of the net asset value of the Company.	Board of Directors
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Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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D ACCOUNTABILITY AND AUDIT

D.1 FINANCIAL REPORTING

Complied

This Principle requires the Board of the Company to present a balanced and understandable assessment of the Company's 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 in page 144 of the 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.	Board of Directors, Board Audit Committee, Head of Finance, Head of Risk and Compliance
D.1.2	Declarations by Directors in the Directors' Report	Complied	The Annual Report of the Board of Directors on the affairs of the Company in pages 143 - 150 contains the declarations as required by the code.	Board of Directors
D.1.3	Statements by Directors' and Auditors' on responsibility for financial reporting	Complied	The "Statement of Directors' Responsibility" for the preparation and presentation of financial statements is given in Note 1.4 of the Financial Statements in page 161 of the Annual Report. Please also refer page 153 of the Independent Auditor's Report.	Board of Directors

Corporate Governance

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Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
D.1.4	Management Discussion and Analysis	Complied	Please refer "Management Discussion and Analysis" (MD&A) set out on pages 22 to 61 presented as an integrated report covering all aspects referred in the code.	Board of Directors and Executive Management
D.1.5	Declaration by the Board on the going concern of the Business	Complied	Please refer "Annual Report of the Board of Directors" and Note 3 Estimates and Assumptions to the Audited Financial Statements Page 162.	Board of Directors, Management of the Company
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.	Board of Directors and Company Secretary
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, which ended on the 31st of December 2016, 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 43 to the Audited Financial Statements.	Board of Directors, Head of Finance and Company Secretary

D.2 INTERNAL CONTROL

Complied

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	Board Audit Committee, Head of Internal Audit
D.2.2	Need for an internal audit function for companies	Not Applicable	This is not applicable as the Company already has its own in-house Internal Audit Department, which is responsible for internal audit function.	Board Audit Committee

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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D.3 AUDIT COMMITTEE

Complied

The Code requires the Board to have formal and transparent arrangements in selecting and applying accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank's External Auditor

D.3.1	Composition of the Audit Committee	Complied	Four out of the five Directors are independent including the Chairman. All five members are Non-Executive Directors. Details of the members are found in the 'Board Audit Committee Report' under the heading "Composition of the Committee". (Page 125)	Board of Directors/ Company Secretary
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.	Board Audit Committee/ Company Secretary
D.3.3	Terms of Reference of the Audit Committee	Complied	The 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 as well as the internal audit and risk management procedures of the Company.	Board Audit Committee/ Company Secretary
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.	Company Secretary

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Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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D.4 CODE OF BUSINESS CONDUCT AND ETHICS

Complied

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

D.4.1	Disclosures on presence of Code of Business Conduct and Ethics	Complied	The Company has an internally developed Code of Conduct for its Directors and this Code covers the following areas, 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 focus mainly on the following areas: Fair dealing, protection and proper use of Company assets, record-keeping and reporting, accounting and financial reporting, reporting illegal or unethical behaviour, discrimination and harassment, health and safety, discipline etc.	Board of Directors
D.4.2	Affirmative Statement by the Chairman	Complied	Please refer the Chairman's Report for details. (Pages 14 to 17)	Board of Directors

D.5 CORPORATE GOVERNANCE DISCLOSURES

Complied

Directors of the company annually disclose the Company's adherence to the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission of Sri Lanka and the CBSL Direction No. 11 of 2007 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 the Central Bank of Sri Lanka, the Securities Exchange Commission and Code of Best Practice are included on pages 82 to 123 of the Annual Report.	Board of Directors and Company Secretary
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Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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SECTION 2: SHAREHOLDERS
E. INSTITUTIONAL INVESTORS

E.1 SHAREHOLDER VOTING

Not Applicable

Due to the Parent Company holding 100% of equity of the Company, the requirement of disclosures to institutional investors has not arisen from an equity point of view. In the event that such needs should arise, from the perspective of accountability and transparency all material disclosures shall be made to strengthen the positive relationship between management and institutional investors

E.1.1	Communication with shareholders	Not Applicable	The 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.	Board of Directors and Company Secretary
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E.2 EVALUATION OF GOVERNANCE DISCLOSURES

Not Applicable

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 as the only Institutional Investor is at liberty to give due weight on matters relating to the Board structure and composition.	Board of Directors of Parent Company and Board of Directors
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F. OTHER INVESTORS

F.1 INVESTING/DIVESTING DECISION

Not Applicable

F.1.1	Seek independent advice in investing or divesting decisions	Not applicable	Sampath Bank PLC owns 100% of the Company shares.	Board of Directors
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Corporate Governance

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Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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F.2 SHAREHOLDER VOTING

Not Applicable

F.2.1	Encourage voting by Individual Investors in General Meetings.	Not Applicable	Only the Parent Company uses its voting rights at the AGMs.	Board of Directors
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G SUSTAINABILITY REPORTING

Complied

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 "Financial Value Addition" on pages 154 - 217.	MD and Corporate Management
G.1.2	The Environment	Complied	This is covered in "Our approach to Sustainable Growth" on page 225.	MD and Corporate Management
G.1.3	Labour Practices	Complied	Please refer the "Human Capital Management" section of the Integrated management Discussion and Analysis contained on pages 47 to 60.	MD and Corporate Management
G.1.4	Society	Complied	"Our approach to Sustainable Growth" on page 225, covers this aspect.	MD and Corporate Management
G.1.5	Product and Service Responsibility	Complied	The "Overall Product Responsibility" (page 37) and "Customer Feedback Assessment" (page 39) of the Integrated management Discussion and Analysis contain this aspect.	MD and Corporate Management

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
G.1.6	Stakeholder Identification, Engagement & Effective Communication	Complied	Please see the contents of the "Stakeholder Engagement" on page 23.	MD and Corporate Management
G.1.7	Sustainable Reporting & Disclosure	Complied	Disclosures relating to company's compliance with sustainability reporting is disclosed in 'GRI G4 Content Index-'In Accordance'-Core' (pages 226 to 231).	MD and Corporate Management

Corporate Governance

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	As at 31st December 2016, nine out of the ten Directors of the Board are Non-Executive Directors.
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	<p>Out of the nine Non-Executive Directors, Mr. P. M. A Sirimane, Mr. M. A. Abeynaike, Dr. H. S. D. Soysa and Mr. W. M. P. L. De Alwis are Independent Non-Executive Directors. Thus the Company is compliant with the requirement that 1/3 of Non-Executive Directors appointed to the Board should be independent.</p> <p>The status change of Mr. W. M. P. L. De Alwis, from Non- Independent, Non-Executive to Independent, Non-Executive was approved by the Central Bank of Sri Lanka.</p>
7.10.2(b)	Submission of declarations annually, declaring the 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.
	The names of Independent Directors should be disclosed in the Annual Report	Complied	The names of the Independent Directors are set out on page 147 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 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 have been published on pages 64 - 67 of the Annual Report

Rule No	Applicable Requirement	Compliance Status	Comment
7.10.3(d)	Provide a brief resume of new Directors appointed to the Board	Complied	Mr. K. M. S. P. Herath was appointed to the Board of Directors with effect from the 5th of April 2016 and a brief resume of Mr. Herath is set out on page 64 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 the independence of Directors.
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REMUNERATION COMMITTEE

7.10.5 (a)	Composition	Complied	<p>During the year under review the Board HR & Remuneration Committee, consisted of the following Directors.</p> <ul style="list-style-type: none"> ● Mr. W. M. P. L. De Alwis - Chairman (Non-Independent, Non-Executive Director) ● Dr. H. S. D. Soysa (Independent, Non-Executive Director) ● Mr. P. M. A Sirimane (Independent, Non-Executive Director) <p>w. e. f. 1st January 2017 the Committee consists of the following Directors.</p> <ul style="list-style-type: none"> ● Mr. W. M. P. L. De Alwis - Chairman (Independent, Non-Executive Director) ● Dr. H. S. D. Soysa (Independent, Non-Executive Director) ● Mr. M. Y. A. Perera (Non-Independent, Non-Executive Director)
7.10.5 (b)	Recommendation on Remuneration for Executive Directors, CEO and /or equivalent position		The 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 and the rest of the staff of the Company.



Corporate Governance

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

Rule No	Applicable Requirement	Compliance Status	Comment
7.10.5 (c)	Names of Directors comprising the Remuneration Committee	Complied	Published in the Annual Report (pages 128 - 129) 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 under state of affairs of the Company on pages 143 - 150 of the Annual Report.

AUDIT COMMITTEE

7.10.6(a)	Composition	Complied	All members of the BAC are Non-Executive Directors and the Committee consists of Mr. P. M. A. Sirimane – Chairman, Dr. H. S. D Soysa, Mr. M. A. Abeynaike and Mr. S. G. Wijesinha who are Independent Non-Executive Directors and Mr. R. Samaranayake who is a Non-Independent, Non-Executive Director.
	Chairman of the Audit Committee	Complied	Mr. P. M. A. Sirimane, who is an Independent Non-Executive Director and a Fellow Member of ICASL is the Chairman of Board Audit Committee.
	Attendance at Audit Committee Meetings	Complied	Members of the Board Audit Committee, Managing Director, Head of Internal Audit, Manager of Internal Audit, representatives of External Auditors and Head of Audit of Sampath Bank PLC attend BAC meetings.
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 (SLRFs & LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka. This fact is stated in Note 2.1 of the Audited Financial Statements under "Statement of Compliance".

Rule No	Applicable Requirement	Compliance Status	Comment
7.10.6(b) contd.	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 the 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 page 125 under Audit Committee Report.
	Determination of the independence of the Auditors and the basis for such determination	Complied	Should it become necessary to entrust any non-audit services to be performed by the External Auditors, such non-audit service assignments require the prior approval of the Audit Committee.
	Report of the Audit Committee setting out the manner of compliance by the Company	Complied	Please refer report of the Audit Committee, published on pages 125 - 127 of the Annual Report.

Corporate Governance

THE FINANCE COMPANIES DIRECTION NO. 03 OF 2008 AND SUBSEQUENT AMENDMENTS THERETO ON CORPORATE GOVERNANCE FOR REGISTERED FINANCE COMPANIES IN SRI LANKA ISSUED BY THE CENTRAL BANK OF SRI LANKA.

Section	Corporate Governance Principle	Compliance
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THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS

2(1)(a)	Strategic objectives and corporate values	Board approved Business Plans for 2017-2019 are in place. The Company is well aware of the strategic objectives and organizational values since these have been communicated within the Company.
2(1)(b)	Overall business strategy of the finance company including risk policy, risk management procedures and mechanisms with measurable goals	Board approved Strategic Plan for 2017-2019 and projected financial statements for 2017 are in place. The Board has approved risk policy including risk management procedures and mechanisms in line with the Strategic Plan for the next three years. The Board measures the corporate performance against the predetermined goals.
2(1)(c)	Managing the risks in the Company	<p>There is a process at the Company where the Board members discuss new strategies of the Company, the risk arising out of new strategies and the ways and means to mitigate such risks.</p> <p>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).</p> <p>The Board, through the receipt of minutes of the BIRMC assesses the overall risk management of the Company.</p>
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	<p>There is a mechanism at the Company to identify the accuracy of the internal controls. The Board of Directors through a process and design ensure the adequacy of internal controls and financial reporting.</p> <p>Further the Internal Audit Division of the Company adds value to the process by verifying the effectiveness of the same.</p> <p>A Board approved procedure for Management Information System (MIS) is in place. The Company has carried out a review of the integrity of the same.</p> <p>Accordingly the Board also reviews the adequacy and integrity of the Company's MIS through the internal auditors of the Company.</p>



Section	Corporate Governance Principle	Compliance
2(1)(f)	Identification of KMP'S of the Company	In line with the Central Bank requirements all Heads of Departments of the Company have been identified as KMPs.
2(1)(g)	Authority and key responsibilities of key management personnel	<p>The general and statutory duties and responsibilities of the Board of Directors are set out in the Board approved Code for the Board of Directors and Board Sub Committees.</p> <p>Job Descriptions of Key Management Personnel (KMP), which includes functions and responsibilities of the KMPs have been approved by the Board.</p>
2(1)(h)	Appropriate oversight affairs of the Company by KMPs	In order to ensure the management, development and effective performance of the company, KMPs make regular presentations to the Board on matters under their purview.
2(1)(i)	<p>Effectiveness of the Board of Directors' own governance practices</p> <p>Selection, nomination and election of directors and key management personnel</p> <p>Management of conflicts of interests</p> <p>Determination of weaknesses and implementation of changes</p>	<p>The Board Nomination Committee of Sampath Bank PLC recommends the names of directors to be appointed as the Directors of Siyapatha Finance PLC.</p> <p>The appointment of KMPs is recommended by the Board HR & Remuneration Committee under the direction of the Board of the Company.</p> <p>As per the Company's Article 26, there is a requirement in place for the Directors to declare the nature of their interests.</p> <p>The determination of weaknesses in the Board of Directors' own governance practices and implementation of changes is addressed through the self-evaluation process among the Board members.</p>
2(1)(j)	Succession plan of the KMPs	The Company will establish a one to one succession plan in the ensuing year.
2(1)(k)	Regular Meetings with KMPs	The MD and COO 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 makes presentations, which provide them with the opportunity to share their views and contribute towards the performance of the company.

Corporate Governance

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Section	Corporate Governance Principle	Compliance
2(1)(l)	Understanding the regulatory environment	The Company Secretary presents all directions issued by the CBSL to the Board on a regular basis, for their knowledge and guidance. The Head of Risk & Compliance submits a Statutory Compliance report which contains the details of returns submitted to the CBSL and to other statutory bodies, significant non-compliance events and compliance with regulatory requirements/returns. Thus, the directors are fully conversant with the regulatory environment.
2(1)(m)	Hiring and oversight of external auditors	The 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), the Board Audit Committee (BAC) has a process for this purpose and the final approval is obtained from the Board. Rotation of the partner is monitored and done by the Company to maintain a high standard of transparency within the system.
2(2)	Appointment of Chairman and CEO and their responsibilities	Chairman and the Managing Director have been appointed by the Board of Siyapatha Finance PLC. With the approval of CBSL, Board has appointed Mr. M.Y.A Perera as the Chairman of the Company w.e.f 07.10.2016. Former Chairman Mr. C.P. Palansuriya continues as a Non-Independent, Non-Executive director of the company. Pursuant to CBSL's approval, Mr. Saman Herath has assumed duties as the Managing Director w.e.f. 05.04.2016 and Mr. Roshan Nanayakkara, CEO ceased his duties w.e.f. 30.04.2016, in terms of his resignation. Functions and responsibilities of the Managing Director has been included in his job description and approved by the Board.
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 the 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 relations or an entity in which a Director has a substantial interest.
2(5)	Schedule of matters reserved for the Board's Decision	A Board approved "Code for Board of Directors and Board sub Committees" is in place and it defines the functions and matters specifically reserved to the Board.

Section	Corporate Governance Principle	Compliance
2(6)	Solvency of the Company	Members of the Board are aware and acquainted with 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 2016.
2(7)	Publish Corporate Governance Report	The Corporate Governance Report is set out on pages 82 - 123 of Annual Report.
2(8)	Scheme of self- assessment for Board	A procedure is in place for the annual self-assessments of Directors that provide an opportunity to discuss the findings that are made during the year. The Company Secretary obtains self- assessment forms from the Directors annually and the summaries of the self-assessments are submitted at Board meetings enabling Directors to discuss relevant matters if any.

(3) MEETINGS OF THE BOARD

3(1)	Regular Board Meetings	<p>Board meetings for the year have been scheduled at the beginning of the year and the annual meeting calendar is submitted to the Board. Special meetings will be conducted as and when required. Fifteen Board meetings were held during the year under review.</p> <p>Board approved procedures are in place to minimize obtaining consent through circulation of written or electronic resolutions/papers other than for urgent circumstances.</p>
3(2)	Arrangements for Board Members -to include proposals in the agenda	<p>A Board approved procedure is in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.</p> <p>Board Meetings are scheduled at the end of the previous year enabling members to include their proposals, which relate to the promotion of business and the management of risks of the Company.</p>
3(3)	Notice of Meetings	<p>The annual Board meeting calendar for the year 2016 is scheduled at the beginning of the year 2016 enabling Board of Directors to attend meetings. As a practice, Directors are given at least 7 days prior notice for regular Board meetings under normal circumstances.</p> <p>All board papers are circulated to Board members through the Board Pack on iPads and all current and the previous Board minutes are archived on the system enabling Board members to access them at their convenience.</p>

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Section	Corporate Governance Principle	Compliance
3(4)	Attendance of Directors	<p>The Board of Directors have complied fully with the requirement and each Director on the Board is acquainted about their attendance. The Company Secretary too monitors the attendance.</p> <p>During the year 2016, no Director has been absent from three consecutive meetings. Details of the Directors' attendance are set out on page 80 of the Annual Report.</p>
3(5)	Company Secretary	<p>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.</p> <p>The Company Secretary ensures that the organization complies with relevant directions, legislation and regulation, and keeps Board members informed of their legal responsibilities.</p>
3(6)	Preparation of the Agenda	The Company Secretary is responsible for the preparation of the agenda in consultation with the Chairman.
3(7)	Access to advice and service of the Company Secretary	Board approved procedures are in place to enable all Directors to have access to the 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	<p>The Company Secretary maintains the minutes of Board Meetings and other Committee Meetings with sufficient detail. Upon reasonable request any Director can inspect the minutes.</p> <p>All current and the previous Board minutes are archived in the IT system enabling Board members to access them at their convenience.</p>
3(9)	Minutes of Board Meetings	The Company Secretary maintains the minutes. Minutes are under the safe custody of Company Secretary.

(4) COMPOSITION OF THE BOARD

4(1)	Composition of the Board	The Board consists of ten directors, which is within the statutory range. Mr. M.Y.A. Perera (was appointed Chairman of the Company w. e. f. the 7th of October 2016), Mr. M. A. Abeynaike, Mr. K. M. S. P. Herath (*Appointed w. e. f. the 5th of April 2016), Dr. H. S. D. Soysa, Mr. S. G. Wijesinha, Mr. C. P. Palansuriya, Mr. P. M. A. Sirimane, Mr. W. M. P. L. De Alwis, Mr. R. Samaranayake and Mr. L. T. Ranwala are the Directors of the Company as at 31.12.2016.
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Section	Corporate Governance Principle	Compliance
4(2)	Period of Service of Directors	All existing Directors have served on the Board for less than 9 years.
4(3)	Number of Executive Directors	Mr. K. M. S. P. Herath was appointed as the Managing Director of the Company w. e. f the 5th of April 2016.
4(4)	Number of Independent Non-Executive Directors	The Company has four Independent Non-Executive Directors out of nine Non-Executive Directors. The composition of the Board of Directors is published on page 147 of the Annual Report
4(5)	Appointment of Alternate Director	Mr. P. M. A. Sirimane, Independent Non-Executive Director has been appointed as the Alternate Director to Mr. S. G. Wijesinha.
4(6)	Skills and Experience of Non-Executive Directors	All the Non-Executive Directors of the Company possesses a vast amount of experience and skills in the field of finance, business, leasing etc. A summary of their profiles with their educational, professional and relevant experience is published on pages 64 - 67 of the Annual Report.
4(7)	Quorum for Board Meetings	Board approved procedures are in place, which stipulate 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 half 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 2016. A summary of the attendance of the Directors at meetings is set out on page 80 of the Annual Report.
4(8)	Composition of Board	The 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 147 of the Annual Report.
4(9)	Appointment of new directors	Since the Company is a fully owned subsidiary of Sampath Bank PLC, the names of Directors to be appointed to the Company are recommended by Sampath Bank PLC.
4(10)	Appointment of directors to fill casual vacancy	As per the Company's Article 24 (2), the Board has the power to appoint Directors to fill a casual vacancy, which is subject to election by shareholders at the Annual General Meeting. Mr. K. M. S. P. Herath was appointed as the Managing Director of the Company w.e.f. 5th April 2016 subject to election by shareholders at the Annual General Meeting.
4(11)	Resignation and removal of directors	There were no removals or resignations of Directors. Mr. C. P. Palansuriya stepped down as the Chairman of the Company w. e. f. the 7th of October 2016.

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Section	Corporate Governance Principle	Compliance
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(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
5(2)	Directorships in more than 20 companies	As per declarations given by the Directors for 2016, none of the Directors hold offices as a Director of more than 20 Companies.

(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 the Board monitors the means by which such delegated power is exercised. This delegation is also permitted under Company's articles 25(2) and under Section 186 of the Companies Act.
6(2)	Reviewing of the Delegation Process	The 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 the MD of the Company are segregated to ensure their independence.
7(2)	Appointing a Senior Director where the 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 Disclosure 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, other than a distant relationship between Chairman and Director - Mr.L.T.Ranwala. A Board approved procedure is in place to monitor the relationship between the MD and the Board of Directors and among the Board Members. The Board Members will disclose the relationships, if any, at Board meetings.
7(4)	Role of the Chairman	The Board has approved the Chairman's key responsibilities and duties. The self-evaluation process of the Board ensures that the said requirements are fulfilled.
7(5)	Preparation of Agenda	The Company Secretary prepares the agenda in consultation with Chairman, as the Chairman has delegated this function to the Company Secretary.

Section	Corporate Governance Principle	Compliance
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 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	<p>The Board consists of Non-Executive Directors and an Executive Director and they give their fullest and effective contribution to the Company while discharging their duties collectively.</p> <p>The 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.</p> <p>The self-evaluation process covers the contributions of both Executive and Non-Executive Directors.</p>
7(9)	Refrain from Direct Supervision of KMP and Executive Duties	The Chairman does not engage directly or indirectly in the supervision of KMP and executive duties.
7(10)	Effective Communication with Shareholders	As the Company is a wholly owned subsidiary of Sampath Bank PLC, effective communication is maintained with the Bank (Parent Company) through Mr. C. P. Palansuriya, Mr. R Samaranayake 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	The 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.



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Section	Corporate Governance Principle	Compliance
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8 BOARD APPOINTED COMMITTEES

8(1)	Board Sub Committees - their functions and reporting	<p>The Board has established two Board Committees namely the Board Audit Committee (BAC) and the Board Integrated Risk Management Committee (BIRMC) as per the requirements of the CBSL.</p> <p>Apart from the above two Committees, the Company has established four more Board Sub-Committees, namely the Board HR & Remuneration Committee, the Board Corporate Governance Committee, the Board Credit Committee and the Board Related Party Transactions Review Committee with the approval of the Board.</p> <p>The Company Secretary is the Secretary to all Sub Committees. He discharges his secretarial functions under the supervision of the Chairmen of the respective Committees. The performance, duties and functions of all Committees have been disclosed on pages 124 - 133 of the Annual Report.</p> <p>All minutes of the above Committees are submitted to the Board for their review.</p>
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8(2) AUDIT COMMITTEE

8(2)(a)	The Chairman of the Audit Committee and Qualifications of the Chairman	Mr. P. M. A Sirimane, who is an Independent, Non-Executive Director and a Fellow Member of the ICASL, is the Chairman of the Board Audit Committee.
8(2)(b)	Composition of the Committee	All members of the Board Audit Committee are Non-Executive Directors and the Committee consists of Mr. P. M. A Sirimane – Chairman, Dr. H. S. D. Soysa, Mr. M. A. Abeynaike all of who are Independent Non-Executive Directors and Mr. R. Samaranayake and Mr. S. G. Wijesinha are Non-Executive Directors. All of them have expertise and knowledge in the fields of finance, banking, leasing etc.

Section	Corporate Governance Principle	Compliance
8(2)(c)	Recommendations made by the Audit Committee	The Board Audit Committee has made the following recommendations. <ul style="list-style-type: none"> ⦿ 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 External Auditor is independent since he reports directly to the Chairman and the Board Audit Committee. The audit is carried out according to the Sri Lanka Accounting standards and best practices.
8(2)(e)	Provision for Non-Audit Services by External Auditors	A Board approved policy on the engagement of an external auditor to provide non-audit service is in place.
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 the LKAS & SLFRS. The Audit Engagement Letter for the year ending 31.12.2016 is submitted to the BAC.
8(2) g	Reviewing of Financial Information	The Committee reviews the quarterly and annual financial information of the Company in order to monitor the integrity of Financial Statements.
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. The Committee has held two meetings with External Auditors, without the Executive Management being present, to discuss issues of the Company.
8(2) i	External Auditor's Management Letter and Management's Response	The Committee has reviewed the External Auditor's management letter relating to the audit for the year-end 31.12.2015 and management responses thereto.

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Section	Corporate Governance Principle	Compliance
8(2) j	<p>Internal Audit Functions</p> <p>i) Review the adequacy of the scope, functions and resources of the internal audit department</p> <p>ii) Review the internal audit program and results of the internal audit process</p> <p>iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department</p> <p>iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function</p> <p>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</p> <p>vi) Independence of the activities it audits and that it is performed with impartiality, proficiency and due professional care.</p>	<p>The Board Audit Committee has discussed the adequacy of the scope, functions and resources of the Internal Audit Department.</p> <p>The Board Audit Committee has reviewed and approved the internal audit program. Internal Audit reports have been submitted to the Committee with the Management's comments and action taken to rectify the issues have been reported and discussed at the BAC.</p> <p>The Chairman of the Board Audit Committee carried out performance appraisal of the Head of Internal Audit, which was circulated to the members of the Board Audit Committee.</p> <p>As recommended by the Board Audit Committee, the Service Contract of the Head of Internal Audit has been extended.</p> <p>There were no resignations of senior staff members of the Internal Audit Department during the reviewed period.</p> <p>The internal Auditor reports direct to the Board Audit Committee ensuring the independence and impartiality of the Internal Audit Department. Further the Head of Internal Audit has the relevant skills and experience in the field.</p>



Section	Corporate Governance Principle	Compliance
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, the Managing Director, Head of Internal Audit, Manager – Internal Audit, Head of Finance, representatives of External Auditors and Head of the Audit of Sampath Bank PLC attend BAC 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	Board has approved the Terms of Reference of the BAC. The 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.
8(2)(n)	Regular Meetings of Board Audit Committee	The meeting calendar for the Board Audit Committee is scheduled at the end of the previous year enabling members to attend meetings, which are to be held quarterly, with no less than four meetings per year. If necessary, the Committee may decide to convene additional meetings. There were twelve (12) Audit Committee meetings held during 2016 and two separate meetings were held without the Executive Management.
8(2)(o)	Disclosure in Annual Report	Activities of the BAC, the number of meetings and attendance of BAC members are published in the Annual Report on pages 125 - 127.
8(2)(p)	Secretary of the committee	The Company Secretary who is also the Secretary of the Board Audit Committee maintains detailed minutes of the meetings held.
8(2)(q)	Whistle Blowing Policy	The 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 2016.

8(3) INTEGRATED RISK MANAGEMENT COMMITTEE

8(3) (a)	Composition of BIRMC	The BIRMC consists of key management personnel who supervise the credit, market, liquidity, operational and strategic risks of the company, in addition to the MD and four Non-Executive Directors of the Committee. The Committee closely works with key management personnel and makes decisions on behalf of the Board on matters that are subjected to their jurisdictions.
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Section	Corporate Governance Principle	Compliance
8(3)(b)	Assessment of Risk	<p>The BIRMC has an appropriate process to assess all risks including credit, market, liquidity, operational and strategic risks in the Company on a monthly basis through the appropriate risk indicators and management of information.</p> <p>There are no subsidiaries or associate companies of Siyapatha Finance PLC.</p>
8(3) (c)	Review the adequacy and effectiveness of Management level Committees	<p>In fulfilling its responsibilities the Committee reviewed the adequacy and effectiveness of the Sub Committees to manage risks within quantitative and qualitative risk limits.</p> <p>The Assets & Liabilities Committee (ALCO) reports are submitted to the BIRMC. The Committee assesses the functional effectiveness via meeting minutes and the reports discussed therein.</p>
8(3)(d)	Corrective action to mitigate risks exceeding prudential level	<p>The BIRMC reviews risks, which are beyond the prudent levels, and takes prompt and corrective action to mitigate the effects of such risks.</p>
8(3)(e)	Frequency of Meetings	<p>The Committee meets at least quarterly, or more frequently as circumstances arise. The BIRMC has held five meetings during the financial year of 2016 and has assessed all aspects of risk management.</p>
8(3)(f)	Actions against officers who fail to identify risks	<p>The BIRMC is responsible for assessing different types of risks, to which the Company is exposed. In order to accomplish the above task, the Committee takes appropriate action against Officers who fail to identify specific risks and those who are unable to take prompt corrective actions as recommended by the Committee and other regulators.</p>
8(3)(g)	Submission of risk assessment report to the Main Board	<p>The Board of Directors has ultimate responsibility in risk management of the Company. Therefore minutes of the BIRMC are tabled at the subsequent Board meeting and the Chairman of the BIRMC briefs the main Board on significant issues and decisions taken up at the risk meeting, enabling the Board to make correct decisions.</p>
8(3)(h)	Compliance Function	<p>The Head of Risk and Compliance who has been identified as a KMP in the Company assesses the level of the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations.</p> <p>The Compliance Officer has obtained confirmations from all Department Heads to ensure compliance with approved policies/procedures of the Company.</p>

Section	Corporate Governance Principle	Compliance
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(9) RELATED PARTY TRANSACTIONS

9(2)	Identification of related parties and avoid conflict of interests	<p>A Board approved procedure, which identifies the categories of related parties and types of transactions, is in place.</p> <p>Directors are individually requested to declare their transactions with the Company on a quarterly and annual basis.</p>
9(3)	Types of Related Party Transactions	<p>A documented procedure approved by the Board is in place to avoid related party transactions.</p> <p>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.</p> <p>All related party transactions have been disclosed in the Financial Statements.</p>
9(4)	Avoid more favourable treatment	<p>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 favourable treatment" than what is accorded to other constituents of the Company carrying out similar transactions with the company.</p> <p>The monitoring of such transactions are made through an internally developed software.</p>

(10) DISCLOSURES

10(2) (a)	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	This is been disclosed in the "Independent Auditor's Report" appearing on page 153 of the Annual Report.
10(2) (b)	Internal Control Report by the Board of Directors	The effectiveness of the Company's internal control mechanism has been certified by the Directors on page 152 of the Annual Report under the heading "Directors' Statement on Internal Controls over Financial Reporting".

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Section	Corporate Governance Principle	Compliance																																
10(2) (c)	Certification on the effectiveness of the internal control mechanism by external auditors	The Auditors' certification on the effectiveness of the internal control mechanism has been obtained.																																
10(2) (d)	Details of the Directors -including names and transactions	The names of the Directors are been set out on pages 64 - 67 of the Annual Report. The Company did not have any transactions with any of its Directors during 2016, other than those listed in 10 (2) (g).																																
10(2) (e)	Directors' fees and Remuneration	The fees & remuneration paid has been disclosed on page 215 (Note 43.2 to the Financial Statements) of the Annual Report. Short term employee benefits includes the salary of the Executive Director.																																
10(2) (f)	Accommodation granted for Related Parties	<p>No loans and advances were given to the Board of Directors, MD, COO and their family members during 2016.</p> <p>There were no outstanding value of loans and advances granted to KMP (as per CBSL direction) as at 31.12.2016.</p> <table border="1"> <thead> <tr> <th></th> <th></th> <th></th> <th>LKR'000</th> </tr> <tr> <th>Category of RPT</th> <th>Accommodation granted/ approved credit limit during the year</th> <th>Accommodation O/S as at 31st December 2016</th> <th>Percentage of Regulatory capital</th> </tr> </thead> <tbody> <tr> <td>Non Executive Directors and their close family members</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Key management Personnel (KMP) and their close family members</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Subsidiaries</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Joint Ventures</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Entities controlled by Directors and their close family members</td> <td>180,000.00</td> <td>95.22</td> <td>0.0049%</td> </tr> <tr> <td>Other RPT</td> <td>-</td> <td>-</td> <td>-</td> </tr> </tbody> </table>				LKR'000	Category of RPT	Accommodation granted/ approved credit limit during the year	Accommodation O/S as at 31st December 2016	Percentage of Regulatory capital	Non Executive Directors and their close family members	-	-	-	Key management Personnel (KMP) and their close family members	-	-	-	Subsidiaries	-	-	-	Joint Ventures	-	-	-	Entities controlled by Directors and their close family members	180,000.00	95.22	0.0049%	Other RPT	-	-	-
			LKR'000																															
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Key management Personnel (KMP) and their close family members	-	-	-																															
Subsidiaries	-	-	-																															
Joint Ventures	-	-	-																															
Entities controlled by Directors and their close family members	180,000.00	95.22	0.0049%																															
Other RPT	-	-	-																															

Section	Corporate Governance Principle	Compliance												
10(2)(g)	Aggregate values of remuneration paid for KMP and aggregate values of transaction of the company with KMP	<p>The total value of short-term employee benefits paid to KMP (as per CBSL direction) during the year is Rs. 71.275 Million.</p> <p>Loans and Advances - Nil Investments made - Nil</p> <p>Deposits outstanding as at 31st December 2016 (LKR'000)</p> <table border="1"> <tr> <td>Non Executive Directors</td> <td>15,000</td> </tr> <tr> <td>Executive Directors and Other Key management Personnel</td> <td>11,550</td> </tr> <tr> <td>Close Family Members of Key Management Personnel</td> <td>4,100</td> </tr> <tr> <td>Remuneration paid (LKR'000)</td> <td></td> </tr> <tr> <td>Aggregate Value of remuneration paid to Board of Directors</td> <td>disclosed in Note 43.2 to the Financial Statements</td> </tr> <tr> <td>Aggregate Value of remuneration paid to MD/ CEO</td> <td>disclosed in Note 43.2 to the Financial Statements</td> </tr> </table>	Non Executive Directors	15,000	Executive Directors and Other Key management Personnel	11,550	Close Family Members of Key Management Personnel	4,100	Remuneration paid (LKR'000)		Aggregate Value of remuneration paid to Board of Directors	disclosed in Note 43.2 to the Financial Statements	Aggregate Value of remuneration paid to MD/ CEO	disclosed in Note 43.2 to the Financial Statements
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Close Family Members of Key Management Personnel	4,100													
Remuneration paid (LKR'000)														
Aggregate Value of remuneration paid to Board of Directors	disclosed in Note 43.2 to the Financial Statements													
Aggregate Value of remuneration paid to MD/ CEO	disclosed in Note 43.2 to the Financial Statements													
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 page 144 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-Banking Financial Institutions.												
10(2)(j)	Certification of Compliance by External Auditors	The Board has obtained the Auditors' confidential letter to the management (Auditors' factual findings report) issued by External Auditors.												

On behalf of the Board Corporate Governance Committee



S.G. Wijesinha

Chairman- Board Corporate Governance Committee

07 March 2017



COMMITTEE REPORTS

REPORT OF THE BOARD CREDIT COMMITTEE

COMPOSITION

This Committee consists of such members as the Board of Directors may determine from time to time. The Senior Management attends meetings by invitation.

The Board Credit Committee consisted of the following Directors as of the 31st of December 2016.

Dr. H. S. D. Soysa	- Chairman, Independent Non-Executive Director
Mr. M. A. Abeynaike	- Member, Independent Non-Executive Director
Mr. M. Y. A. Perera	- Member, Non-Independent, Non-Executive Director
Mr. R. Samaranyake	- Member, Non-Independent, Non-Executive Director
Mr. L. T. Ranwala	- Member, Non-Independent, Non-Executive Director
Mr. K. M. S. P. Herath	- Member, Executive Director (Appointed w.e.f. the 26th of September 2016)

Due to the change of Committee Compositions w.e.f. the 1st of January 2017, the Committee currently consists of the following Directors.

Dr. H. S. D. Soysa	- Chairman, Independent Non-Executive Director
Mr. M. A. Abeynaike	- Member, Independent Non-Executive Director
Mr. M. Y. A. Perera	- Member, Non-Independent, Non-Executive Director
Mr. L. T. Ranwala	- Member, Non-Independent, Non-Executive Director
Mr. K. M. S. P. Herath	- Member, Executive Director

PERFORMANCE

During the year, the Committee met on four occasions. The Chairman of the Board Credit Committee in consultation with the Company Secretary schedules committee meetings as and when necessary. Meetings are usually held once in every quarter. The Company Secretary is the secretary to the Board Credit Committee and the minutes of the meeting 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.

REVIEW OF CREDIT POLICY / LIMIT CHANGES FOR EACH SECTOR OF THE ECONOMY

The Committee reviews credit proposals and approves them within the limits delegated by the Board of Directors. This includes evaluation,

assessment and the review of credit policy changes initiated by the management, 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.

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.

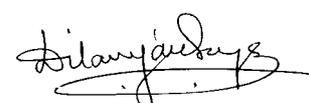
ENSURES SOUND CREDIT ADMINISTRATION AND MONITORING PROCESSES

Delegated limits are assigned based on an approved credit approval framework. These include setting credit risk exposure limits etc. Assessment of periodic portfolio reviews is also done in order to assess portfolio performance.

REVIEW OF THE COMMITTEE

The Board undertakes a regular review of the Committee's performance, objectives and responsibilities.

On behalf of the Board Credit Committee



H.S.D. Soysa

Chairman - Board Credit Committee
07 March 2017

REPORT OF THE BOARD AUDIT COMMITTEE

The Board Audit Committee appointed by the Board, consisted of five Non Executive Directors. Mr. P.M.A Sirimane, who is an independent Non-Executive Director of Siyapatha Finance PLC (Company), functioned as the Chairman of the Committee. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.

As at the end of the financial year 2016 remaining members who served in the Committee were:

Mr. P.M.A. Sirimane	- Chairman, Independent, Non-Executive Director
Mr. S.G. Wijesinha	- Member, Non-Independent, Non-Executive Director
Mr. M. A. Abeynaïke	- Member, Independent, Non-Executive Director
Dr. H. S. D. Soysa	- Member, Independent, Non-Executive Director
Mr. R. Samaranayake	- Member, Non - Independent, Non-Executive Director

REPRESENTATION BY EXTERNAL AUDITORS

As per the CBSL Guidelines, the Company's previous Audit Partner, at the completion of five years of handling Siyapatha Audit, handed over his functions to another partner, Ernst & Young during the year and the latter attended meetings in his capacity as the incoming Audit Partner of the Company.

MEETINGS

During the year under review the Committee held twelve meetings. Other Directors, the Chief Operating Officer of the Company and the Head of Internal Audit of Sampath Bank PLC also attended these meetings on invitation, in addition to the Head of Internal Audit, Manager – Internal Audit, Head of Finance 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.

CHARTER OF THE COMMITTEE

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 contained in them. 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 Leasing (Corporate Governance) Direction No. 4 of 2009 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 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).



Committee Reports

ROLES AND RESPONSIBILITIES

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

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.
- d) 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.
- e) To review the external auditor's Management Letter and the management's response thereto;
- f) To consider the major findings of internal investigations and management responses thereto;
- g) 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.
- h) 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);

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 judgemental 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 for financial statements
 - (vii) Approve and recommend the financials to the main board.

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 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
 - vi. Ensure that the internal audit function is independent of the activities it audits and that 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 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 with the Company;
- d) 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. Committee shall ensure that proper arrangements are in place for fair and independent investigation of such matters.
- e) To consider other topics, as defined by the Board.

the Board Audit Committee. A process is also in place for such concerns to be investigated, while maintaining the confidentiality of the identity of the Whistle-blower. The Committee is empowered under their Terms of Reference to monitor this procedure.

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.

On behalf of the Board Audit Committee;



P.M.A Sirimane
Chairman – Board Audit Committee
 07 March 2017

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

Committee Reports

REPORT OF THE BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE

Human capital is the most important factor in any organization. Therefore good Human Resource (HR) practices and processes play a vital role in achieving the Company's predetermined goals and objectives.

The talent and culture are the biggest drivers of innovation, growth and the ability to outperform the competition. We ensure that Human Resource programs and services are designed in a way to gain competitive advantage through collaboration, to make Siyapatha a great place to work and to be the best HR managed Finance Company in Sri Lanka.

Human Resources serves as a strategic partner, supporting Siyapatha's endeavour to be an employer of choice by attracting, sustaining and inspiring passionate individuals working towards achieving greater heights.

The Board HR and Remuneration Committee strengthen the relationship between the staff by understanding human capital priorities. The Committee has a responsibility to develop and administer policies and decisions regarding the remuneration packages, which prevent conflicts of interest among different parties.

A highly motivated staff is the essence of a Company's success, which is directly linked with the overall performance of the Company.

COMPOSITION OF THE BOARD HR & REMUNERATION COMMITTEE

The Board HR and Remuneration Committee consisted of the following Non-Executive Directors as of the 31st of December 2016.

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

Due to the change of Committee Compositions w.e.f. the 1st of January 2017, the Committee currently consists of the following Directors.

Name	Position
Mr. W. M. P. L. De Alwis - Chairman	Independent, Non-Executive Director
Dr. H. S. D. Soysa	Independent, Non-Executive Director
Mr. M. Y. A. Perera	Non-Independent, Non-Executive Director

The status change of Mr. W. M. P. L. De Alwis, from Non- Independent, Non-Executive to Independent, Non-Executive was approved by the Central Bank of Sri Lanka.

MEETINGS FOR THE YEAR 2016

The Board HR and Remuneration Committee held seven meetings during the year under review. The attendance of members at the meetings is set out on page 80 of the annual report. The Managing Director (MD) and Chief Operating Officer (COO) of the Company attended meetings by invitation and members of the corporate management attended meetings, as and when required.

MINUTES OF MEETINGS

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

DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

The main role of the Board HR and Remuneration Committee is to focus on HR related matters of the Company and determine the remuneration policies of the Company, i.e. salaries, allowances and other financial payments of the Managing Director and the rest of the staff. The Committee sufficiently evaluates the performance of the MD and key management personnel against set targets and goals, and revises the remuneration and other benefits accordingly.

The Committee also attends to any other HR matters entrusted to them by the Board of Directors.

The following key risk areas are strategically monitored by the Board HR and Remuneration Committee to minimize the operational risk involved in HR management and compensation.

- HR strategy
- Organizational culture and talent management
- HR perspective of business risk management
- HR structure for effective corporate governance
- Compliance on legal requirements

REMUNERATION POLICY

Sampath Bank PLC determines the remuneration for Non-Executive Directors, as per the Group policy on remuneration. In accordance with this policy, Directors of the Company do not decide their own remuneration packages.

The aggregate remuneration paid for the Directors for the year which ended on the 31st of December 2016, is set out on page 213 of the Annual Report. The Board of Directors of the Company, with the recommendations of the Board HR & Remuneration Committee, decides the remuneration for Key Management Personnel.

Further the Committee advises the MD of the Company on all aspects of HR functions, including the revision of staff salaries and any major organizational changes required for an effective management.

On behalf of the Board HR & Remuneration Committee



W. M. P. L. DE ALWIS

Chairman

Board HR & Remuneration Committee

07 March 2017

Committee Reports

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Board is ultimately responsible for setting the risk appetite and for the effective management of risk. Operating under the delegated authority of the Board, the Board Integrated Risk Management Committee (BIRMC) comprises of Directors and Senior Managers of the Company. They have the responsibility of 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 committee consist of members as the Board may determine from time to time 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.

In the year of 2016 the committee consisted of the members shown below.

Name	Position
Members of the Board	
Mr. M.A. Abeynaike (Chairman)	Independent Non-Executive Director
Mr. P.M.A. Sirimane	Independent Non-Executive Director
Dr. H.S.D. Soysa	Independent Non-Executive Director
Mr. W.M.P.L. De Alwis	Non-Independent Non-Executive Director
Members of the Management	
Mr. A.R. Nanayakkara	Chief Executive Officer*
Mr. K.M.S.P. Herath	Managing Director**
Mr. R. De Silva	Chief Operating Officer
Ms Thilani Punyawansa	Head of Risk and Compliance
Ms. W.K.H. Gayasha	Head of Finance
Mr. Mathiesha Hewavitharana	Head of Branches
Mr. Nimal Luxshman	Head of Internal Audit
Mr. Anura Fernando	Head of Recoveries***
Mr. S.B. Dodanwatte	Head of Recoveries
Mr. Rohana Dissanayake	Head of Deposits
Ms. Shama Selvaratnam	Head of Factoring
Mr. Ajantha Kumara	Head of Gold Financing
Mr. N.A.D. Shaminda	Manager –Internal Audit
Mr. B.L.M.M. Balasuriya	Manager IT

Notes: * Resigned with effect from 30th April 2016

**Appointed with effect from 5th April 2016

*** Resigned with effect from 31st March 2016

With effect from 1st January 2017, the Board Integrated Risk Management Committee consists of six members and the new composition is as follows:

Mr. C.P. Palansuriya - Chairman - Non Independent, Non-Executive Director
Mr. M.Y.A.Perera - Non Independent, Non-Executive Director
Mr. L.T.Ranwala - Non Independent, Non-Executive Director
Mr. W.M.P.L. De Alwis - Independent, Non-Executive Director****
Mr. K.M.S.P. Herath - Executive Director

**** *The Central Bank of Sri Lanka approved the status change of Mr. W.M.P.L. De Alwis from Non-Independent Non Executive to Independent Non Executive.*

MEETINGS

The Committee held 05 meetings during the year under review. The attendance of members is listed on page 80 of the Annual Report. The Committee reviewed policy frameworks, risk management strategies and key risk indicators at these meetings.

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 BIRMC include,

- ⦿ 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.

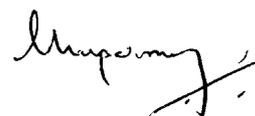
- ⦿ Periodically reviewing the risk exposures of the Company to be in line with its risk and business strategies and objectives.
- ⦿ Engaging in external and independent reviews for the validation of risk measurement, methodology and outputs.

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.

On behalf of the Board Integrated Risk Management Committee



C.P. Palansuriya

Chairman - Board Integrated Risk Management Committee

07 March 2017

Committee Reports

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Board established the Board Related Party Transactions Review Committee (BRPTRC) with effect from 27th January 2015 in terms of the Code of Best Practice on Related Party Transactions issued by the Securities & Exchange Commission of Sri Lanka (the 'Code') and Section 9 of the Listing Rules of the Colombo Stock Exchange (the 'Rules'). This was to ensure compliance with the rules and regulations governing Related Party Transactions for listed entities and thus to improve its internal control mechanisms.

COMPOSITION

The Board Related Party Transactions Review Committee consisted of five members and the composition was as follows:

Mr. P. M. A. Sirimane - Chairman	Independent, Non-Executive Director
Mr. M. A. Abeynaike	Independent, Non-Executive Director
Mr. S. G. Wijesinha	Non Independent, Non-Executive Director
Mr. W. M. P. L. De Alwis	Non Independent, Non-Executive Director
Mr. K.M.S.P. Herath	Executive Director

With effect from 1st January 2017, the Board Related Party Transactions Review Committee consists of six members and the new composition is as follows:

Mr. M. A. Abeynaike - Chairman	Independent, Non-Executive Director
Mr. P. M. A. Sirimane	Independent, Non-Executive Director
Mr. R. Samaranayake	Non Independent, Non-Executive Director
Mr. S. G. Wijesinha	Non Independent, Non-Executive Director
Mr. W. M. P. L. De Alwis	Independent, Non-Executive Director *
Mr. K.M.S.P. Herath	Executive Director

*The Central Bank of Sri Lanka approved the status change of Mr. W. M. P. L. De Alwis from Non- Independent Non Executive to Independent Non Executive.

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 - 67 of the Annual Report.

The Company Secretary functions as the Secretary to the Board Related Party Transactions Review Committee.

MEETINGS

During 2016, the Committee had three meetings. Attendance of each Committee member at each of the said meetings is given in page 80 of the Annual Report.

Role and Responsibilities

The role and the responsibilities of the Committee are derived from the Code and the Rules and include the following:

- Adopting policies and procedures to review Related Party Transactions of the Company and reviewing and overseeing existing policies and procedures
- Reviewing in advance all proposed RPTs in compliance with the provisions of the Code and the Rules.
- Determining whether RPTs that are entered into by the Company require the approval of the Board or Shareholders of the Company
- Assessing the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on RPTs.
- Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulations are made in a timely and detailed manner.

POLICIES AND PROCEDURES ADOPTED BY THE BRPTRC FOR REVIEWING RELATED PARTY TRANSACTIONS:

In-house developed software is available for RPT identification and the relevant information to capture RPTs is fed into the Company's data collection system

The system is updated based on the information obtained from the Secretarial Department, HR Department of the Company and the Finance Department of the Company and of Sampath Bank, on a quarterly basis.

REPORTING TO THE BOARD:

The minutes of the BRPTRC meetings are tabled at the Board meetings enabling all Board members to have access to the same.

On behalf of the Board Related Party Transactions Review Committee



Mr.M.A. Abeynaike

Chairman - Board Related Party Transactions Review Committee

07 March 2017

RISK MANAGEMENT

A. CORPORATE PRINCIPLES OF RISK MANAGEMENT

Siyapatha Finance PLC is renowned for its outstanding approach in risk management. Over the past decade the Siyapatha has established its risk management system with a long-term view supported by effective risk management techniques, which is crucial in maintaining its consistent performance and enhancing the value of its shareholders.

Siyapatha risk management system is aligned with the organization's mission and objectives and adheres to the standards set by the supervisory bodies and regulators. The following key principles are followed in the risk management process.

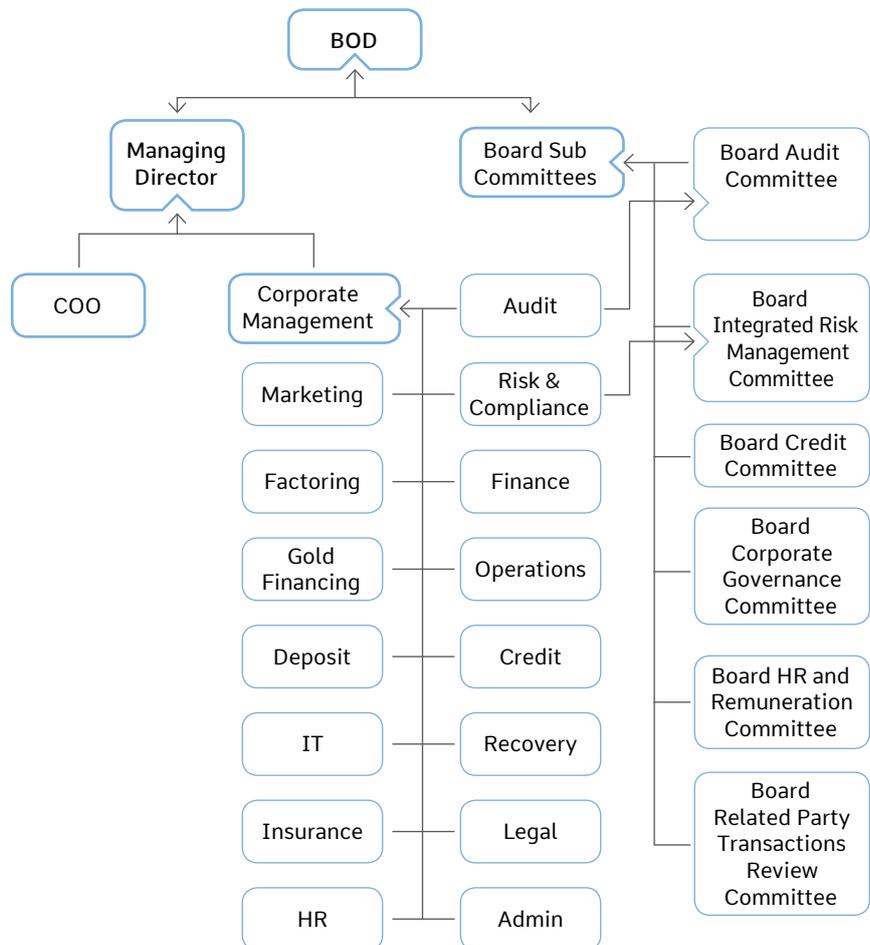
- Risk management culture is incorporated in to all organizational functions through a common platform. Beginning from the strategic business planning to the execution of business plans including the changes in management processes. Every decision is supported by organizational values and approaches associated in responding towards risk.
- The decisions made in managing risk primarily involve the senior management. The organization possesses a solid and comprehensive framework of policies and procedures in managing risk.

- Risk management is a distinct function from the other roles within an organization with a significant responsibility. The distinct roles between the risk controllers and the risk generating units create the environment for an independent view in monitoring the effectiveness of the risk controls implemented on risk generating units.
- The overall responsibility of managing risk is segregated among every personnel representing different stages in the organizational hierarchy.

B. RISK MANAGEMENT OVERSIGHT AND STRATEGY-SETTING

The Board of Directors and the senior management have the collective responsibility and accountability for setting the organization's objectives, defining strategies to achieve those objectives, and establishing a governance structures and processes to best manage the risks in accomplishing those objectives.

1. STRUCTURE OF RISK CORPORATE GOVERNANCE



Board of Directors

The Board of Directors in an organization plays a significant role in the process of implementing and maintaining a sound risk management system. The responsibilities of the Board include the approval of policies and risk management strategies.

As a collective effort, the Board Integrated Risk Management Committee and senior management ensure the effective implementation of the risk management system, based on the risk management framework approved by the Board of Directors.

Board Integrated Risk Management Committee (BIRMC)

The BIRMC is a sub-committee of the Board formed by assigning direct authority to manage risk in line with the risk management framework approved by the board. It is a composite of Board members, COO and several other key personnel.

Integrated Risk Management Department (IRMD)

The IRMD operates as a distinct function, which is independent from the rest of the functions of the company. It holds the overall responsibility of risk management at an operational level. The IRMD focuses on four key areas; Risk policy formulation, Identification of potential threats, Formulation of mitigating strategies and following up on implemented policies.

2. THE RISK MANAGEMENT MODEL

Three Lines of Defence

The Three Lines of Defence identifies three groups (or lines), under the model's base structure in terms of roles, responsibilities and accountabilities for decision making, risk and control, achieve effective governance on risk management.

- Functions that own and manage risks.
- Functions that oversee risks.
- Functions that provide independent assurance.

Siyapatha's management and control model is also based on three lines of defence.

1. Functions that own and manage risks.

Operational management naturally serves as the first line of defence because controls are designed into systems and processes under the guidance of operational management.

As the first line of defence, Siyapatha's operational managers own and manage risks. They are responsible for implementing corrective action to address process and control deficiencies. Operational management is responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis. Through a cascading responsibility structure, mid-level managers design and implement detailed procedures that serve as controls and supervise the execution of those procedures by their employees.

There are adequate managerial and supervisory controls in place to ensure compliance and to highlight control breakdowns, inadequate processes, and unexpected events.

2. Functions that oversee risks

The second line of defence provides the oversight function. It sets the Company's boundaries by drafting and implementing policies and procedures. The function of risk management facilitates and monitors the implementation of effective risk management practices by operational management and assists risk owners in defining the target risk exposure and reporting adequate risk-related information throughout the organization.

The compliance function monitors various specific risks such as non-compliance with applicable laws and regulations. In this capacity, the separate function reports directly to the Board Integrated Risk Management Committee.

3. The third line is for independent assurance.

Internal auditors provide the Board of Directors with comprehensive assurance based on the highest level of independence and objectivity within the organization. Internal audit provides assurance on the effectiveness of governance and internal controls, including the manner in which the management achieves risk management and control objectives.



Risk Management

They evaluate the Company's operations through a systematic, disciplined approach to improve the effectiveness of risk management, controls and processes.

C. RISK ASSESSMENT

The risk assessment process identifies and assesses the financial and non-financial risks associated with the business activities and mitigates the impact of these risks on the financial results, long-term strategic goals and reputation.

Siyapatha's risk identification and assessment methodology leverages intelligence across all organizational levels and utilizes existing information to identify and assess the company's exposure to risk by type of risk, business segment, sectors, geographical segments, etc. It provides adequate transparency and understanding of the existing and emerging risk issues, and ensures a holistic cross-risk perspective.

Variety of measures and tools assisting towards assessing the risks in Siyapatha and a few of measures that are being used are mentioned below.

Trigger Lists - Provide an insight of possible future delayed or non-payments of the clients as well as a further indication and comparison of branch net exposure.

Operational risks reports - Highlights the risks associated with the day-to-day operations.

Loss Given Default - Calculates the share of an asset that is lost when a borrower defaults.

D. MONITORING AND CONTROL OF RISKS

The following mechanisms are used in the monitoring and control of risks at Siyapatha.

MAP OF RISKS

Risk Map of Siyapatha gives an overview of the level of risk associated with company exposures and assists in improving a company's understanding of its risk profile and appetite.

This includes all the risks set out in detail below.

RISK APPETITE AND STRUCTURE OF LIMITS

Siyapatha's risk appetite statement defines the types and degrees of risk that the Company is willing to be exposed to in order to meet its strategic objectives while fulfilling regulatory requirements and wider commitments towards the stakeholders, both under regular and stressed conditions.

The risk appetite is formulated every year and includes a series of matrix and limits on these matrix (statements), which are expressed in quantitative and qualitative terms indicating the maximum risk exposure the company is prepared to assume.

The risk appetite's limits are continuously monitored. The risk department reports to the BIRMC on the adequacy of the risk profile with the risk appetite authorized. Any excesses and non-compliances are then analysed and appropriate strategies and/or actions are then taken to adjust the risk exposure as per the appetite.

ANALYSIS OF SCENARIOS

The analysis of scenarios is an important tool for the Siyapatha, since it assists to create the most realistic possible view of the potential future developments based on simulations of the economy. It provides a look into the future that allows Siyapatha to better prepare for events and maintain stability.

INDEPENDENT REPORTING

Siyapatha maintains the risk management function with an independent reporting structure and responsibility for the planning, maintenance, and ongoing development of the company's risk management framework.

TYPES OF RISKS

CREDIT RISK

Credit risk is the risk of financial loss if a customer or counter-party fails to meet a payment obligation under a contract.

Credit risk could also arise through the unbalanced borrower exposures or the uneven distribution of exposures to particular sectors, regions, industries or products.

At Siyapatha, credit risk management is devolved through the clear segregation of duties between individual business units, risk management, compliance and internal audit. The risk management function ensures that appropriate policies are established and ensures compliance with the related credit sanction, monitoring procedures and controls at all levels of the business process.

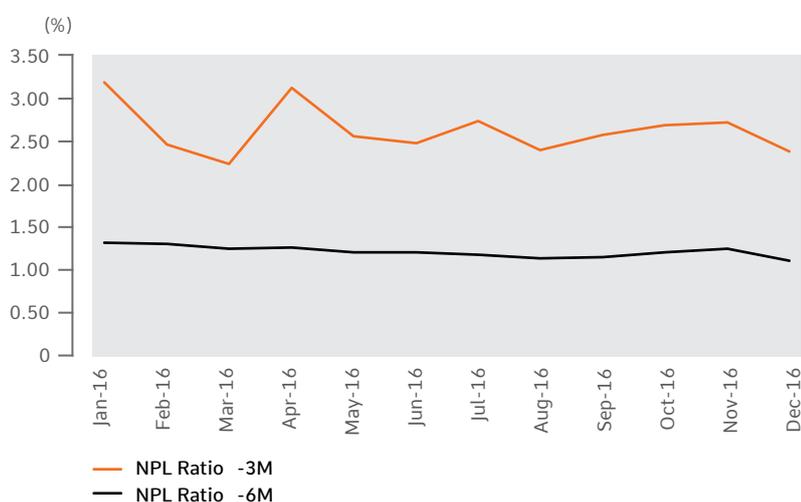
The credit risk is mainly monitored through the tolerance limits set based on the Key Risk Indicators (KRI).

KRI	Tolerance limit
06 months NPA	2.5%
03 months NPA	4.0%
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

a) Based on Asset quality

Fluctuations in the non-performing loans ratio are a salient measure of the asset quality. By following precautionary measures, Siyapatha has managed to maintain the NPL ratio at a lower level compared to the industry norms and set tolerance level.

NPL Ratio



b) Based on concentration

The concentration risk in the company's credit portfolios arises mainly through imperfect diversification. Sector concentration emerges when the portfolio is not perfectly diversified across sectoral factors like product range, industry sectors, asset categories, and geographical areas.

Since concentration risk is relevant for the stability of the institution, Siyapatha closely monitors the variations in the KRI along with the set tolerance limits. On a regular basis asset wise, sector wise and branch wise concentration is monitored.

Stress testing on NPA

The increase of the NPA with an impact to provisioning will have a negative effect upon the retained earnings of the company, which form a part of the core capital. Moreover Capital Adequacy Ratio (CAR) will deteriorate and pose detrimental effects towards the risk-weighted assets. Considering the above, at Siyapatha a stress testing is carried out to assess the impact of NPA movements on CAR.

INTEREST RATE RISK

Interest rate risk is the potential loss from unexpected movements in interest rates, which can significantly alter the company's profitability. Therefore Siyapatha adheres to a comprehensive risk management process that effectively identifies, measures, monitors and controls interest rate risk exposures, and that is subject to the oversight of the Board and senior management.

As the evaluation process, Siyapatha measures vulnerability to loss under stressful market conditions – including the breakdown of key assumptions and consider those results when reviewing and updating their policies and limits for interest rate risks. This allows Siyapatha to sustain earnings while improving the ability to absorb potential loss and to ensure the sufficiency of the compensation received for the risk taken.

Risk Management

KRI	Tolerance limit
Net interest yield (NIY)	Above the budgeted level
Volatile liability depending ratio(on interest rate)	Based on the funding requirements

LIQUIDITY RISK

Liquidity refers to the company's capacity to meet its cash and collateral obligations without incurring unacceptable losses. Siyapatha's liquidity management assess the adequacy of the current and future fund requirement to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting daily operations.

To ensure the confidence and smooth functioning of the Company, it uses several measurement tools to assess its current balance sheet and provide forward-looking analysis of its liquidity exposures. Given the critical role of assumptions in projecting future cash flows, Siyapatha has taken steps to ensure that its assumptions are reasonable, up-to-date, periodically reviewed and approved.

The main focus of Siyapatha is on the liquid asset ratio, maturity gap analysis and the volatile liability dependency ratio on maturity and funding concentration.

KRI	Tolerance limit
Liquidity ratio	7.5%-8.5%
Statutory liquidity ratio	7.5%
Volatile liability ratio	Based on the funding requirements

OPERATIONAL RISK

Operational risk is considered to be the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events.

Strong internal controls are a critical aspect of operational risk management. In Siyapatha, the Board of Directors establishes the clear lines of management responsibility and accountability for implementing a strong control environment.

The broader categories of operational risk incidents are divided into eight as internal frauds, external frauds, employment practices and workplace safety, clients, products and business practices, damage to physical assets, business disruptions and system failures.

Operational risk is mainly observed through the following KRIs:

1. Losses due to fraud, misconduct and negligence
2. Losses due to poor quality of credit documentation and legal documentation
3. Number of customer complaints and lawsuits
4. Frequency of system breakdowns and costs

Events leading to operational risk could stem from the internal environment or external environment. In order to identify the risk events stemming from both external and internal environments, operational loss event reporting is carried out based on the broad categories mentioned above.

PEOPLE RISK

People are the single most important asset in service-oriented businesses like Siyapatha Finance, but also the most vulnerable asset; improper performance appraisal methods, incompetency or the wrong posting of personnel and misuse of powers attributes towards people risk.

Conducting manpower planning in line with expansions, strict adherence to minimum qualification based on the position filled, pre-employment screening, employer feedback and exit interviews are done as mitigating activities of people's risk.

This has allowed Siyapatha to improve employee productivity, reduce rates of absenteeism, improve employee health and well-being, positive branding to attract new talent, increase employee motivation and improve employee retention.

TECHNOLOGY RISK

Technology risks arise from the use of computer systems in the day-to-day conduct of the transactions, reconciliation of books of accounts, and the storage and retrieval of information and reports. The risk can occur due to the choice of faulty or unsuitable technology

and adoption of untried or obsolete technology. Major risks arise from breaches of security in accessing to the computer system, tampering with the system, and unauthorized use.

While using IT as a tool for innovative products, Siyapatha identifies the associated risks and assess with the risk appetite. To be in line with the market trends and competition, it has adopted the latest technology and recruited competent staff.

Business continuity plan has been established recognizing the threats and risks the Company faces, with an eye to ensure that personnel and assets are protected and able to function in the event of a disaster.

COMPLIANCE RISK

"Compliance risk" is defined to be the risk of legal or regulatory sanctions, material financial loss or loss to reputation the institution may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable.

Siyapatha has appointed a Compliance Officer in order to oversee the compliance of the Company with Central Bank

directions, Colombo Stock Exchange regulations and other related regulations. The Compliance Officer submits a monthly report to the Board on the statutory returns. Further, on the overall compliance of the Company, a report is submitted to the BIRMC. Any significant non-compliance is reported to the Committee and the Board accordingly. Apart from that all the new product procedures are signed off by compliance prior to the commencement. The Compliance Department disseminates the regulatory directives through internal circulars based on the requirement.

STRATEGIC RISK

Strategic Risk is the risk of a potential earnings' downside due to revenues and/or costs under performing planned targets. Strategic risks may arise from poor strategic positioning, failure to execute strategy or the lack of effective responses to material negative plan deviations caused by external or internal factors (including macro, financial and idiosyncratic drivers).



Risk Management

The key aim of the Company's, Strategic Risk Management is to strengthen the institution's earnings resilience and protect it against undue earnings volatility to support the overall risk appetite by identifying, assessing, limiting, mitigating and monitoring key strategic risks.

Regular monitoring of the set targets, monthly reports of the achievements to the Board of Directors' review and necessary adjustments based on the changes are done in order to ensure achievement of the strategic plan.

REPUTATIONAL RISK

Reputational risk at Siyapatha is defined as the risk of possible damage to Siyapatha's brand and reputation, and the associated risk to earnings, capital or liquidity arising from any association, action or inaction, which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with the institution's values and beliefs. A process is established to provide consistent standards for the identification, assessment and management of reputational risk issues.

Efficient and timely communication among all stakeholders minimizes any issues that would rise due to ambiguities.

STRENGTH

**OUR TEAM, OUR
ASSETS, OUR
HISTORY; ALL THIS
COMBINED MAKES US
A FORMIDABLE FORCE
IN THE INDUSTRY.**



FINANCIAL CALENDAR

FINANCIAL CALENDAR -2016

	Date
⊙ Audited Financial Statements for the year ended 31 December 2015 signed on	15 February 2016
⊙ Annual General Meeting(AGM)	28 June 2016
⊙ Half Yearly Financial Statements(2nd half of year 2015) as per the requirements of Central Bank of Sri Lanka in Sinhala,Tamil and English language	29 February 2016
⊙ Half Yearly Financial Statements(1st half of year 2016) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil and English language	26 August 2016
⊙ Rs.1.10 per share scrip dividend for 2015	28 June 2016
⊙ Interim Financial Statements published in terms of Rules 7.4 of the Colombo Stock Exchange	
-1 Quarter ended 31 March 2016	12 May 2016
-2 Quarter ended 30 June 2016	08 August 2016
-3 Quarter ended 30 September 2016	07 November 2016
-4 Quarter ended 31 December 2016	28 February 2017

FINANCIAL CALENDAR -2017

	Date
⊙ Audited Financial Statements for the year ended 31 December 2016 signed on	07 February 2017
⊙ Annual General Meeting(AGM)	28 March 2017
⊙ Half Yearly Financial Statements(2nd half of year 2016) as per the requirements of Central Bank of Sri Lanka in Sinhala,Tamil & English Language	27 February 2017
⊙ Half Yearly Financial Statements(1st half of year 2017) as per the requirements of Central Bank of Sri Lanka in Sinhala,Tamil & English Language	On or before 31 August 2017
⊙ Rs.1.21 per share scrip dividend for 2016 payable	March 2017*
⊙ Interim Financial Statements published in terms of Rules 7.4 of the Colombo Stock Exchange	
-1 Quarter ended 31 March 2017	On or before 15 May 2017
-2 Quarter ended 30 June 2017	On or before 15 August 2017
-3 Quarter ended 30 September 2017	On or before 15 November 2017
-4 Quarter ended 31 December 2017	On or before 28 February 2018

*subject to confirmation by shareholders

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

1. GENERAL

The Board of Directors of Siyapatha Finance PLC have the pleasure of presenting its Annual Report on the State of Affairs of the Company for the financial year which ended on the 31st of December 2016, 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. The Financial Statements were reviewed and approved by the Board of Directors on the 7th of February 2017.

This report provides the information required by the Companies Act No 07 of 2007, Finance Business Act No 42 of 2011 and Directions issued there under, the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC), the Listing Rules of the Colombo Stock Exchange and Finance Companies (Corporate Governance) Direction No 03 of 2008. This Report was approved by the Board of Directors on the 14th of March 2017.

Siyapatha Finance PLC ("the Company"), formerly known as Sampath Leasing and Factoring Limited, was incorporated on the 3rd of March 2005, under the Companies Act No 17 of 1982, as a Specialised Leasing Company and re-registered as required, under the provisions of the Companies Act No 07 of 2007. The Company that was formerly known as Sampath Leasing and Factoring Limited

was renamed Siyapatha Finance Limited on the 2nd of September 2013 and the finance company license was received on the 25th of September 2013. Upon the listing of the unsecured subordinated redeemable debentures on the Colombo Stock Exchange on the 31st of December 2014, the status of the Company was changed and Siyapatha Finance Limited changed its name to Siyapatha Finance PLC under the new Company registration No. PB 917 PQ with effect from 02.01.2015. The Company is a fully owned subsidiary of Sampath Bank PLC.

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

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

2. CORPORATE VALUES

The Company has six key values. They are being Customer Centric, Maintaining Ethical and Professional Standards, Empowering of Employees, Creating Learning Culture, Encourage Team Work and Committed to Results.

3. PRINCIPAL BUSINESS ACTIVITIES

The principal business activities of the Company during the year are stated below as per the requirement of the Section 168(1) (a) of the Companies Act.

The principal activities of the Company include the acceptance of deposits and the granting of accommodations such as finance lease, hire purchase, vehicle loan facilities, gold loan, debt factoring and other business/personal Loans.

4. REVIEW OF OPERATIONS

A review of the financial and operational performance of the Company, together with significant events that took place during the year 2016 are contained in the Chairman's Message (pages 14 to 17) and the Managing Director's Review (pages 18 to 21) as required by the Section 168(1)(a) of the Companies Act.

These reports form an integral part of the Annual Report of the Board of Directors.

5. FUTURE DEVELOPMENTS

The Company focuses on a business expansion drive through the expansion of the existing Branch Network. Core business operations will be mainly focused in achieving its profitability and increase in market share. 4 new branches were opened during the year.

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

An overview of the future development of the Company is given in the Chairman's Message (page 16) and the Managing Director's Review (pages 20 to 21) as required under Section 168(1)(a) of the Companies Act.

These reports form an integral part of the Annual Report to the Board of Directors.

6. FINANCIAL STATEMENTS

Financial statements of the Company set out on pages 154 to 217, have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs & LKASs), laid down by the Institute of Chartered Accountants of Sri Lanka and comply with the requirements of the Companies Act No. 7 of 2007 and the Finance Business Act No. 42 of 2011. The aforementioned Financial Statements for the year ended on the 31st of December 2016 are duly signed by the Managing Director, Group Finance Director and two other Directors of the Company (as per the Section 168(1)(b) of the Companies Act).

These reports form an integral part of this Annual Report of the Board of Directors.

7. DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements appearing on pages 154 to 217 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Finance Business Act No. 42 of 2011 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Corporate Governance Code for Licensed Finance Companies issued by the Central Bank of Sri Lanka (CBSL). The Statement of the Directors' Responsibility for Financial Reporting is given in Note 1.4 to the Financial Statements (page 161) forms an integral part of the Annual Report of the Board of Directors.

8. 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, which ended on the 31st of December 2016 and their report on those Financial Statements, as required by Section 168(1) (c) of the Companies Act is given on page 153.

9. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of the Financial Statements are given on pages 161 to 178 and comply with Section 168 (1) (d) of the Companies Act No. 7 of 2007.

10. FINANCIAL RESULTS AND APPROPRIATIONS

10.1 Interest income

The total interest income of the Company for the year, which ended on the 31st of December 2016, is LKR.2, 838.99 Million (LKR 1,973.92 Million in 2015). An analysis of the interest income is given in Note 5 of the Financial Statements.

10.2 Profit and Appropriations

The Company has recorded profit before the tax of LKR 515.18 Million in year 2016(LKR 559.15 Million - Year 2015). The Company's total Comprehensive Income (net of tax) for the year is LKR 325 Million (2015- LKR 382.54 Million).A detailed breakup of the profits and appropriations of the Company is given below.

Detailed breakup of the profits & appropriations	2016 LKR. 000	2015 LKR. 000
Profit for the year after payment of all operating expenses and provisions for depreciation and contingencies	515,186	559,153
Less: Taxation	(187,904)	(174,629)
Net profit after taxation	327,282	384,524
Other comprehensive income		
Actuarial losses on defined benefit plans (Net of deferred tax effects on losses on defined benefit plans)	(2,279)	(1,979)
	325,003	382,545
Unappropriated balance brought forward from previous year	1,016,073	735,813
Less: Super Gain Tax	-	(51,558)
Balance available before appropriation /adjustments	1,016,073	1,066,800
Appropriations		
Transfer to Statutory Reserve Fund	(16,363)	(19,227)
Dividend		
Final cash dividend paid-2014 (Rs.0.60 per share)	-	(31,500)
Final scrip dividend paid-2015 (Rs.1.10 per share)	(57,750)	-
Unappropriated balance carried forward	1,266,963	1,016,073
Proposed dividend		
Final scrip dividend-2015(Rs.1.10 per share)	-	57,750
Final scrip dividend-2016(Rs.1.21 per share)	65,490	-

11.TAXATION

The income tax rate applicable on the Company's operations is 28%. (2015: 28%).

Further the Company is liable for both VAT and NBT on financial services at 15%, (2015:11%) and 2% (2015: 2%) respectively.

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

12. DIVIDEND

The Board of Directors of the Company has recommended a scrip dividend of LKR 1.21 per ordinary share to be paid for the financial year, which ended on the 31st of December 2016.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 March 2017.

The Board of Directors was satisfied that the Company would meet the solvency test immediately after the final dividend, proposed in terms of section 31(3) of the Companies Act. The Board 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.

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

13. RESERVES

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

	2016 LKR 000	2015 LKR 000
Statutory Reserve Fund	86,422	70,059
Retained Profit	1,266,964	1,016,073
Total	1,353,386	1,086,132

14. CAPITAL EXPENDITURE

The total capital expenditure on acquisition of property, plant and equipment and intangible assets of the Company amounted to LKR 279 Million (2015- LKR57.21 Million). Details are given in Notes 27 and 28 of the Financial Statements.

15. CAPITAL COMMITMENTS

The capital expenditure approved and contracted for, as at the reporting date is given in Note 40.1 of the Financial Statements.

16. PROPERTY, PLANT AND EQUIPMENT (PPE)

Details of Property, Plant & Equipment are given in Note 27 of the Financial Statements.

17. MARKET VALUE OF FREEHOLD PROPERTIES

Freehold land of the Company was revalued in December 2016 by a professionally qualified independent valuer and brought into the Financial Statements. 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 27 of the Financial Statements.

18. STATED CAPITAL AND DEBENTURES

18.1 Stated Capital

The Stated Capital of the Company as at the 31st of December 2016 amounted to LKR 576,975,000/-, consisting of 54,124,726 ordinary shares (2015- LKR 525,000,000/-consisting of 52,500,000 ordinary shares). The number of shares in issue of the Company increased from 52,500,000 ordinary shares to 54,124,726 ordinary shares as a result of the payment of final Scrip Dividend for 2015.

The details of the shares issued are given in Note 34 of the Financial Statements.

18.2 Debt Capital

The Company had issued rated, unsecured, senior redeemable debentures to the value of LKR 2.5 Billion during the year, which ended on the 31st of December 2016 that are listed in the Colombo Stock Exchange.

The details of debentures outstanding as at the 31st of December 2016 are given in Note 29.2 to the Financial Statements. The rated, unsecured, subordinated redeemable debentures issued in year 2014 amounted to LKR 1.0 Billion are eligible for the Tier II Capital of the Company.

19. SHARE INFORMATION

Information relating to earnings, dividends and net assets, are given in the investors' information in page 30.

20. SHAREHOLDINGS OF THE COMPANY

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

Shareholders of the Company as at 31 December 2016

Name	No of Shares	% of Issued Share Capital
Mr. M.Y.A.Perera	1	>0.001%
Mr. M.A.Abeynaike	1	>0.001%
Mr. S.G. Wijesinha	1	>0.001%
Dr.H.S.D.Soyasa	1	>0.001%
Mr. W.M.P.L. De Alwis	1	>0.001%
Mr. R. Samaranayake	1	>0.001%
Mr.S. Sudarshan	1	>0.001%
Sampath Bank PLC	54,124,719	99.99%
Total	54,124,726	100.00%

21. BOARD OF DIRECTORS

The Board of Directors of Siyapatha Finance PLC comprises of ten (2015-nine) Directors with wide financial and commercial knowledge and experience. The names of the Directors during the period from the 1st of January 2016 to the 31st of December 2016 are given below as per Section 168(1)(h) of the Companies Act No. 7 of 2007. Brief profiles of the Board of Directors are given on pages 64 to 67 of the Annual Report. The classification of Directors as Executive (ED), Non-Executive (NED) and Independent (IND), Non-Independent Directors (NID) is 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 (IND/NID/NED/ED)	Remarks (Appointed date, change of directorate to chairman etc)
Mr. M. Y. A. Perera	NID/NED	28/03/2012(Appointed as the Chairman with effect from 07.10.2016)
Mr. M. A. Abeynaike	IND/NED	28/03/2012
Mr. K. M. S. P. Herath	ED	05/04/2016
Mr. C. P. Palansuriya	NID/NED	02/05/2014
Mr. S. G. Wijesinha	NID/NED	22/10/2008
Mr. P. M. A. Sirimane	IND/NED	03/08/2010
Dr. H. S. D. Soyasa	IND/NED	01/01/2011
Mr. W. M. P. L. De Alwis*	IND/NED	25/02/2011
Mr. R. Samaranayake	NID/NED	28/12/2012
Mr.L.T.Ranwala	NID/NED	28/07/2015

* The status change of Mr. W.M.P.L De Alwis, from NID/NED to IND/NED was approved by the Central Bank of Sri Lanka.

All Directors have submitted affidavits and declarations for the year 2016, 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.

22. 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 in terms of Section 168(1)(h) of the Companies Act No. 07 of 2007.

23 RETIREMENTS AND RE-ELECTION/RE-APPOINTMENTS OF DIRECTORS

In terms of Articles 24 (7) & 24 (8) of the Articles of Association of the Company, Mr. C. P. Palansuriya, Mr. M. A. Abeynaike and Mr. S. G. Wijesinha retired by rotation and being eligible offered themselves for re-election on the unanimous recommendation of the Board of Directors.

Mr. K. M. S. P. Herath (Managing Director) having been appointed to the Board with effect from the 5th of April 2016, offered himself for election by the shareholders in terms of Article 24 (2) of the Articles of Association of the Company.

24. REGISTERS OF DIRECTORS AND SECRETARIES

As required under Section 223(1) of the Companies Act, the Company maintains a Register of Directors and Secretaries which contain the name, surname, former name (if any), residential address, business, occupation, dates of appointment

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

and dates of resignation (if applicable) of each Director and the Secretary.

25. BOARD SUBCOMMITTEES

The Board, while assuming the overall responsibility and accountability for the management oversight of the Company, has also appointed Board Sub Committees to ensure that the activities of the Company are conducted according to the highest ethical standards and the best interest of its stakeholders at all times. The Board formed many Sub Committees including the following. The Composition of these six Sub Committees as of the 31st of December 2016 is as follows. The current compositions of Board Sub Committees are given under the respective Sub Committee Reports.

25.1 Board Audit Committee

Mr. P. M. A. Sirimane (Chairman)
Dr. H. S. D. Soysa
Mr. R. Samaranayake
Mr. M. A. Abeynaike
Mr. S. G. Wijesinha

The Report of the Board Audit Committee is given on pages 125 to 127 which form an integral part of the Annual Report of the Board of Directors.

25.2 Board Human Resource and Remuneration Committee

Mr. W. M. P. L. De Alwis (Chairman)
Mr. M. Y. A. Perera
(w.e.f.01.01.2017)
Mr. P. M. A. Sirimane (until 31.12.2016)
Dr. H. S. D. Soysa

The Report of the Board Human Resources and Remuneration Committee is given on pages 128 - 129 which form an integral part of the Annual Report of the Board of Directors.

25.3 Board Integrated Risk Management Committee

Mr. C. P. Palansuriya (chairman w.e.f.01.01.2017)
Mr. M. Y. A. Perera
(w.e.f.01.01.2017)
Mr. L. T. Ranwala (w.e.f.01.01.2017)
Mr. W. M. P. L. De Alwis
Mr. M. A. Abeynaike (until 31.12.2016)
Mr. P. M. A. Sirimane (until 31.12.2016)
Dr. H. S. D. Soysa (until 31.12.2016)
Mr. K. M. S. P. Herath

The Report of the Board Integrated Risk Management Committee is given on pages 130 to 131 which forms an integral part of the Annual Report of the Board of Directors.

Further, in order to comply with the Section 9 of the Colombo Stock Exchange Listing Rules, Board Related Party Transactions Review Committee was formed on 27 January 2015.

25.4 Board Related Party Transactions Review Committee

Mr. M. A. Abeynaike (chairman w.e.f.01.01.2017)
Mr. P. M. A. Sirimane (chairperson until 31.12.2016)
M. S. G. Wijesinha
Mr. W. M. P. L. De Alwis
Mr. R. Samaranayake
(w.e.f.01.01.2017)
Mr. K. M. S. P. Herath

The Report of the Board Related Party Transactions Review Committee is given on pages 132 to 133 which forms an integral part of the Annual Report of the Board of Directors.

25.5 Board Credit Committee

Dr. H. S. D. Soysa (Chairman)
Mr. M. A. Abeynaike
Mr. M. Y. A. Perera
Mr. L. T. Ranwala
Mr. K. M. S. P. Herath
Mr. R. Samaranayake (until 31.12.2016)

The Report of the Board Credit Committee is given on page 124 which forms an integral part of the Annual Report of the Board of Directors.

25.6 Board Corporate Governance Committee

Mr. S. G. Wijesinha (chairman w.e.f.01.01.2017)
Mr. P. M. A. Sirimane (Chairperson until 31.12.2016)
Mr. W. M. P. L. De Alwis
Mr. K. M. S. P. Herath

The Report of the Board Corporate Governance Committee is given on pages 82 to 123 which forms an integral part of the Annual Report of the Board of Directors.

26 DIRECTORS' MEETINGS

The details of the Directors meetings, which comprise Board meetings and the Board Sub Committee meetings, and the attendance of Directors at these meetings are given in the Corporate Governance Report on pages 82 - 83 of the Annual Report.

27 DIRECTORS' INTEREST IN CONTRACTS AND PROPOSED CONTRACTS

The Company maintains the Directors' interest Register as required under the provisions of Section 168(1)(e) of the Companies Act No. 07 of 2007. Directors of the Company have made necessary declarations of their interest in contracts or proposed contracts, in terms of Sections 192(1) and 192(2) of the Companies Act No.07 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.

Directors' Interest in Ordinary Shares

The shareholding of Directors as at the 31st of December 2016 was as follows.

Name	Position	No: of Shares as at 31 December 2016	No: of Shares as at 31 December 2015
Mr. M.Y.A. Perera	Chairman	01	01
Mr. M.A.Abeynaike	Deputy Chairman	01	01
Mr. S.G. Wijesinha	Director	01	01
Dr.H.S.D.Soysa	Director	01	01
Mr. W.M.P.L. De Alwis	Director	01	01
Mr. R. Samaranayake	Director	01	01

28 DIRECTORS' REMUNERATION

As required under the Section 168(1) (f), details of Directors' emoluments and other benefits paid in respect of the Company during the financial year under review are given in Note 43.2 of the Financial Statements.

29 STAFF STRENGTH

The staff strength of the Company as at 31st December 2016 was 390(2015 – 328).

30 ENVIRONMENTAL PROTECTION

To the best knowledge of the Board of Directors, the Company has not been engaged in any activity that is harmful or hazardous to the environment and complies with the relevant environmental laws and regulations.

31 STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government, other regulatory institutions and in relation to the employees have been made in a timely manner.

32 OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company 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 40.2 of the Financial Statements.

33 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 other than those disclosed in Note 41 of the Financial Statements.

34 GOING CONCERN

After making necessary inquiries and reviews, including reviews of the budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and such other matters required to be addressed in the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka and the Direction on Corporate Governance issued by the CBSL,

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

the Directors are satisfied that the Company has adequate resources to continue operations into the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

35 RISK MANAGEMENT AND INTERNAL CONTROL

35.1 Internal Controls

The Directors of the Company have taken reasonable steps open to them in order to safeguard the assets of the Company, 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 the Board of Directors is regularly reviewing it.

35.2 Corporate Governance

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. The details are given in the Corporate Governance Report on pages 80 to 125 of this Annual Report.

36 AUDITORS

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

Audit fees paid to Ernst & Young for the year, which ended on the 31st of December 2016, by the Company amounted to LKR 1,409,000/- (2015: LKR 1,117,000/-). Further, the Company paid LKR 2,530,000/- (2015: LKR 4,227,000/-) 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, are being proposed as Auditors at the Annual General Meeting.

37. NOTICE OF MEETING

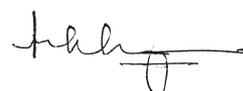
The Annual General Meeting of the Company will be held at the Board Room of Sampath Bank PLC, No.110, Sir James Peiris Mawatha, Colombo 02 on the 28 of March 2017. The Notice of Meeting is given on page 241 of this Annual Report.

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

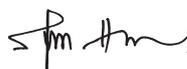
For and on behalf of the Board of Directors



M. Y. A. Perera
Chairman



M.A. Abeynaik
Deputy Chairman



Saman Herath
Managing Director



S. Sudarshan
Company Secretary

Siyapatha Finance PLC
Colombo, Sri Lanka
14 March 2017

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

The Board of Directors of Siyapatha Finance PLC (Company) takes pleasure in presenting 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.

Ensuring the adequacy and effectiveness of the Company's internal control mechanism is the responsibility of the Board of Directors ("Board"). This mechanism is designed to provide an 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 errors or material misstatement of management and financial information and records or against financial losses or fraud.

The Board, which regularly reviews this process, is of the view that the system of internal control over financial reporting in place is adequate to provide 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.

The implementation of the Board's policies and procedures pertaining to internal control over financial

reporting, which have been documented, is carried out with the assistance of the management. In assessing 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. These in turn are being observed and checked by the Internal Audit Department of the Company annually for suitability of design and effectiveness.

KEY INTERNAL CONTROL PROCESSES

The key processes which have been established to review the adequacy and integrity of the system of internal controls, with respect to financial reporting, are as follows:

- ⦿ Establishment of various appointed Committees of the Board to assist the Board with a view to ensuring the effectiveness of the Company's daily operations and that such operations conform to Company's corporate objectives, strategies and the annual budget as well as policies and business directions approved by the Company.
- ⦿ 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 systems 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 Audit Committee. The Internal Audit Department which submits the Annual Audit Plan for review and approval of the Audit Committee also submits independent and objective reports for review by the Audit Committee, at their periodic meetings.

- ⦿ The internal audit functions are also reviewed by the Committee, with particular reference to the scope and quality of the audits. Minutes of all Audit Committee meetings are submitted to the Board for review. The Committee also reviews periodical summaries submitted by the Internal Audit Department indicating the functions carried out.
- ⦿ The adequacy and effectiveness of the internal control systems are evaluated by the 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

Directors' Statement on Internal Control Over Financial Reporting

at their work locations, a procedure to obtain a quarterly certification from the respective Officers was introduced in 2016.

- In order to assess the internal control system, 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 suitability of design and effectiveness of such procedures and controls continue to be verified by the Internal Audit Department on an ongoing basis.

Since the adoption of SLFRS in 2012, processes which are required to comply with the new requirements of recognition, measurement, presentation and disclosure were introduced in 2013. Continuous monitoring is in progress and steps are being taken to make improvements to the processes where required, to enhance the effectiveness and efficiency. Processes applied to adopt the said accounting standards were further strengthened during the year 2016. Progressive improvements on processes to comply with Sri Lanka Accounting Standards requirements

of recognition, measurement, classification and disclosure are being made. In respect of Management Information System and its reports, required enhancements in control process are being carried out.

A system based module for Related Party Transaction identification, was implemented in 2016. Similar automation initiatives are also being contemplated with regard to impairment calculation. A further system integration with upgraded General Ledger and main operating systems is to be carried out in 2017.

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 has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

EXTERNAL AUDITORS CERTIFICATION

The External Auditors have reviewed the above Directors' statement on internal control over financial reporting included in this Annual Report and reported 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 its design and effectiveness of the internal controls over financial reporting.

By order of the Board



M. Y. A. Perera
Chairman



P.M.A Sirimane
Chairman - Board Audit Committee

Siyapatha Finance PLC
23rd February, 2017

INDEPENDENT AUDITORS' REPORT



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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SIYAPATHA FINANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Siyapatha Finance PLC (the "Company"), which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance

with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on other legal and regulatory requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

- a) The basis of opinion, scope and limitations of the audit are as stated above.
- b) In our opinion :
 - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and
 - the financial statements of the Company, comply with the requirements of Section 151 of the Companies Act No. 7 of 2007.

07 February 2017
Colombo

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

A member firm of Ernst & Young Global Limited

INCOME STATEMENT

Year ended 31 December	Note	2016 Rs.'000	2015 Rs.'000
Interest income		2,838,995	1,973,921
Less: Interest expenses		(1,620,783)	(824,699)
Net interest income	5	1,218,212	1,149,222
Fee & commission income		139,442	86,385
Less: Fee and commission expenses		(2,139)	(6,252)
Net fee and commission income	6	137,303	80,133
Other operating income	7	175,471	152,182
Total operating income		1,530,986	1,381,537
Impairment (charges)/ reversal for loans and other losses	8	(79,189)	(49,275)
Net operating income		1,451,797	1,332,262
Less: Operating expenses			
Personnel costs	9	(439,718)	(329,553)
Other operating expenses	10	(368,393)	(350,251)
Operating profit before VAT and NBT on financial services		643,686	652,458
Less: VAT and NBT on financial services	11	(128,500)	(93,305)
Profit before taxation from operations		515,186	559,153
Less: Taxation	12	(187,904)	(174,629)
Profit for the year		327,282	384,524
Basic earnings per share (Rs.)	13	6.14	7.32
Dividend per share (Rs.)	14	1.10	0.60

The Accounting policies and Notes to the Financial Statements from pages 161 to 217 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2016 Rs.'000	2015 Rs.'000
Profit for the year		327,282	384,524
Other comprehensive income/ (expenses)			
Other comprehensive income not to be reclassified to profit or loss:			
Actuarial losses on defined benefit plan	33.3	(3,165)	(2,749)
Deferred tax effect on actuarial losses	32	886	770
Other comprehensive income for the year, net of tax		(2,279)	(1,979)
Total comprehensive income for the year, net of tax		325,003	382,545
Attributable to :			
Equity holders of the parent company		325,003	382,545
		325,003	382,545

The Accounting policies and Notes to the Financial Statements from pages 161 to 217 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December

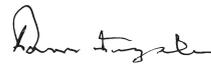
	Note	2016 Rs.'000	2015 Rs.'000
Assets			
Cash and bank balances	16	169,333	130,070
Securities purchased under repurchase agreements	17	777,438	601,679
Factoring receivables	18	1,979,243	1,157,136
Gold loan receivables	19	1,768,922	770,839
Pawning receivables	20	-	-
Loan receivables	21	743,740	286,968
Lease receivables	22	13,851,890	9,230,730
Hire purchase receivables	23	837,560	2,083,571
Other assets	24	291,648	234,417
Financial instruments- available for sale	25	56	56
Financial investments held to maturity	26	4,288	4,274
Property, plant & equipment	27	358,131	124,697
Intangible assets	28	8,489	14,889
Total Assets		20,790,738	14,639,326
Liabilities			
Bank overdraft		460,494	163,583
Due to other customers		3,362,662	1,233,041
Debt issued and other borrowed funds	29	14,187,266	10,925,421
Other payables	30	595,597	508,921
Income taxation payable	31	61,257	75,663
Deferred taxation liability	32	170,088	102,306
Retirement benefit obligations	33	23,013	19,259
Total Liabilities		18,860,377	13,028,194

As at 31 December	Note	2016 Rs.'000	2015 Rs.'000
Shareholders' Funds			
Stated capital	34	576,975	525,000
Statutory reserve fund	35	86,422	70,059
Retained earnings	36	1,266,964	1,016,073
Total Shareholders' Funds		1,930,361	1,611,132
Total Liabilities and Shareholders' Funds		20,790,738	14,639,326
Net asset value per share (Rs.)		35.67	30.69
Commitments and contingencies	40	1,045,384	558,986

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

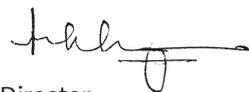


Managing Director



Group Finance Director

The Board of Directors is responsible for the preparation & and presentation of these Financial Statements. Signed for and on behalf of the Board by,



Director



Director

The Accounting policies and Notes to the Financial Statements from pages 161 to 217 form an integral part of these Financial Statements.

07 February 2017
Colombo

STATEMENT OF CHANGES IN EQUITY

	Note	Stated Capital Rs'000	Statutory Reserve Fund Rs'000	Retained Earnings Rs'000	Total Rs'000
Balance as at 31 December 2014		525,000	50,832	735,813	1,311,645
Super Gain Tax	32.2	-	-	(51,558)	(51,558)
Net profit for the year		-	-	384,524	384,524
Other comprehensive income		-	-	(1,979)	(1,979)
Transfer to Statutory Reserve Fund	35	-	19,227	(19,227)	-
Dividend paid	14	-	-	(31,500)	(31,500)
Balance as at 31 December 2015		525,000	70,059	1,016,073	1,611,132
Net profit for the year		-	-	327,282	327,282
Other comprehensive income		-	-	(2,279)	(2,279)
Transfer to Statutory Reserve Fund	35	-	16,363	(16,363)	-
Dividend paid	14	51,975	-	(57,750)	(5,775)
Balance as at 31 December 2016		576,975	86,422	1,266,963	1,930,360

The Accounting policies and Notes to the Financial Statements from pages 161 to 217 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2016 Rs. '000	2015 Rs. '000
Cash flows from operating activities			
Profit before taxation from operations		515,186	559,153
Interest expenses	5.2	1,620,783	824,699
Fee & commission expenses	6	2,139	6,252
Provision for impairment	8	79,189	49,275
Provision for staff gratuity	33.2	6,784	4,309
Provision for depreciation	27	42,173	25,355
Amortisation of software	28	7,753	7,087
(Profit)/Loss on sale of motor vehicles		39	-
Write off of provisions		(14,775)	-
		1,744,085	916,976
Operating profit before working capital changes		2,259,271	1,476,129
(Increase)/Decrease in Lease receivables		(4,675,805)	(5,832,238)
(Increase)/Decrease in Hire purchase receivables		1,255,436	2,312,656
(Increase)/Decrease in Factoring receivables		(840,364)	(199,542)
(Increase)/Decrease in Pawning receivables		14,775	456,193
(Increase)/Decrease in Gold loan receivables		(1,006,021)	(773,198)
(Increase)/Decrease in Loan receivables		(456,797)	218,433
(Increase)/Decrease in Other assets		(64,978)	(274,858)
Increase/(Decrease) in Other payables		133,763	153,359
		(5,639,992)	(3,939,195)
Cash generated from operations		(3,380,721)	(2,463,067)
Interest paid		(1,502,565)	(779,294)
Gratuity paid	33	(6,195)	(334)
Income tax paid	31	(105,409)	(169,503)
Dividend tax paid		(5,775)	(3,150)
Net cash outflow from operating activities		(5,000,665)	(3,415,348)
Cash flow from investing activities			
Investments in government bonds & government securities		(8,114)	(76)
Purchase of property, plant and equipment and intangible assets		(279,002)	(57,213)
Proceeds from sale of property, plant and equipment		2,003	-
Net cash outflow from investing activities		(285,113)	(57,289)

Statement of Cash Flows

Year ended 31 December	Note	2016 Rs. '000	2015 Rs. '000
Net cash outflow before financing activities		(5,285,778)	(3,472,638)
Cash flow from financing activities			
Proceeds from long term loans/ Securitizations		3,346,350	5,482,037
Repayments of long long term loans/ Securitizations		(3,204,655)	(2,463,666)
Net proceeds from term deposits		2,054,301	1,206,628
Proceeds from debentures		2,500,000	-
Debentures redeemed		-	(259,000)
Net proceeds from short term borrowings		499,794	(388,116)
Cash dividend paid	14	-	(31,500)
Net cash inflow from financing activities		5,195,790	3,546,383
Net increase/(decrease) in cash and cash equivalents		(89,988)	73,747
Cash & cash equivalents at the beginning of the year		568,166	494,419
Cash and cash equivalents at end of the period		478,178	568,166

Analysis of the cash and cash equivalents at the end of the period

Cash and bank balances (Note 16)		169,333	130,070
Securities purchased under repurchase agreements (Note 17)		769,339	601,679
Bank overdraft		(460,494)	(163,583)
		478,178	568,166

The Accounting policies and Notes to the Financial Statements from pages 161 to 217 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 General

Siyapatha Finance PLC ("The Company"), formerly known as Siyapatha Finance Limited is a domiciled, Public Limited Company incorporated in Sri Lanka on 03 March 2005. The Company was re-registered under the Companies Act No.07 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 2016 was 390 (328 as at 31 December 2015).

1.2 Principal Activities and Nature of Operations

The Company provides a comprehensive range of financial services encompassing acceptance of Fixed 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.

1.4 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards (SLFRS/ LKAS).

1.5 Date of Authorization

The Financial Statements of the Company for the year ended 31 December 2016 were authorised for issue in accordance with their resolution of the Board of Directors dated 07 February 2017.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company (Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes) as at 31 December 2016 are prepared in accordance with Sri Lanka Accounting Standards (SLFRSs & LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka, in compliance with the requirements of the Companies Act No. 7 of 2007.

2.2 Basis of Measurement

The Financial Statements of the Company are prepared in Sri Lanka Rupees on a historical cost basis, except for the following material items in the Statement of Financial Position.

- Available for sale investments are measured at fair value

- Liabilities for defined benefit obligations are recognised as the present value of the defined benefit obligation.

2.3 Functional and Presentation Currency

The financial statements are presented in Sri Lankan Rupees (Thousands), which is also the Company's functional and presentation currency (except otherwise indicated).

2.4 Presentation of Financial Statements

The Company presents its statement of financial position broadly grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding 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 Note 39.

2.5 Materiality and Aggregation

In compliance with LKAS 01 on *Presentation of Financial Statements*, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions 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 realize the assets and settle the

Notes to the Financial Statements

liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any Accounting Standard or interpretation and as specifically disclosed in the Accounting Policies.

2.6 Comparative Information

The accounting policies have been consistently applied by the Company with those of the previous financial year in accordance with LKAS 01 *Presentation of Financial Statements*.

The comparative information is re-classified wherever necessary to conform to the current year's presentation.

2.7 Events After Reporting Date

All material events after the reporting date have been considered where appropriate adjustments or disclosures are made in respective Note 41 to the Financial Statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are 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.

i. 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.

ii. 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. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

iii. Impairment Losses on Loans and Receivables (Leases, Hire Purchases, Vehicle Loans, Factoring, Mortgage Loans, Revolving Loans, Business/ Personal Loans and Gold Loans)

The Company reviews its individually significant loans and advances at each Statement-of-Financial-Position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are 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 as 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).

iv. Deferred Tax Assets

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.

v. 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.

vi. Provision for Liabilities & Contingencies

The Company receives the legal claims against it in the normal course of the business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and costs ultimately depend on the due process in respective legal jurisdictions.

vii. 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 37 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 37 to the Financial Statements.

viii. 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 15 "Analysis of Financial Instruments by Measurement Basis".

ix. Fair value of Property, plant & Equipment

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company in preparation of its Financial Statements are included in below.

4.1 Financial Assets and Financial Liabilities – Initial Recognition 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': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Those trades are initially recognised on the settlement date.

Notes to the Financial Statements

4.1.2 Recognition and Initial Measurement of Financial Assets and Financial Liabilities

The classification of financial assets and financial liabilities at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All Financial Assets and Financial Liabilities are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or losses per Sri Lanka Accounting Standard LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

'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 immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'.

4.1.3 Classification and Subsequent Measurement of Financial Assets

At inception, a financial asset is classified under one of the following categories.

- a) Financial Investments at Fair value through profit or loss (FVTPL);
 - Financial Investments held for trading
 - Financial Investments – Designated at fair value through profit or loss

- b) Loans & Receivables (L&R)
- c) Held to Maturity (HTM) Financial Investments
- d) Available for Sale (AFS) Financial Assets

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 Investments 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 have financial assets under this category.

b) *Available for Sale Financial Assets*

Available for sale investments 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 designated 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 25 to the Financial Statements.

c) Held to Maturity Financial Investments

Held to Maturity Financial Investments 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 26 to Financial Statements.

d) Loans and Receivables Financial Instruments

Financial Assets classified as 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 and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and Similar Income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in 'impairment charges for loans and receivables'.

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 16 to Financial Statements.

4.1.4 Classification and Subsequent Measurement of Financial Liabilities

At the inception the Company determines the classification of its financial liabilities. Accordingly, financial liabilities 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

The subsequent measurement of financial liabilities depends on their classification.

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

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

Notes to the Financial Statements

a) Financial Liabilities held for Trading

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of the portfolio that is managed together for short term profit or position taking. This category includes derivative financial instruments entered in to by the Company which are not designated as hedging instruments in the hedge relationships as defined by the Sri Lanka Accounting Standards – LKAS 39 on Financial Instruments: Recognition and Measurements.

b) Financial Liabilities designated at Fair Value through profit or loss

The Company designates financial liabilities at fair value through profit or loss in the following circumstances.

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

The Company has not designated any financial liabilities upon initial recognition as financial liabilities designated at fair value through profit or loss.

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 liabilities at amortised cost under 'debt issued and other borrowed funds' as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortised cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

This Category consists of bank overdraft, debt issued and other borrowed funds and other payables.

Debt issued and other borrowed funds

These represent the funds borrowed in the form of term loans, short term loans, debentures, commercial papers and securitizations.

4.1.5 Reclassification of Financial Assets

Reclassification is at the discretion of management in accordance with Sri Lanka Accounting Standards – LKAS 39 on Financial Instruments, and is determined on an instrument by instrument basis.

The Company has not reclassified any financial assets during the year.

4.1.6 Derecognition of Financial Assets and Financial Liabilities

(i) Financial Assets

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

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

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

On derecognition of a financial asset, the difference between the carrying amount of the asset and consideration received and any cumulative gain or loss that has been recognised is recognised in profit or loss.

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

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

(ii) Financial Liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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.

4.1.7 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

Notes to the Financial Statements

levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 37 to the Financial Statements.

4.1.8 Impairment of Financial Assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets 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.

(i) Financial Assets carried at Amortised Cost

a) *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 the 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.

b) *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.

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 and the Group are 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.

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

c) Write-off of Loans and Advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

d) Renegotiated Loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This 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 Effective Interest Rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

e) 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.

i. 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'

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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.

ii. 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 Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised

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

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

4.2 Finance and Operating Lease

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

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 22 to Financial Statements.

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 and Equipment

Property, plant & equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property & Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on Property, plant & equipment. Initially property and equipment are measured at cost.

i. Basis of Recognition and Measurement

Cost Model

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its costs. Costs include expenditure that is directly attributable to the acquisition of the asset and cost is incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalised borrowing costs. Purchase of software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

When parts of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment.

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

Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

ii. Subsequent Cost

These are costs that are recognised in the carrying amount of an item, if it is probable that the future economic benefits embodied within that part will flow to the Company and it can be reliably measured.

iii. 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.

iv. 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.

v. 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.

vi. De-recognition

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

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

Notes to the Financial Statements

vii. Depreciation

Depreciation is recognised in profit or loss 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	
	2016	2015
Office Equipment	15.00% p.a.	15.00 % p.a.
Computer Equipment	16.67% p.a.	16.67% p.a.
Furniture and Fittings	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.	12.50% p.a.
Fixtures	20.00% p.a.	20.00% p.a.

viii. 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.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. Due to changes in useful life of Motor bicycles and estimation, an increase of Rs.1,813,678/- has resulted in the current year, in comparison to the depreciation charge based on previous estimate.

4.4 Intangible Assets

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

i. 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 separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses if any.

ii. Subsequent Expenditure

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

iii. 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.

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

v. 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 whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. These estimates about expected future cash flows and discount rates are subject to uncertainty.

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

i. Defined Benefit Plan - Gratuity

All the employees of the company are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

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

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

Recognition of Actuarial Gains and Losses

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

Interest Cost

Interest cost is the expected increase due to interest during the period in the present value of the planned liabilities because the benefits are one year closer to settlement.

Funding Arrangements

The Gratuity liability is not externally funded.

ii. Defined Contribution Plans

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

Notes to the Financial Statements

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 Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

i. Interest and similar income and expenses

For all financial instruments measured at amortised cost, and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

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

ii. Dividend income

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

iii. Income from Government Securities and Securities purchased under Re-Sale Agreement

Discounts/ premium on Treasury bills & Treasury bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreement is recognised in the Income Statement on an accrual basis over the period of the agreement.

iv. Fee and Commission Income

The Company earns a fee and commission income from a diverse range of services it provides to

its customers. Fee income can be divided into 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.

v. Interest Income on Overdue Rentals

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

vi. Recovery of Bad Debts Written Off

Recovery of amounts written off as bad and doubtful debts is recognised on a cash basis.

vii. Other Income

Other income is recognised on an accrual basis.

4.11 Personnel Costs

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4.12 Taxes

Income tax expense consists of current and deferred tax. Income tax expense is recognised in the Income Statement.

i. Current Taxation

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 as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the Balance Sheet date.

Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 12 to the Financial Statements.

ii. Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax liabilities are recognised for all temporary differences.

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary

differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of a deferred tax asset is reviewed at each Balance Sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each Balance Sheet date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity are not in the income statement.

iii. Value Added Tax (VAT) on Financial Services

VAT on financial services is calculated in accordance with the Value Added Tax 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 of employees' computed on prescribed rate.

Notes to the Financial Statements

iv. Withholding Tax on Dividends

Withholding tax on dividends distributed by the Company withholding tax that arise from the distribution of dividends of the company is recognised at the time of liability to pay the related dividend is recognised. At present, the rate of 10% is deducted at source.

v. Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 01, 2004. Currently, the ESC is payable at 0.5% on 'Exempt Turnover' 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.

ESC is not payable on turnover on which income tax is payable.

vi. Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No.12 of 2013, the CIL was introduced with effect from April 1, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

vii. 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.

4.13 Earnings per Share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary 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.

4.14 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'.

To meet the financial needs of the customers, the Company enters into various irrecoverable commitments and contingent liabilities. These consists of financial guarantees and other undrawn commitment to lend. The guarantees commit the Company to make payments on behalf of customers in the event of a specific act. They carry similar credit risk to loans. Operating lease commitments and pending legal claims against the Company too form part of commitments of the Company. Contingent Liabilities are not recognised in the statement of financial position. But are disclosed unless its occurrence is remote. These contingent liabilities do contain credit risk and therefore

form part of the overall risk of the Company.

Financial guarantees are initially recognised in the Statement of Financial Position (within other liabilities) 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 the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the Income Statement under the 'impairment charge' for loans and other losses. The premium received is recognised in the Income Statement under 'Net fee and commission income on a straight line basis over the life of the guarantee.

Legal Claims

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 adjustment to account for any adverse effects which the claims may have on its financial standing.

At the reporting date the Company has several unresolved legal claims against the Company for which legal advisor of the Company

advised as the loss is probable, but not probable, that action will succeed.

Accordingly, no provision for any claims has been made in these Financial Statements.

4.15 Statement of Cash Flows

The Cash Flow statement is prepared using the indirect method, as stipulated in LKAS 7-“Statement of Cash Flows” Whereby operating, investing and financial activities are separately recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the Statement of Cash Flows

For the purpose of the Statement of Cash Flow, cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non-restricted current accounts with Company’s on demand or with an original maturity of three months or less.

4.16 Sri Lanka Accounting Standards not yet effective as at 31 December 2016

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31st December 2016. The Company intends to adopt these standards, if applicable, when they become effective.

SLFRS 15 -Revenue from Contracts with Customers

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

SLFRS 15 introduces a five step approach for revenue recognition from contracts with customers and replaces all other currently applicable revenue Standards and interpretations.

SLFRS 15 will become effective on 1st January 2018. The Company carried out an initial impact analysis with the assistance of an external consultant during the year ended 31st December 2016. According to the above analysis the Company does not have any material impact from the adoption of SLFRS 15 in the year 2018.

SLFRS 9 –Financial Instruments

This standard will replace Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement). The improvements introduced by SLFRS 9 includes a logical model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially - reformed approach to hedge accounting.

SLFRS 9 will become effective on 01st January 2018. Given the complexities and technical expertise required in the process

of convergence with SLFRS 09, a diagnostic phase assessment on impairment based on the requirements of SLFRS 09 has been already carried out with the assistance of an external consultant based on the outstanding balances as at 31 December 2016.

Classification and measurement

Classification determines how financial assets and financial liabilities are accounted for in the Financial Statements and, in particular, how they are measured on an ongoing basis. SLFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply.

Accordingly, financial assets are measured at amortised cost, fair value through other comprehensive income (‘FVOCI’) or fair value through profit or loss (‘FVPL’). Although the classification and measurement outcomes will be similar to LKAS 39 in many instances, the combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared to LKAS 39. The classification of financial liabilities is essentially unchanged. However the Company is not expected to have a material impact from the new classification and measurement principles introduced by SLFRS 09.

Notes to the Financial Statements

Impairment

SLFRS 9 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised. This credit loss (impairment) requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments and financial guarantee contracts.

At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12 - month ECL') for all financial assets to which impairment requirement is applied. In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The Management is required to establish multiple outcomes (futuristic) which are probability weighted based different economic scenarios in order to capture 12months and lifetime Expected Credit Losses. Further, the Company is required to calculate product wise LGD based on the segmentation determined by the management under Incurred Loss principle.

The Management shall estimate forward looking parameters and incorporate to the LGD for the purpose of converting Incurred Loss LGD to embed futuristic assumption as relevant.

For revolving credit facilities/other facilities as relevant the Company shall establish

- The period over which the Company was exposed to credit risk on similar financial instruments
- The length of time for related defaults to occur on similar financial instruments
- The credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

The increase in impairment allowance is not measured with precision, based on the current stage of the impact assessment.

SLFRS 16- Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 introduces a single lessee accounting model for lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new standard requires a lessee to:

Recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

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

SLFRS 16 will become effective on 1st January 2019. The impact on the implementation of the above Standard has not been quantified yet.

4.17 Amendments to existing Accounting Standards effective from January 2017

Amendments to existing Accounting Standards with effect from 01st January 2017 as published by the Institute of Chartered Accountants of Sri Lanka are not expected to have an impact on the Financial Statements of the Company.

Year ended 31 December

2016
Rs. '000

2015
Rs. '000

5. NET INTEREST INCOME

5.1 Interest income

Interest income on lease receivables	1,742,245	912,427
Interest income on hire purchase receivables	251,810	567,499
Interest income on factoring receivables	303,848	179,242
Interest income accrued on impaired financial assets	13	163
Interest income on loan receivables	59,537	66,909
Interest income on pawning & gold loan receivables	263,644	119,153
Interest income on government securities	75,380	39,328
Interest income on overdue rentals	131,022	86,900
Interest income on staff loans	8,446	2,300
Interest income on fixed deposits	3,050	-
Total interest income	2,838,995	1,973,921

5.2 Interest expenses

Bank overdraft	6,017	828
Short term borrowings	230,643	106,580
Customer deposits	250,269	35,616
Long term borrowings	942,455	515,772
Commercial papers	1,066	14,086
Securitisation loans	4,742	29,797
Debentures	185,591	122,020
Total interest expenses	1,620,783	824,699

Net interest income	1,218,212	1,149,222
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6. NET FEE AND COMMISSION INCOME

Documentation charges	35,450	35,746
Insurance commission	41,006	28,402
Service charges- pawning/gold loan	60,862	22,237
Processing fees	2,027	-
Other fee & commission income	97	-
Total fee and commission income	139,442	86,385

Fee and commission expenses

Guarantee fee	2,139	6,252
Total fee and commission expenses	2,139	6,252

Net fee and commission income	137,303	80,133
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Notes to the Financial Statements

Year ended 31 December

2016
Rs. '000

2015
Rs. '000

7. OTHER OPERATING INCOME

Profit on early terminations	139,828	116,113
Profit on disposal of motor vehicles	340	-
Recovery of bad debts written off	2,625	3,191
Recovery of charges	17,654	18,575
Sundry income	15,024	14,303
Total other operating income	175,471	152,182

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

Lease receivables	54,645	(32,511)
Hire purchase receivables	(9,424)	(8,080)
Factoring receivables	18,257	38,722
Loan receivables	25	(35)
Pawning & gold loan receivables	7,939	2,358
Repossessed stock	8,043	47,793
Other loans	(296)	1,029
	79,189	49,275

9. PERSONNEL COSTS

Salary & bonus	358,169	271,987
Contribution to defined contribution plan	34,904	26,445
Gratuity charge for the year	6,784	4,309
Others	39,861	26,812
	439,718	329,553

10. OTHER OPERATING EXPENSES

Directors' emoluments	15,345	11,160
Auditors' remuneration	1,409	1,117
Non-audit fees to auditors	2,530	4,227
Professional & legal expenses	9,543	15,147
Depreciation on property, plant & equipment	42,173	25,355
Amortization of intangible assets	7,753	7,087
Deposit insurance premium	3,457	702
Office administration & establishment expenses	193,549	169,252
Advertising expenses	60,000	75,909
Loss on sale of fixed assets	379	-
Others	32,255	40,295
	368,393	350,251

Year ended 31 December	2016 Rs. '000	2015 Rs. '000
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11. VAT & NBT ON FINANCIAL SERVICES

VAT on financial services	109,033	77,867
NBT on financial services	19,467	15,438
	128,500	93,305

12. TAXATION

12.1 The major components of income tax expense for the year ended 31 December are as follows.

Income statement

Current income tax

Income tax for the year	123,595	137,768
Under/ (Over) provision of current taxes in respect of previous year	(4,359)	3,768
	119,236	141,536

Deferred tax

Deferred taxation charge/ (reversal) (refer note 32)	68,668	33,093
	187,904	174,629

12.2 A reconciliation between tax expenses and the product of accounting profit multiplied by the statutory tax rate is as follows.

Accounting profit before income taxation	515,186	559,153
At the statutory income tax rate of 28%	144,253	156,563
Tax effect of non deductible expenses	18,024	36,499
Tax effect of other allowable credits	(38,682)	(55,294)
Tax effect of exempt income	-	-
Tax effect of losses claimed	-	-
Under/ (Over) provision of current taxes in respect of previous years	(4,359)	3,768
Deferred tax effect	68,668	33,093
At the effective income tax rate of 36.47% (31.23% - 2015)	187,904	174,629

The Company's income is taxed at the rate of 28% during the years 2016 and 2015.

Notes to the Financial Statements

13. EARNINGS PER ORDINARY SHARE - BASIC (RS.)

Earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares in issue during the year, as per Sri Lanka Accounting Standard -LKAS 33 (Earnings Per Share).

Year ended 31 December	2016 Rs. '000	2015 Rs. '000
Profit attributable to ordinary shareholders (Rs. 000)	327,282	384,524
Weighted average number of ordinary shares during the year	53,312,363	52,500,000
Basic earnings per ordinary share- (Rs.)	6.14	7.32

14. DIVIDEND PAID

Dividends paid (Rs. 000)	57,750	31,500
Weighted average number of ordinary shares during the year	52,500,000	52,500,000
Dividends per ordinary share (Rs.)	1.10	0.60

A scrip dividend of Rs. 1.10 per share for the year 2015 was paid in June 2016. (a cash dividend of Rs. 0.60 per share for the year 2014 was paid in June 2015)

15. 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 analyses the carrying amounts of the financial instruments by category as defined in Sri Lanka Accounting Standard- LKAS 39 (Financial Instruments: Recognition & Measurement) under headings of Statement of Financial Position.

15.1 Analysis of Financial Instruments by Measurement Basis

As at 31 December 2016	Amortised Cost Rs'000	Held to Maturity Rs'000	Available for Sale Rs'000	Total Rs'000
Financial Assets				
Cash and bank balances	169,333	-	-	169,333
Securities purchased under repurchase agreements	777,438	-	-	777,438
Factoring receivables	1,979,243	-	-	1,979,243
Gold loan receivables	1,768,922	-	-	1,768,922
Loan Receivables	743,740	-	-	743,740
Lease receivables	13,851,890	-	-	13,851,890
Hire purchase receivables	837,560	-	-	837,560
Other assets	197,139	-	-	197,139
Financial instruments- Available for sale	-	-	56	56
Financial investments- Held to maturity	-	4,288	-	4,288
Total Financial Assets	20,325,265	4,288	56	20,329,608

As at 31 December 2016	Amortised Cost Rs'000	Held to Maturity Rs'000	Available for Sale Rs'000	Total Rs'000
Financial Liabilities				
Bank overdraft	460,494	-	-	460,494
Due to other customers	3,362,662	-	-	3,362,662
Debt issued and other borrowed funds	14,187,266	-	-	14,187,266
Other payables	490,902	-	-	490,902
Total Financial Liabilities	18,501,324	-	-	18,501,324

As at 31 December 2015	Amortised Cost Rs'000	Held to Maturity Rs'000	Available for Sale Rs'000	Total Rs'000
Financial Assets				
Cash and bank balances	130,070	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	601,679
Factoring receivables	1,157,136	-	-	1,157,136
Gold loan receivables	770,839	-	-	770,839
Loan Receivables	286,968	-	-	286,968
Lease receivables	9,230,730	-	-	9,230,730
Hire purchase receivables	2,083,571	-	-	2,083,571
Other assets	168,527	-	-	168,527
Financial instruments- Available for sale	-	-	56	56
Financial investments- Held to maturity	-	4,274	-	4,274
Total Financial Assets	14,429,520	4,274	56	14,433,850
Financial Liabilities				
Bank overdraft	163,583	-	-	163,583
Due to other customers	1,233,041	-	-	1,233,041
Debt issued and other borrowed funds	10,925,421	-	-	10,925,421
Other payables	421,278	-	-	421,278
Total Financial Liabilities	12,743,323	-	-	12,743,323

As at 31 December	2016 Rs. '000	2015 Rs. '000
16. CASH AND BANK BALANCES		
Balances with local banks	20,248	47,237
Cash in hand	149,085	82,833
	169,333	130,070

Notes to the Financial Statements

As at 31 December	2016 Rs. '000	2015 Rs. '000
17. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS		
Securities purchased under repurchase agreements	777,438	601,679
	777,438	601,679
18. FACTORING RECEIVABLES		
Factoring receivables	2,069,849	1,236,836
Less : Provision for individual impairment(Note 18.1.1)	(88,475)	(76,116)
Provision for collective impairment(Note 18.1.2)	(2,131)	(3,584)
	1,979,243	1,157,136
18.1 Movement in impairment losses		
18.1.1 Individually significant customer loan impairment		
Opening balance as at 01st January	76,116	34,394
Charge/ (reversal) to income statement	19,710	37,792
Recoveries during the year	-	792
Unwinding impact	(13)	(163)
Other movements	(7,338)	3,301
Closing balance as at 31 December	88,475	76,116
18.1.2 Collective loan impairment		
Opening balance as at 01st January	3,584	2,654
Charge/ (reversal) to income statement	(1,453)	930
Closing balance as at 31 December	2,131	3,584
19. GOLD LOAN RECEIVABLES		
Gold loan receivables	1,781,331	775,309
Less : Provision for collective impairment(Note 19.1)	(12,409)	(4,470)
	1,768,922	770,839
19.1 Movement in Collective impairment losses & Auction losses		
Opening balance as at 01st January	4,470	2,970
Charge/ (reversal) to income statement	7,939	1,500
Closing balance as at 31 December	12,409	4,470

As at 31 December	2016 Rs. '000	2015 Rs. '000
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20. PAWNING RECEIVABLES

Pawning receivables	-	14,775
Less : Provision for collective impairment	-	-
Less : Auction losses(Note 20.1)	-	(14,775)
	-	-

20.1 Movement in Collective impairment losses & Auction losses

Opening balance as at 01st January	14,775	13,941
Charge/ (reversal) to income statement	-	858
Written off during the year	(14,775)	-
Other movements	-	(24)
Closing balance as at 31 December	-	14,775

21. LOAN RECEIVABLES

Revolving loan receivables	244,485	-
Vehicle loan receivables	159,705	287,796
Personal/Business loan receivables	340,403	-
Gross loan receivables	744,593	287,796
Less : Provision for collective impairment (Note 21.2)	(853)	(828)
	743,740	286,968

21.2 Movement in collective impairment losses

Opening balance as at 01st January	828	863
Charge/ (reversal) to income statement	25	(35)
Closing balance as at 31 December	853	828

22. LEASE RECEIVABLES

At Amortised cost

Gross Lease receivables	18,434,605	12,012,660
Less: Unearned income	(4,427,228)	(2,683,679)
Less: VAT suspense	(5,164)	(4,998)
Less: Prepaid rentals	(340)	(1,095)
Less: Provision for collective impairment(Note 22.3)	(149,983)	(92,158)
Total Lease receivables (Note 22.1 & 22.2)	13,851,890	9,230,730

Lease receivables include receivables amounting to Rs.9,104,307,271/- (2015- Rs.4,949,818,531/-) that have been assigned under securitization & term loan funding arrangement.

Notes to the Financial Statements

As at 31 December 2016	1 Year	1- 5 Year	More than 5 Year	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

22.1

Lease receivables (Net of VAT suspense and prepaid rentals)	5,970,058	12,392,143	66,899	18,429,100
Less: Unearned income	(1,983,106)	(2,440,405)	(3,717)	(4,427,228)
	3,986,952	9,951,738	63,182	14,001,872
Less: Provision for collective impairment	(43,639)	(105,624)	(719)	(149,983)
	3,943,313	9,846,114	62,463	13,851,890

As at 31 December 2015	1 Year	1- 5 Year	More than 5 Year	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

22.2

Lease receivables (Net of VAT suspense and prepaid rentals)	3,750,866	8,160,761	94,939	12,006,567
Less: Unearned income	(1,178,381)	(1,500,788)	(4,510)	(2,683,679)
	2,572,485	6,659,973	90,429	9,322,887
Less: Provision for collective impairment	(28,747)	(62,630)	(781)	(92,158)
	2,543,738	6,597,343	89,649	9,230,730

As at 31 December	2016	2015
	Rs. '000	Rs. '000

22.3 Movement in collective impairment losses

Opening balance as at 01st January	92,158	124,483
Charge/ (reversal) to income statement	54,645	(32,511)
Written off during the year	-	-
Other movements	3,180	186
Closing balance as at 31 December	149,983	92,158

23. HIRE PURCHASE RECEIVABLES

Gross Hire purchase receivables	1,017,828	2,642,026
Less: Unearned income	(139,965)	(504,610)
Less: Prepaid rentals	-	-
Less: Provision for collective impairment(Note 23.3)	(40,303)	(53,845)
Total Hire purchase receivables (Note 23.1 & 23.2)	837,560	2,083,571

Hire purchase receivables include receivables amounting to Rs.219,801/- (2015-Rs.2,076,068,672/-) that have been assigned under a securitization funding arrangement.

As at 31 December 2016	1 Year	1- 5 Year	More than 5 Year	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

23.1

Gross Hire purchase receivables	586,922	430,833	73	1,017,828
Less: Unearned income	(100,542)	(39,391)	(32)	(139,965)
	486,380	391,442	41	877,863
Less: Provision for collective impairment	(22,378)	(17,925)	-	(40,303)
	464,002	373,517	41	837,560

As at 31 December 2015	1 Year	1- 5 Year	More than 5 Year	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

23.2

Gross Hire purchase receivables	1,246,025	1,396,001	-	2,642,026
Less: Unearned income	(314,556)	(190,054)	-	(504,610)
	931,469	1,205,947	-	2,137,416
Less: Provision for collective impairment	(25,286)	(28,559)	-	(53,845)
	906,183	1,177,388	-	2,083,571

	2016	2015
	Rs. '000	Rs. '000

23.3 Movement in collective impairment losses

Opening balance as at 01st January	53,845	61,909
Charge/ (reversal) to income statement	(9,424)	(8,080)
Written off during the year	-	-
Other movements	(4,118)	16
Closing balance as at 31 December	40,303	53,845

Notes to the Financial Statements

As at 31 December 2016
Rs. '000 2015
Rs. '000

24. OTHER ASSETS

Financial Assets

Reposessed stock	137,890	129,847
Less: Provision for Reposessed stock	(137,890)	(129,847)
Insurance premium receivable	100,163	82,386
Less: Provision for insurance premium receivable	(2,926)	(3,202)
Staff loan	81,899	71,848
Less: Staff loan fair value adjustment	(6,466)	-
Insurance commission receivable	11,541	12,661
Other financial assets	12,928	4,834
	197,139	168,527

Non Financial Assets

Pre paid expenses	34,980	22,436
Pre-paid staff cost	6,466	-
Advance payments	5,553	15,069
Inventories	3,035	2,982
Taxes receivable	29,906	10,527
Other non financial assets	14,569	14,876
	94,509	65,890
	291,648	234,417

24.1 Movement in provision for reposessed stock

As at 31 December 2016	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Impairment charges at the beginning of the year	Other movements	Provision for impairment-charge/ (reversal) during the Year	Impairment charges at the end of the year

Repossession stock				
Lease	94,503	-	6,028	100,531
Hire Purchase	29,973	-	1,210	31,183
Loan	4,881	-	39	4,920
Factoring	490	-	766	1,256
	129,847	-	8,043	137,890

As at 31 December 2015	Rs. '000 Impairment charges at the beginning of the year	Rs. '000 Other movements	Rs. '000 Provision for impairment- charge/ (reversal) during the Year	Rs. '000 Impairment charges at the end of the year
Repossession stock				
Lease	62,583	-	31,920	94,503
Hire Purchase	15,398	(13)	14,588	29,973
Loan	3,721	-	1,160	4,881
Factoring	366	-	124	490
	82,067	(13)	47,793	129,847

As at 31 December	2016 Rs. '000	2015 Rs. '000
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25. FINANCIAL INSTRUMENTS - AVAILABLE FOR SALE

Credit Information Bureau - Unquoted	56	56
	56	56

Unquoted available for sale investments are recorded at cost, since there is no market value for these investments and the company intends to hold them for the long run.

As at 31 December	2016 Rs. '000	2015 Rs. '000
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26. FINANCIAL INVESTMENTS- HELD TO MATURITY

Government debt securities-Treasury bonds	4,288	4,274
	4,288	4,274

Notes to the Financial Statements

	Balance as at 31.12.2015 Rs. '000	Additions Rs. '000	Disposals Rs. '000	Balance as at 31.12.2016 Rs. '000
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27. PROPERTY, PLANT AND EQUIPMENT

27.1 Cost/Valuation

Freehold Land	-	204,079	-	204,079
Fixtures	66,593	42,810	-	109,403
Office furniture	19,686	5,382	-	25,068
Office equipment	48,863	7,627	-	56,490
Motor vehicles	21,750	-	(4,310)	17,440
Computer equipment	50,174	17,751	-	67,925
Total Value of Depreciable Assets	207,066	277,649	(4,310)	480,405

	Balance as At 31.12.2015 Rs. '000	Charge for the year Rs. '000	Disposals Rs. '000	Balance as at 31.12.2016 Rs. '000
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27.2 Accumulated Depreciation

Freehold Land	-	-	-	-
Fixtures	23,101	18,680	-	41,781
Office furniture	9,362	2,886	-	12,248
Office equipment	15,518	7,208	-	22,726
Motor vehicles	9,807	5,148	(2,268)	12,687
Computer equipment	24,581	8,251	-	32,832
	82,369	42,173	(2,268)	122,274

	2016 Rs. '000	2015 Rs. '000
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27.3 Net book values

Freehold Land	204,079	-
Fixtures	67,622	43,492
Office furniture	12,820	10,324
Office equipment	33,764	33,345
Motor vehicles	4,753	11,943
Computer equipment	35,093	25,593
	358,131	124,697
Total carrying amount of Property, Plant & Equipment	358,131	124,697

27.4 During the financial year, the Company acquired Property, plant & equipment to the aggregate value of Rs.277.65 Million (2015 Rs.52.34 Million).

Cost of fully depreciated assets of the Company which are still in use as at 31 December 2016 is Rs.32.14 Million (2015 - Rs.23.17 Million).

As at 31 December **2016** **2015**

27.5 The useful lives of the assets is estimated as follows;

Fixtures	05 Years	05 Years
Furniture & fittings	6.67 Years	6.67 Years
Office equipments	6.67 Years	6.67 Years
Motor vehicles	08 Years	08 Years
Computer equipments	06 Years	06 Years

27.6 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 depreciation and subsequent accumulated impairment losses. The independent valuers provide the fair value of land and buildings once in three years according to the Company policy. Therefore the fair value exist in the recent valuation(25 January 2016) which was carried out by professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard-SLFRS 13(Fair Value Measurement) less subsequent accumulated depreciation and impairment losses considered as the fair value exist as at the reporting date(31 December 2016).

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 2016	-
Acquisition	204,079
Changes in fair value	-
Balance at 31 December 2016	204,079

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.

Notes to the Financial Statements

Valuation technique	Significant unobservable inputs	Range (weighted average) 2016
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Market Comparable Method	Estimated price per perch	Rs.3 Million-Rs.10 Million
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	2016 Rs. '000	2015 Rs. '000
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28. INTANGIBLE ASSETS

Cost as at 01 January	45,081	40,203
Additions and improvements	1,353	4,879
Cost as at 31 December	46,434	45,082
Amortisation as at 01 January	30,192	23,106
Amortisation for the year	7,753	7,087
Accumulated amortisation as at 31 December	37,945	30,193
Net book value as at 31 December	8,489	14,889

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs.1.35 million (2015 - Rs.4.88 million). Cost of fully depreciated assets of the Company as at 31 December 2016 is Rs. 17.20 Million (2015 - Rs. 14.66 Million). useful life of the above is estimated as 4 years.

As at 31 December	2016 Rs. '000	2015 Rs. '000
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29. DEBT ISSUED AND OTHER BORROWED FUNDS

Loans (29.1)	10,572,006	9,805,127
Securitisations	-	99,486
Commercial papers	-	206
Debentures (29.2)	3,615,260	1,020,602
	14,187,266	10,925,421

The company has not had any default of principal, interest or other breaches with regard to any liability during 2015 & 2016.

As at 31 December	Period	Amortised cost	
		2016 Rs'000	2015 Rs'000
29.1 Loans - on terms			
Short term loans			
Sampath Bank PLC	01 Month	-	427
Hatton National Bank PLC	03 Months	653,124	802,513
Muslim Commercial Bank	03 Months	203,212	-
Nations Trust Bank PLC	03 Months	704,332	200,953
Seylan Bank PLC	03 Months	-	300,986
Union Bank PLC	03 Months	254,050	-
		1,814,718	1,304,879
Long term loans			
Sampath Bank PLC	60 Months	2,128,239	2,770,787
Commercial Bank PLC	60 Months	1,759,822	1,597,262
Hatton National Bank PLC	60 Months	976,702	1,533,629
Nations Trust Bank PLC	60 Months	240,210	365,132
Seylan Bank PLC	60 Months	2,471,005	1,566,629
Union Bank PLC	60 Months	928,314	666,810
Muslim Commercial Bank	60 Months	252,996	-
		8,757,288	8,500,248
		10,572,006	9,805,127

The above short term loans and long term loans were institution wise aggregated values as at 31 December 2016 & 31 December 2015.

As at 31 December 2016	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
	29.1.1 Loans - on maturity		
Short term loans and long term loans payable	4,910,295	5,661,711	10,572,006
	4,910,295	5,661,711	10,572,006

Notes to the Financial Statements

As at 31 December	2016 Rs'000	2015 Rs'000
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29.2 Redeemable debentures - movement

Balance as at 01st January	1,000,000	1,259,000
Debentures issued	2,500,000	-
Debentures redeemed	-	(259,000)
	3,500,000	1,000,000
Interest payable	206,193	130,350
Interest paid	(90,933)	(109,748)
Balance as at 31st December	3,615,260	1,020,602

As at 31 December 2016	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
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29.2.1 Redeemable debentures - maturity

Debentures payable	115,260	3,500,000	3,615,260
	115,260	3,500,000	3,615,260

	No. of Debentures	Issue Date	Maturity Date	Rate of interest	Amortised cost	
					2016 Rs'000	2015 Rs'000

29.2.2 Details of debentures issued

Rated unsecured subordinated redeemable debentures	10,000,000	24-Dec-14	24-Dec-19	8.90%	1,022,027	1,020,602
Rated unsecured senior redeemable debentures						
Type A	14,219,900	20-Sep-16	20-Sep-19	13.00%	1,474,156	-
Type B	10,780,100	20-Sep-16	20-Sep-21	13.50%	1,119,077	-
					3,615,260	1,020,602

As at 31 December	2016 Rs'000	2015 Rs'000
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30. OTHER PAYABLES

Financial Liabilities

Vendor payable	356,462	311,629
Insurance premium payable	80,017	66,822
Other financial liabilities	54,423	42,827
	490,902	421,278

Non Financial Liabilities

VAT payable	2,016	4,084
Other taxes payable	55,377	38,151
Accrued expenses	18,968	14,760
Deposit insurance premium	381	151
Deferred guarantee income	47	-
Other non financial liabilities	27,906	30,497
	104,695	87,643
	595,597	508,921

31. INCOME TAXATION PAYABLE

As at beginning of the year	75,663	111,179
Less: Tax paid	(105,409)	(169,503)
Adjustment (ESC/WHT/Notional Tax etc.)	(28,233)	(7,549)
Provision for the year (Note 12)	119,236	141,536
As at the end of the year	61,257	75,663

31.1 Notional tax credit on secondary market transactions

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 2016 and the notional tax credit amounts to Rs.7.54 Million (2015-Rs.3.9 Million).

Notes to the Financial Statements

32. DEFERRED TAX LIABILITIES/(ASSETS)

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

	Temporary Differences		Income Statement		OCI	
	2016 Rs'000	2015 Rs'000	2016 Rs'000	2015 Rs'000	2016 Rs'000	2015 Rs'000
Deferred Tax Liability						
Capital allowances for tax purposes	662,276	382,677	279,599	218,008	-	-
	662,276	382,677				
Deferred Tax Assets						
Defined benefit plans-Income Statement	3,979	3,814	(165)	(1,113)	-	-
Defined benefit plans-OCI	2,464	1,578	-	-	886	770
Tax losses	447,024	226,753	(220,271)	(171,530)	-	-
Unclaimed provisions	38,721	48,226	9,505	(12,272)	-	-
	492,188	280,371				
Deferred income tax charge/(reversal)			68,668	33,093	886	770
Net Deferred Tax Liability	170,088	102,306				

33. RETIREMENT BENEFIT OBLIGATIONS

An actuarial valuation of the gratuity fund of the Company was carried out as at 31 December 2016 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).

As at 31 December	2016 Rs'000	2015 Rs'000
33.1 Defined benefit obligation reconciliation		
Balance as at 01st January	19,259	12,535
Amount recognised in the income statement (33.2)	6,784	4,308
Amounts recognised in other comprehensive income (33.3)	3,165	2,750
Benefits paid by the plan	(6,195)	(334)
Balance as at 31st December	23,013	19,259
33.2 Amount recognised in the Income Statement		
Current service cost for the year	4,897	3,243
Interest on the defined benefit liability	1,887	1,065
Total amount recognised in income statement	6,784	4,308
33.3 Amounts recognised in Other Comprehensive Income (OCI)		
Liability (gains)/losses due to changes in assumptions	(42)	(34)
Liability experience (gains)/losses arising during the year	3,207	2,784
Total amount recognised in OCI	3,165	2,750

As at 31 December 2016 2015

33.4 Assumptions

Discount rate	12.00%	9.80%
Future salary increment rate	11.00%	8.80%
Mortality	GA 1983 Mortality Table	GA 1983 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 11.2 years. (2015: 11.3 years)

33.5 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 Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

Variable	Rate Change	2016		2015	
		Sensitivity Effect on Financial Position- Increase/(Decrease) in the Liability (Rs. Mn.)	Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)	Sensitivity Effect on Financial Position- Increase/(Decrease) in the Liability (Rs. Mn.)	Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)
Discount rate	1.00%	(2.60 Million)	2.60 Million	(2.10 Million)	2.10 Million
Discount rate	-1.00%	3.06 Million	(3.06 Million)	2.48 Million	(2.48 Million)
Salary Increment rate	1.00%	3.01 Million	(3.01 Million)	2.43 Million	(2.43 Million)
Salary Increment rate	-1.00%	(2.60 Million)	2.60 Million	(2.10 Million)	2.10 Million

	2016		2015	
	No. of shares	Rs.000	No. of shares	Rs.000

34. STATED CAPITAL

Issued and Fully Paid-Ordinary shares

Ordinary shares as at 01st January	52,500,000	525,000	52,500,000	525,000
Issued during the year	-	-	-	-
Scrip dividend	1,624,726	51,975	-	-
Ordinary shares as at 31st December	54,124,726	576,975	52,500,000	525,000

The total amount received by the Company or due and payable to the Company in respect of the issue and calls of the shares are referred to as stated capital. 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.

Notes to the Financial Statements

35. STATUTORY RESERVE FUND

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 as Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 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.

	2016 Rs.000	2015 Rs.000
Balance as at 01st January	70,059	50,832
Transfer during the year	16,363	19,227
Balance as at 31st December	86,422	70,059

36. 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.

37. 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.

Financial Assets-Available for Sale

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.

As at 31 December

2016

2015

	Fair value measurement using			Fair value measurement using			Total	Total
	Carrying value	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)		
FINANCIAL ASSETS								
Factoring receivables	1,979,243	-	1,972,828	-	1,972,828	1,157,136	-	1,142,664
Gold loan receivables	1,768,922	-	1,760,925	-	1,760,925	770,839	-	764,658
Loan receivables	743,740	-	697,999	-	697,999	286,968	-	222,443
Lease receivables	13,851,890	-	13,662,826	-	13,662,826	9,230,730	-	9,233,482
Financial investments- Held to Maturity	4,288	-	3,857	-	3,857	4,274	-	4,166
Financial instruments- available for sale	56	-	-	56	56	56	-	56
Hire purchase receivables	837,560	-	864,967	-	864,967	2,083,571	-	2,278,537
TOTAL FINANCIAL ASSETS	19,185,699	-	18,963,402	56	18,963,458	13,533,574	-	13,645,950
FINANCIAL LIABILITIES								
Due to other customers	3,362,662	-	3,456,936	-	3,456,936	1,233,041	-	1,236,295
Debt instruments issued and other borrowed funds	14,187,266	-	14,094,259	-	14,094,259	10,925,421	-	10,905,609
TOTAL FINANCIAL LIABILITIES	17,549,928	-	17,551,195	-	17,551,195	12,158,462	-	12,141,904

There were no transfers between levels of fair value hierarchy during 2016 & 2015.

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 or re-priced to current market rates frequently.

Assets

Cash and bank balances
Securities purchased under repurchase agreements
Other assets

Liabilities

Bank overdraft
Other payables

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38. RISK MANAGEMENT

38.1 Introduction

Risk is inherent in a financial business and such risks are managed through a process of ongoing identification, measurement mitigating measures 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 exposed to credit risk, interest rate risk, liquidity risk, operational risk, regulatory & compliance risk, reputation risk and environmental risk.

38.2 Risk Management Structure

The board is primarily responsible for risk management initiatives. 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. In addition to the Board's representatives, the BIRMC consist of the MD, COO and other key managerial personnel of the company.

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 IRM 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.

The Company's policy is to ensure that risk management processes throughout the Company are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit division discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

38.3 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	Mitigants	
Credit risk	<p>1. Default Risk Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations</p> <p>2. Concentration Risk Credit exposure being concentrated to few sectors/ groups (insufficient diversification)</p>	<ul style="list-style-type: none"> ⊙ 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 <ul style="list-style-type: none"> (a) Provision coverage (b) Net NPL as a % of equity funds 	<ul style="list-style-type: none"> ⊙ Board approved credit policies/ procedures/framework and annual review ⊙ Delegated authority levels/ segregation of duties ⊙ Setting Prudential limits on maximum exposure <ul style="list-style-type: none"> - 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 BRMC strict compliance with CBSL Guidelines
Interest rate risk	Adverse effect on Net Interest Income	<ul style="list-style-type: none"> ⊙ 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 	<ul style="list-style-type: none"> ⊙ 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
Liquidity risk	Inability to meet obligations as they fall due	<ul style="list-style-type: none"> ⊙ Gaps in dynamic liquidity flows ⊙ Stocks of high quality liquid assets 	<ul style="list-style-type: none"> ⊙ Balance sheet ratios

38.4 Credit Risk

Credit risk refers to the risk that borrowers will default on any type of debt by failing to make payments they are obligated to do. Credit risk originates from the fact that counter parties may be unwilling or unable to fulfil their contractual obligations. 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.

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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.

38.4.1 Impairment Assessment

For accounting purposes, the Company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- ⦿ Significant financial difficulty of the customer
- ⦿ A breach of contract such as a default of payment
- ⦿ Where the Company grants the customer a concession due to the customer experiencing financial difficulty
- ⦿ It becomes probable that the customer will enter bankruptcy or encounter other financial difficulties
- ⦿ Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant loan on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract.

Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected pay-out, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows.

Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order 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 in the individual loans assessments.

The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems).

The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Company's overall policy.

As at 31 December

	2016			2015						
	Neither Past Due Nor Impaired Rs.'000	Past Due Not Impaired Rs.'000	Individually Impaired Rs.'000	Total Rs.'000	Percentage Impaired	Neither Past Due Nor Impaired Rs.'000	Past Due Not Impaired Rs.'000	Individually Impaired Rs.'000	Total Rs.'000	Percentage Impaired
38.4.2 Credit Quality by Class of Financial Assets										
Assets										
Cash and bank balances	16	169,333	-	169,333	0.82%	130,070	-	-	130,070	0.89%
Securities purchased under repurchase agreements	17	777,438	-	777,438	3.77%	601,679	-	-	601,679	4.10%
Financial investments held to maturity	26	4,288	-	4,288	0.02%	4,274	-	-	4,274	0.03%
Factoring receivables	18	1,649,482	3,326	2,069,849	10.04%	915,784	17,377	303,676	1,236,836	8.43%
Gold loan receivables	19	1,246,457	534,874	1,781,331	8.64%	517,267	258,043	-	775,309	5.29%
Loan receivables	21	550,616	193,978	744,593	3.61%	133,151	154,644	-	287,795	1.96%
Lease receivables	22	7,706,755	6,295,038	14,001,793	67.89%	6,072,805	3,250,082	-	9,322,887	63.57%
Hire purchase receivables	23	354,451	523,412	877,863	4.26%	934,198	1,203,218	-	2,137,416	14.58%
Other assets	24	197,139	-	197,139	0.96%	168,527	-	-	168,527	1.15%
Financial instruments - available for sale	25	56	-	56	0.00%	56	-	-	56	0.00%
Total		12,656,015	7,550,628	20,623,684	100.00%	9,477,810	4,883,364	303,676	14,664,851	100.00%

38.4.2.1 Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

	2016			2015			Total Rs.'000	Percentage Impaired
	Less than 30 days 2016 Rs.'000	Past Due Not impaired 31 to 60 days 2016 Rs.'000	61 to 90 days 2016 Rs.'000	Less than 30 days 2015 Rs.'000	Past Due Not impaired 31 to 60 days 2015 Rs.'000	61 to 90 days 2015 Rs.'000		
Factoring receivables	3,186	-	-	141	3,327	-	17,377	17,377
Lease receivables	3,662,614	1,678,975	666,210	287,239	6,295,038	1,923,437	190,421	3,250,082
Hire purchase receivable	210,591	182,609	64,841	65,371	523,412	536,586	357,879	1,203,218
Loan receivables	105,317	57,895	24,395	6,371	193,978	37,901	49,537	154,644
Gold loan receivables	329,660	197,503	2,703	5,008	534,873	182,449	71,106	258,043
Total	4,311,368	2,116,982	758,149	364,130	7,550,628	2,680,373	1,254,632	4,883,364

Notes to the Financial Statements

As at 31 December

	2016		2015	
	Maximum Exposure To Credit Risk	Net Exposure	Maximum Exposure To Credit Risk	Net Exposure
	Rs.'000	Rs.'000	Rs.'000	Rs.'000

38.4.3 Maximum Exposure to Credit Risk

Financial Assets

Cash and bank balances	169,333	20,248	130,070	47,237
Securities purchased under repurchase agreements	777,438	-	601,679	-
Factoring receivables	1,979,243	1,828,151	1,157,136	1,154,842
Gold loan receivables	1,768,922	-	770,839	-
Loan receivables	743,740	-	286,968	-
Lease receivables	13,851,890	-	9,230,730	-
Hire purchase receivables	837,560	-	2,083,571	-
Other assets	197,139	121,705	168,527	168,527
Financial instruments available for sale	56	56	56	56
Financial investments held to maturity	4,288	-	4,274	-
Total Financial Assets	20,329,608	1,970,160	14,433,850	1,370,662

38.4.4 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.

	2016		
	Amount		
	subject to		
	netting but		
	do not		
	qualify for	Gross	Net
	offsetting	amount	amount
		Rs.'000	Rs.'000

Financial Assets

Loan receivables	906,705	223,824	682,881
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38.4.5 Analysis of Risk Concentration

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position.

As at 31 December 2016	Manufacturing	Tourism	Agriculture	TradeConstruction	Transport	Services Government	Financial Institutions	Consumers	Others	Total Rs' 000
Cash and bank balances	-	-	-	-	-	-	169,333	-	-	169,333
Securities purchased under repurchase agreements	-	-	-	-	-	777,438	-	-	-	777,438
Factoring receivables	904,686	26,267	360,914	407,402	5,331	59,130	-	-	-	1,979,243
Gold loan receivables	-	-	-	-	-	-	-	1,768,922	-	1,768,922
Loan receivables	109,830	47,126	13,128	112,592	16,611	321,512	37,648	-	3,707	743,740
Lease receivables	301,518	232,134	860,853	3,322,275	469,697	857,650	-	-	7,807,763	13,851,890
Hire purchase receivables	10,548	18,486	40,536	199,875	12,829	7,934	-	-	547,352	837,560
Other assets	-	-	-	-	-	-	-	-	197,139	197,139
Financial instruments available for sale	-	-	-	-	-	-	56	-	-	56
Financial investments held to maturity	-	-	-	-	-	4,288	-	-	-	4,288
	1,326,582	324,013	1,275,431	4,042,144	779,625	1,246,226	207,037	1,768,922	8,555,961	20,329,609
As at 31 December 2015	Manufacturing	Tourism	Agriculture	TradeConstruction	Transport	Services Government	Financial Institutions	Consumers	Others	Total Rs' 000
Cash and bank balances	-	-	-	-	-	-	130,070	-	-	130,070
Securities purchased under repurchase agreements	-	-	-	-	-	601,679	-	-	-	601,679
Factoring receivables	430,355	14,915	50,984	500,296	105,289	55,297	-	-	-	1,157,136
Gold loan receivables	-	-	-	-	-	-	-	770,839	-	770,839
Loan receivables	-	258	270	47,185	512	238,743	-	-	-	286,968
Lease receivables	86,172	89,312	515,385	1,214,630	200,928	5,782,582	-	-	1,148,457	9,230,730
Hire purchase receivables	21,266	29,846	117,696	441,922	31,291	1,220,933	-	-	189,759	2,083,571
Other assets	-	-	-	-	-	-	-	-	168,527	168,527
Financial instruments a available for sale	-	-	-	-	-	-	56	-	-	56
Financial investments held to maturity	-	-	-	-	-	4,274	-	-	-	4,274
	537,793	134,331	684,335	2,204,033	329,844	7,297,555	130,126	770,839	1,506,743	14,433,850

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38.5 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. 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.

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.

Interest rate risk analysis is almost always based on simulating movements in one or more yield curve. The strategy of SLFL 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.

38.5.1 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
	2016	2016	2016
Long Term Loans linked to AWPLR	+1/ (-1)	(62.39)/62.39	3.23%
	+0.5 / (0.5)	(31.19)/31.19	1.62%
	+0.25 / (0.25)	(15.60)/15.60	0.81%
	2015	2015	2015
Long Term Loans linked to AWPLR	+1/ (-1)	(52.94)/52.94	3.29%
	+0.5 / (0.5)	(26.47)/26.47	1.64%
	+0.25 / (0.25)	(13.24)/13.24	0.82%

The base ratio considers in the Interest Rate Sensitivity Analysis is the AWPLR. Since 57.33% (2016) 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.

38.5.2 Interest Rate Risk

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 categorised by the earlier of contractual reprising or maturity dates.

As at 31 December 2016	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	169,333	-	-	-	-	-	169,333
Securities purchased under repurchase agreements	769,338	8,100	-	-	-	-	777,438
Factoring receivables	617,178	1,305,338	56,727	-	-	-	1,979,243
Lease receivables	1,077,942	2,865,370	6,626,659	3,219,455	62,464	-	13,851,890
Hire purchase receivables	166,364	297,637	372,122	1,395	42	-	837,560
Gold loan receivables	1,465,998	301,516	1,408	-	-	-	1,768,922
Loan receivables	93,309	421,916	178,818	49,697	-	-	743,740
Other assets	-	-	-	-	-	197,139	197,139
Financial instruments available for sale	-	-	-	-	56	-	56
Financial investments held to maturity	-	-	-	4,288	-	-	4,288
Total Financial Assets	4,359,462	5,199,877	7,235,734	3,274,835	62,562	197,139	20,329,609
Financial Liabilities							
Bank overdraft	460,494	-	-	-	-	-	460,494
Due to other customers	1,606,962	1,417,347	173,045	165,308	-	-	3,362,662
Debt instruments issued and other borrowed funds	8,263,381	640,185	3,821,790	1,461,910	-	-	14,187,266
Other payables	-	-	-	-	-	490,902	490,902
Total Financial Liabilities	10,330,837	2,057,532	3,994,835	1,627,218	-	490,902	18,501,324
Interest Sensitivity Gap	(5,971,375)	3,142,345	3,240,899	1,647,617	62,562	(293,763)	1,828,285

As at 31 December 2015	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	130,070	-	-	-	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	-	-	-	601,679
Factoring receivables	1,157,136	-	-	-	-	-	1,157,136
Lease receivables	710,828	1,832,910	4,190,037	2,407,306	89,649	-	9,230,730
Hire purchase receivables	337,616	568,626	1,050,589	126,740	-	-	2,083,571
Gold loan receivables	696,731	74,108	-	-	-	-	770,839
Loan receivables	48,054	71,213	139,567	28,134	-	-	286,968
Other Assets	-	-	-	-	-	168,527	168,527
Financial instruments available for sale	-	-	-	-	56	-	56
Financial investments held to maturity	-	-	-	-	4,274	-	4,274
Total Financial Assets	3,682,114	2,546,857	5,380,193	2,562,180	93,979	168,527	14,433,850
Financial Liabilities							
Bank overdraft	163,583	-	-	-	-	-	163,583
Due to other customers	73,519	1,096,559	59,551	3,412	-	-	1,233,041
Debt instruments issued and other borrowed funds	6,885,664	556,055	1,399,600	2,084,102	-	-	10,925,421
Other payables	-	-	-	-	-	421,278	421,278
Total Financial Liabilities	7,122,766	1,652,614	1,459,151	2,087,514	-	421,278	12,743,323
Interest Sensitivity Gap	(3,440,652)	894,243	3,921,042	474,666	93,979	(252,751)	1,690,527

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38.6 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.

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.

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.

38.6.1 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.

38.6.2 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 Companies financial assets and liabilities as at 31 December 2016.

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 2016	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	169,333	-	-	-	-	169,333
Securities purchased under repurchase agreements	859,163	8,800	-	-	-	867,963
Factoring receivables	770,726	1,305,338	56,727	-	-	2,132,791
Lease receivables	1,754,229	4,236,379	8,725,176	3,666,967	66,899	18,449,650
Hire purchase receivables	220,309	376,368	428,615	2,217	73	1,027,582
Gold loan receivables	1,502,862	332,679	1,557	-	-	1,837,098
Loan receivables	96,468	466,189	225,427	55,570	-	843,654
Other assets	114,080	19,556	39,829	41,282	7,185	221,932
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,300	-	4,300
Total Financial Assets	5,487,170	6,745,309	9,477,331	3,770,336	74,214	25,554,360
Financial Liabilities						
Bank overdraft	460,494	-	-	-	-	460,494
Due to other customers	1,701,255	1,562,313	216,956	267,010	-	3,747,534
Debt instruments issued and other borrowed funds	2,891,996	3,375,488	8,521,516	2,595,710	-	17,384,710
Other payables	490,902	-	-	-	-	490,902
Total Financial Liabilities	5,544,647	4,937,801	8,738,472	2,862,720	-	22,083,640
Net Financial Asset/Liabilities	(57,477)	1,807,508	738,859	907,616	74,214	3,470,720
As at 31 December 2015						
	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	130,070	-	-	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	-	-	601,679
Factoring receivables	1,157,136	-	-	-	-	1,157,136
Lease receivables	1,105,559	2,651,400	5,460,855	2,699,907	94,939	12,012,660
Hire purchase receivables	470,128	775,898	1,260,808	135,193	-	2,642,027
Gold loan receivables	709,989	81,608	-	-	-	791,597
Loan receivables	47,785	93,296	170,415	34,628	-	346,124
Other assets	94,613	11,149	22,712	30,252	9,801	168,527
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	-	4,274	4,274
Total Financial Assets	4,316,959	3,613,351	6,914,790	2,899,980	109,070	17,854,150
Financial Liabilities						
Bank overdraft	163,583	-	-	-	-	163,583
Due to other customers	78,355	1,155,965	70,103	5,090	-	1,309,513
Debt instruments issued and other borrowed funds	2,170,338	2,427,700	5,027,517	3,087,244	-	12,712,799
Other payables	421,278	-	-	-	-	421,278
Total Financial Liabilities	2,833,554	3,583,665	5,097,620	3,092,334	-	14,607,173
Net Financial Asset/Liabilities	1,483,405	29,686	1,817,170	(192,354)	109,070	3,246,977

Notes to the Financial Statements

As at 31 December 2016	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
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39. MATURITY ANALYSIS

Assets

Cash and bank balances	169,333	-	-	-	-	169,333
Securities purchased under repurchase agreements	769,338	8,100	-	-	-	777,438
Factoring receivables	617,178	1,305,338	56,727	-	-	1,979,243
Lease receivables	1,077,942	2,865,370	6,626,659	3,219,455	62,464	13,851,890
Hire purchase receivables	166,364	297,637	372,122	1,395	42	837,560
Gold loan receivables	1,465,998	301,516	1,408	-	-	1,768,922
Loan receivables	93,309	421,916	178,818	49,697	-	743,740
Other assets	162,426	35,975	44,478	41,227	7,542	291,648
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,288	-	4,288
Intangible assets	-	-	-	-	8,489	8,489
Property, plant & equipment	-	-	-	-	358,131	358,131
Total Assets	4,521,888	5,235,852	7,280,212	3,316,062	436,724	20,790,738

Liabilities

Bank overdraft	460,494	-	-	-	-	460,494
Due to other customers	1,606,962	1,417,347	173,045	165,308	-	3,362,662
Debt instruments issued and other borrowed funds	2,618,767	2,406,788	6,904,001	2,257,710	-	14,187,266
Other payables	583,773	11,824	-	-	-	595,597
Deferred taxation liability	-	-	-	-	170,088	170,088
Income taxation payable	-	61,257	-	-	-	61,257
Retirement benefit obligations	-	-	-	-	23,013	23,013
Total Liabilities	5,269,996	3,897,216	7,077,046	2,423,018	193,101	18,860,377

As at 31 December 2015	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	130,070	-	-	-	-	130,070
Securities purchased under repurchase agreements	601,679	-	-	-	-	601,679
Factoring receivables	1,157,136	-	-	-	-	1,157,136
Lease receivables	710,828	1,832,910	4,190,037	2,407,306	89,649	9,230,730
Hire purchase receivables	337,616	568,626	1,050,589	126,740	-	2,083,571
Gold loan receivables	696,731	74,108	-	-	-	770,839
Loan receivables	48,054	71,213	139,567	28,134	-	286,968
Other assets	122,531	33,145	33,338	34,729	10,674	234,417
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	-	4,274	4,274
Intangible assets	-	-	-	-	14,889	14,889
Property, plant & equipment	-	-	-	-	124,697	124,697
Total Assets	3,804,645	2,580,002	5,413,531	2,596,909	244,239	14,639,326
Total Liabilities						
Bank overdraft	163,583	-	-	-	-	163,583
Due to other customers	73,519	1,096,559	59,551	3,412	-	1,233,041
Debt instruments issued and other borrowed funds	2,033,579	1,836,285	4,187,415	2,868,142	-	10,925,421
Other payables	488,705	20,216	-	-	-	508,921
Deferred taxation liability	-	-	-	-	102,306	102,306
Income taxation payable	-	75,663	-	-	-	75,663
Retirement benefit obligations	-	-	-	-	19,259	19,259
Total Liabilities	2,759,386	3,028,723	4,246,966	2,871,554	121,565	13,028,194

40.2 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 2016 which would have a material impact on the Financial Statements.

41. EVENTS AFTER THE REPORTING PERIOD

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

42. COMPARATIVE INFORMATION

The comparative information is reclassified wherever necessary to conform to the current year's presentation.

43. 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.

43.1 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.

43.2 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, Chief Executive Officer(CEO) and the KMPs of the Sampath Bank PLC.

Year ended 31 December	2016 Rs'000	2015 Rs'000
Short term employee benefits	12,575	9,018
Post- employment benefits	1,698	-
Directors' fees and expenses	15,345	11,160
Total	29,618	20,178

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.

Notes to the Financial Statements

43.3 Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFMs)

43.3.1 Loans and advances granted

No loans or advances were given to Key Managerial Personnel and their close family members during the year. (2015- Nil).

	2016 Rs'000	2015 Rs'000
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43.3.2 Deposits and Borrowings from KMPs are detailed below.

Term deposits	23,000	-
Interest on term deposits	1,205	-

No borrowing through debt instruments were made or no investments were made by key management personnel during the year 2016. (2015- Nil)

43.4 Transactions, Arrangements and Agreements involving with Related Entities of KMPs

	2016 Rs'000	2015 Rs'000
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43.4.1 Operating Lease

Rent Paid	31,609	20,628
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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.

	2016 Rs'000	2015 Rs'000
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43.4.2 Loans and Advances

Lease facilities	-	910
Interest income earned	58	362

Above lease facility had been granted to a related company of a KMP of the Company.

Revolving credit facilities	95	-
Interest income earned	2,361	-
Service charges earned	1,186	-

Above revolving credit facilities have been granted to a related company of a KMP of the Company.

43.5 Transactions with Group Companies

43.5.1 Sampath Bank PLC

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	2016 Rs'000	2015 Rs'000
Investment in government securities		
Opening Balance	601,679	489,685
Matured during the year	(593,579)	-
Investment during the year	-	111,994
Closing Balance	8,100	601,679
Other receivables	725	-
Short Term Loans		
Opening Balance	-	540,000
Net proceeds from Short Term Loans	-	(540,000)
Closing Balance	-	-
Term Loan		
Opening Balance	2,767,920	713,705
Granted during the year	-	2,500,000
Less : Repayment during the year	(643,140)	(445,785)
Closing Balance	2,124,780	2,767,920
Bank Overdraft	413,230	163,583
Total Accommodation obtained	2,538,010	2,931,503
Less : Favourable balances in current accounts with bank	11,577	4,742
Net Accommodation	2,526,433	2,926,761
Net Accommodation as a percentage of Capital Funds	130.88%	181.66%

Notes to the Financial Statements

43.5.1 Sampath Bank PLC Contd.

Transaction during the year	2016 Rs'000	2015 Rs'000
Expenses		
Interest paid	278,646	153,163
Bank Guarantee fee paid	2,139	6,252
Staff training paid (for facilitating staff training)	32	40
Rent paid (for the branch located within Sampath Bank premises)	1,338	1,374
Broker commission paid (for introduction of investors to the debenture issue in year 2016)	158	-
Fees paid for acting as Bankers to the debentures issued in year 2016.	255	-
Income		
Fee for locating ATM machines at Company's branch premises operations	383	405
Interest on fixed deposits	3,050	-
Interest Income on short term government securities	54,518	38,930

Fixed deposit with Sampath Bank PLC was placed on 13 January 2016 for a one month period and same was withdrawn at maturity. The company has invested in short term government securities through Sampath Bank PLC.

Dividend

Cash Dividend(Gross)	-	31,500
Scrip Dividend(Gross)-(number of shares-1,624,726)	57,750	-

43.5.2 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	2016 Rs'000	2015 Rs'000
Facilities granted	-	953
Other receivables	400	240
Transaction during the year		
Hardware/Software maintenance paid	1,557	4,876
Payment for Software		
Pawning	-	473
Leasing	-	315
Loan Management	-	-
Interest income and other fees for the leasing facilities granted	269	1,159

The Company had the following receivable balances with other Group companies	2016 Rs'000	2015 Rs'000
SC Securities Pvt Ltd	173	45
Sampath Centre Ltd	202	360

44. 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 are 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.

SUPPLEMENTARY INFORMATION

DIRECT ECONOMIC VALUE GENERATED & DISTRIBUTED (G4-EC1)

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 31st December	2016 Rs'000	2015 Rs'000
Direct Economic Value Generated		
Interest income	2,838,995	1,973,921
Fee & Commission income	139,442	86,385
Other income	175,471	152,182
	3,153,908	2,212,489
Economic Value Distributed		
To Depositors and Lenders		
Interest expense	1,435,192	702,678
	1,435,192	702,678
Operating Costs		
Depreciation & amortisation set aside	49,926	32,441
Fee & commission expense	2,139	6,252
Other operating expense	315,184	346,549
	367,249	385,243
To Employees		
Salary & bonus	358,169	271,987
Other benefits	81,548	57,564
	439,718	329,552
Payments to Government		
Income tax expense	119,236	141,536
VAT & NBT on Financial Services	128,500	93,305
Crop insurance levy	3,284	3,702
	251,019	238,543
Payments to Providers of Capital		
Interest to debenture holders	185,591	122,020
Dividend to shareholders	57,750	31,500
	243,341	153,520
Economic Value Distributed		
Economic Value Retained (after payment of dividend to shareholders)	417,390	402,952
	3,153,908	2,212,489

ECONOMIC VALUE ADDITION

	2016 Rs'000	2015 Rs'000
Invested Equity		
Average shareholders' funds	1,771,509	1,476,349
Provision for impairment losses	294,154	245,776
Total	2,065,663	1,722,125
Earnings		
Profit attributable to share holders	325,003	382,546
Net impairment charge for loans & other losses	79,189	49,275
Total	404,192	431,821
Economic cost (12 months average Treasury Bill rate plus 2% risk premium)	11.90%	8.60%
Economic cost	245,814	148,103
Economic value addition	158,378	283,718

The economic value created by the company to its share holders during the period is reflected in this analysis.

Supplementary Information

TEN YEAR SUMMARY

Year ended 31 December	SLFRS/LKAS					SLAS				
	2016 Rs.000	2015 Rs.000	2014 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000	2010 Rs.000	2009 Rs.000	2008 Rs.000	2007 Rs.000
Interest income	2,838,995	1,973,921	1,837,546	1,620,272	1,033,557	555,329	383,463	434,037	628,611	474,779
Interest expenses	(1,620,783)	(824,699)	(778,661)	(899,069)	(600,406)	(210,207)	(133,875)	(370,446)	(583,208)	(410,503)
Net interest income	1,218,212	1,149,223	1,058,885	721,202	433,151	345,122	249,588	63,591	45,403	64,276
Other income	312,774	232,315	139,354	114,085	61,610	44,410	39,608	75,380	86,926	29,558
Operating income	1,530,986	1,381,537	1,198,239	835,287	494,761	389,532	289,196	138,971	132,329	93,834
Operating expenses	(808,111)	(679,804)	(547,930)	(431,028)	(224,412)	(178,366)	(108,517)	(108,609)	(117,477)	(98,375)
Operating profit	722,875	701,733	650,309	404,259	270,349	211,166	180,679	30,362	14,852	(4,541)
Impairment (charges)/reversals/ provision for doubtful debts	(79,189)	(49,275)	(183,217)	(67,237)	(262)	49,324	1,682	(96,055)	(45,192)	(29,488)
VAT & NBT on financial services	(128,500)	(93,305)	(61,536)	(35,740)	(18,100)	(16,207)	(28,574)	(1,852)	(1,142)	-
Profit before taxation	515,186	559,153	405,556	301,281	251,987	244,283	153,787	(67,545)	(31,482)	(34,029)
Tax expenses	(187,904)	(174,629)	(145,379)	(80,301)	(51,752)	(46,268)	(26,477)	(3,738)	(2,313)	(5,487)
Profit for the year	327,282	384,524	260,177	220,980	200,235	198,015	127,311	(71,283)	(33,795)	(39,516)
As at 31 December	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Cash and bank balances	169,333	130,070	88,655	65,378	32,586	29,520	5,322	18,104	18,802	7,436
Securities purchased under repurchase agreements	777,438	601,679	489,685	323,792	5,341	4,045	-	-	-	-
Investments in fixed deposits	-	-	-	-	87,246	-	-	-	-	-
Factoring receivables	1,979,243	1,157,136	996,440	1,052,411	566,584	532,458	210,444	135,392	141,749	222,324
Gold loan receivables	1,768,922	770,839	-	-	-	-	-	-	-	-
Pawning receivables	-	-	456,193	412,753	-	-	-	-	-	-
Loan receivables	743,740	286,968	506,526	568,573	-	-	-	-	-	-
Lease receivables	13,851,890	9,230,730	3,383,597	2,833,933	2,678,159	2,027,939	479,427	570,483	1,004,809	1,226,993
HP receivable	837,560	2,083,571	4,250,553	3,393,593	2,155,384	1,253,322	731,548	917,349	1,308,745	1,154,701
Other assets	662,612	378,334	246,141	335,131	285,219	276,531	373,179	213,140	252,552	228,531
Total Assets	20,790,738	14,639,326	10,417,790	8,985,564	5,810,520	4,123,815	1,799,920	1,854,469	2,726,655	2,839,985

As at 31 December	SLFRS/LKAS										SLAS		
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2009	2008	2007
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Bank overdraft	460,494	163,583	83,921	63,982	62,124	-	32,340	24,128	170,596	158,498	-	-	-
Customer deposits	3,362,662	1,233,041	-	-	-	-	-	-	-	-	-	-	-
Debt issued and other borrowed funds	14,187,266	10,925,421	8,528,922	7,487,912	4,655,317	3,211,375	939,992	1,169,107	2,135,708	2,314,531	-	-	-
Other payables	849,956	706,150	493,303	359,769	216,553	216,198	329,361	275,598	263,433	176,243	-	-	-
Total Liabilities	18,860,377	13,028,194	9,106,146	7,911,662	4,933,994	3,427,573	1,301,693	1,468,833	2,569,737	2,649,272	-	-	-
Shareholders' Funds													
Stated capital	576,975	525,000	525,000	525,000	525,000	525,000	525,000	525,000	225,000	225,000	-	-	-
Statutory reserve fund	86,422	70,059	50,831	37,787	26,738	16,726	7,107	288	288	288	-	-	-
Investment fund reserve	-	-	-	58,488	29,988	12,841	-	-	-	-	-	-	-
Accumulated profit/ (loss)	1,266,964	1,016,073	735,813	452,627	294,800	141,675	(33,880)	(139,653)	(68,370)	(34,575)	-	-	-
Shareholders' Funds	1,930,361	1,611,132	1,311,644	1,073,902	876,526	696,242	498,227	385,635	156,918	190,713	-	-	-
Total Liabilities and Shareholders' Funds	20,790,738	14,639,326	10,417,790	8,985,564	5,810,520	4,123,815	1,799,920	1,854,468	2,726,655	2,839,985	-	-	-
Year ended 31 December	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007			
Growth in Interest Income	44%	7%	13%	57%	86%	45%	-12%	-31%	32%	103%			
Growth Interest Expenses	97%	6%	-13%	50%	186%	57%	-64%	-36%	42%	144%			
Interest Cover ratio	1.32	1.84	1.73	1.59	1.42	2.16	2.15	0.82	0.95	0.92			
Growth in Operating Profit	3%	8%	61%	50%	28%	17%	495%	104%	-427%	-125%			
Growth in Profit After Tax(PAT)	-15%	48%	18%	10%	1%	56%	-279%	111%	-14%	-786%			
Earning/(Loss) Per Share-Rs.	6.14	7.32	4.96	4.21	3.81	3.77	2.42	(1.36)	(1.50)	(1.76)			
Growth in Advances	42%	41%	16%	53%	42%	168%	-12%	-34%	-6%	46%			
Growth in Deposits and Borrowings	46%	43%	14%	60%	47%	230%	-19%	-48%	-7%	37%			
Growth in Shareholder's Funds	20%	23%	22%	23%	26%	40%	29%	146%	-18%	81%			
Debt/Equity Ratio	9.33	7.65	6.57	7.03	5.38	4.61	1.95	3.09	14.70	12.97			
Net Assets per Share-Rs.	35.67	30.69	24.98	20.46	16.70	13.26	9.49	7.35	6.97	8.48			
Return on Average Total Assets	2%	3%	3%	3%	4%	7%	7%	-3%	-1%	-2%			
Return on Average Equity	18%	26%	22%	22%	25%	33%	29%	-26%	-19%	-27%			

Supplementary Information

CAPITAL ADEQUACY

Capital adequacy is one of the measures which ensure the financial soundness of a Company as well as the stability of the Company by measuring the adequacy of its capital to meet unexpected losses arising from various risks, associated with the business of finance, such as credit risk, market risk, liquidity risk, operational risk etc. Hence it provides a buffer against any future, unidentified losses by protecting the depositors and creditors. The capital adequacy assures the stakeholders of the Company that the Company is in a position to survive whatever obligations that may be placed on it.

In accordance with the Finance Companies (Risk weighted capital adequacy ratio) Direction No. 2 of 2006, every finance company shall all times maintain its capital (adjusted for the items that may be specified by the Director of Supervision of Non Bank Financial Institutions of CBSL) at a level not less than 10 percent of its risk weighted assets with the core capital constituting not less than 5 percent of its risk weighted assets, computed as per the instructions issued by the Director. Hence, there are two types of capital measures that are used,

01. Core Capital Ratio (Tier I) : $\frac{\text{Core Capital}}{\text{Risk Weighted Assets}}$
02. Total Risk Weighted Capital Ratio (Tier I+Tier II) : $\frac{\text{Capital Base}}{\text{Risk Weighted Assets}}$

Tier I -Core capital

The Tier I core capital mainly consist of shareholder's equity (paid up shares/common stock) and reserves created or increased by appropriations of retained earnings or other surpluses,i.e.retained profits and other reserves.

Tier II-Supplementary capital

The Tier II supplementary capital representing revaluation reserves approved by CBSL, general provisions and other capital instruments which combine certain characteristics of equity and debt, such as subordinated term debt.

As at 31 December
2016(Rs.000)

Total tier I core capital	1,930,361
Total Capital Base	2,530,361
Total Risk Weighted Assets	18,168,186
Core Capital Ratio (Mandatory ratio-Minimum 5%) (%)	10.62%
Total Risk Weighted Capital Ratio (Mandatory ratio-Minimum 10%) (%)	13.93%

As at 31 December 2016, the Company reported a core capital ratio (Tier I) of 10.62% and a total risk weighted capital adequacy ratio (Tier II) of 13.93% .Both ratios are well above the minimum regulatory requirements set by CBSL. (This ratio set by CBSL for Tier I and Tier I+Tier II capital are minimum of 5% and a minimum of 10% respectively).

CONSTITUENTS OF CAPITAL

Capital	LKR.000
Issued and paid-up ordinary Shares	576,975
Statutory reserve fund	86,422
Published retained profits	1,266,964
Tier I : Core Capital	1,930,361
Tier II : Supplementary Capital	
Eligible Tier II Capital	600,000
Total Capital	2,530,361
Deductions:	
Equity investments in unconsolidated banking and financial subsidiaries	-
Investments in capital of other banks/financial associates	-
Capital base	2,530,361

COMPUTATION OF RISK WEIGHTED ASSETS

	Total	Risk Weight %	LKR.000 Risk weighted Assets
Cash & current accounts with banks	169,579	0%	-
Sri Lanka Government/Central Bank Securities	781,662	0%	-
Loans and Advances :	19,221,464		17,500,532
Against deposits with the Company	7,714	0%	-
Loans against gold and gold jewellery	1,713,218	0%	-
Other loans and advances	17,500,532	100%	17,500,532
Other investments (excluding items deducted from the total capital)	56	100%	56
Fixed assets	366,620	100%	366,620
Other assets	300,978	100%	300,978
Total Assets	20,840,359		18,168,186

*Computation as per CBSL Direction

Supplementary Information

OTHER SUSTAINABILITY DISCLOSURES

Aspect	Siyapatha Finance Context
Environmental impact on products and services (transport/ packaging) (G4-EN30)	Not relevant to the business of Finance Companies
Financial Assistant Received from the Government (G4-EC 4)	As we are a private sector organization, there is no direct or indirect financial assistance received from the government.
Entry Level Wage (G4-EC5)	The company does not distinguish between gender and both males and females of new recruitments are entitled to the same entry level wage. Note: Company's entry-level wage is higher than the minimum wage rate imposed by the relevant regulatory bodies of Sri Lanka
Senior Management (G4-EC6)	This refers to a designated authority in charge of key business units. All senior managers of the company are local hires (Sri Lankans).
Products sold and their packaging materials that are reclaimed (G4-EN 28)	This does not applicable to the industry which we operate in.
Environment Materials (G4-EN 1,2)	Being a service organization, company does not report on weight or volume of materials & recycled materials which are used to operations & packaging.
Biodiversity (G4-EN 11, 12, 13, 14)	Company does not have any operational sites and does not conduct business operations (products and services) adjacent to any protected or restored high biodiversity/ habitats. Further the business activities carried by the company does not have any direct or indirect impact on IUCN red listed species.
Economy (G4-EC2)	Being a Finance Company, climate change does not have significant impact to our business. During the reporting period, no records were maintained to assess the effect of climate change on our business.

OUR APPROACH TO SUSTAINABLE GROWTH

In order to balance profits / assets growth with business sustainability, we have set the following goals to be achieved with next three to five years.

Goal	Status
Developing a sustainability policy	Completed
Designing sustainability framework	In progress
Water, energy efficiency improvements	In progress
Emissions	To be commenced
Affluent / waste management *	In progress
Strengthening supplier screening process (Labour)	In progress
Strengthening supplier screening process	In progress
Maintenance of grievances records	To be commenced

* We have not yet commenced the quantification process

Completed 
 In progress 
 To be commenced 

GRI INDEX

GRI Indicator	GRI Disclosure Description	Page Reference
STRATEGY AND ANALYSIS		
G4-1	Statement from the highest governance body	18-21
G4-2	A description of key impacts, risks, and opportunities	136-140*
ORGANIZATIONAL PROFILE		
G4-3	Name of the organization	Inner back cover
G4-4	Primary brands, products and services	33-37
G4-5	Location of the organization's headquarters	Inner back cover
G4-6	Number of countries where the organization operates	Inner back cover
G4-7	Nature of ownership and legal form	Inner back cover
G4-8	Markets served	42, Inner back cover
G4-9	Scale of the organization	49,179
G4-10	Workforce	49*
G4-11	Total employees covered by collective bargaining agreements	58
G4-12	Organization's supply management procedures	45-46
G4-13	Significant changes during the reporting period	41
G4-14	Application of the precautionary principle	38
G4-15	Details of externally developed economic, environmental and social charters, principles, or other initiatives	4
G4-16	Memberships of associations	Inner back cover
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	Entities representing the consolidated performance	161
G4-18	Process for defining report content and aspect boundaries	4
G4-19	Material aspects	7-8
G4-20	Aspect boundaries within the Company	7-8
G4-21	Aspect boundaries outside the Company	7-8
G4-22	Effects of any restatements	4
G4-23	Significant changes from previous reporting period	4

* Partially reported

GRI Indicator	GRI Disclosure Description	Page Reference
STAKEHOLDER ENGAGEMENT		
G4-24	Stakeholder groups who engage by the organization	23
G4-25	Basis for identification and selection of stakeholders	23
G4-26	Organization's approach to stakeholder engagement	23-25
G4-27	"Key topics and concerns raised by stakeholders and the Bank's response to these key topics and concerns"	23-25
REPORT PROFILE		
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G4-29	Date of most recent previous report	4
G4-30	Reporting cycle	4
G4-31	Contact point for questions regarding the report or its content	4
G4-32	"In Accordance" option selected	4,226-231
G4-33	Assurance	4,232-233
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G4-34	Governance structure including committees responsible for decision making on economic, environmental and social impacts	78-79
G4-38	Composition of the highest governance body and its committees	64-67
G4-39	The chair of the highest governance body is also an executive officer	64
ETHICS AND INTEGRITY		
G4-56	"Values, principles, standards and norms of behaviour such as codes of conduct"	60
G4 Specific Standard Disclosures		
ECONOMIC PERFORMANCE		
G4-EC1	Direct economic value generated and distributed	218-219
G4-EC2	Risks and opportunities posed by climate change	224
G4-EC3	Coverage of the Company's defined benefit plan obligations	173
G4-EC4	Financial assistance received from Government	224
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G4-EC5	Standard entry level wage by gender	224
G4-EC6	Senior management who hired from local community	224

GRI Index

GRI Indicator	GRI Disclosure Description	Page Reference
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G4-EN1	Materials use to produce primary products	224-225
G4-EN2	Recycling mechanisms	224-225
ENERGY		
G4-EN3	Direct energy consumption	225
WATER		
G4-EN8	Total water withdrawal by source	225
BIODIVERSITY		
G4-EN11	"Owned operational sites owned, leased, managed in, or adjacent to protected areas and areas of high Biodiversity value outside protected areas"	224
G4-EN12	"Significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas"	224
G4-EN13	Habitats protected or restored	224
G4-EN14	"IUCN red list species and national conservation list species with habitats in areas affected by operations"	224
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G4-EN23	Total weight of waste by type and disposal method	225
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GRI Indicator	GRI Disclosure Description	Page Reference
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G4-LA2	Benefits provided to full time employees	57
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LABOUR/MANAGEMENT RELATIONS		
G4-LA4	"Notice periods on operational changes specified in collective agreements"	53
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G4-LA6	Occupational diseases, lost days and absenteeism	58
G4-LA7	"Workers with high incidence or high risk of diseases related to their occupation"	58
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G4-LA9	Training and education for employees	60*
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G4-LA12	Diversity and equality of committees	49
EQUAL REMUNERATION FOR WOMEN AND MEN		
G4-LA13	Remuneration for women and men	60
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G4-LA14	Labour screening practices for suppliers	46
LABOUR PRACTICES GRIEVANCE MECHANISMS		
G4-LA16	"Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms"	58
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* Partially reported

GRI Index

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G4-HR6	"Measures taken to the elimination of all forms of forced or compulsory labour"	50*
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G4-SO8	"Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations"	43
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G4-SO11	"Grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms"	43

* Partially reported

GRI Indicator	GRI Disclosure Description	Page Reference
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CUSTOMER HEALTH AND SAFETY		
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G4-PR2	Health and safety compliance	38
PRODUCT AND SERVICE LABELLING		
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MARKETING COMMUNICATIONS		
G4-PR6	Banned or disputed products	38
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INDEPENDENT ASSURANCE REPORT



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INDEPENDENT ASSURANCE REPORT TO SIYAPATHA FINANCE PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED IN THE INTEGRATED ANNUAL REPORT- 2016

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 indicators in the annual report- 2016 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 218-219 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines (for GRI Index pages).

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 ("CASL").

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 G4 '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 sustaining 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 G4 'In accordance' - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated 09 March 2017. 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 CASL.

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:

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

Principal T P M Ruberu FCA FCCA

A member firm of Ernst & Young Global Limited

- ⦿ 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 2016.
- ⦿ Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 '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.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- ⦿ The information on financial performance as specified on page 218-219 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 December 2016.
- ⦿ 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 GRI-G4-'In accordance' Core Sustainability Reporting Guidelines.

R. M. S. + Partners

Chartered Accountants
13 March 2017
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.

Amortization

The systematic allocation of the depreciable amount of an asset over its useful life.

Amortised Cost

The amount at which the financial asset or 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.

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.

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 recognised 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 Yield

Dividend earned per share as a percentage of its market value.

E

Earnings per Share

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.

Glossary of Financial Terms

Effective Tax Rate

Provision for taxation expressed as a percentage of Profit Before Tax.

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, favourable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorised 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-honoured 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 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.

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 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.

Glossary of Financial Terms

L

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 intended to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

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

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.

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.

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.

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 settle 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 prorated 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

Profit after tax expressed as a percentage of average assets

Return on Equity

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);

Sri Lanka Accounting Standards (LKAS); and

Interpretations adopted by the Council of ICASL (IFRIC and SIC).

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.

Glossary of Financial Terms

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 12th Annual General Meeting of Siyapatha Finance PLC will be held on 28th March 2017 at 9.30 a.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 2016 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. M. A. Abeynaike as a Director under Articles 24(8) of the Articles of Association of the Company.
- (4) To re-elect Mr. S. G. Wijesinha as a Director under Articles 24(8) of the Articles of Association of the Company.
- (5) To elect Mr. K. M. S. P. Herath as a Director in accordance with the Article 24(2) of the articles of Association of the Company.
- (6) To declare a Scrip dividend of Rs. 1.21 per share for the financial year 2016 and if thought fit, to pass the following resolution by way of an Ordinary Resolution.

"It is hereby resolved that a Scrip Dividend of Rs. 1.21 per share for the financial year 2016 be payable as follows;

Rs. 1.21 per share be distributed in the form of a scrip dividend amounting to a total sum of Rupees Sixty Five Million Four Hundred Ninety Thousand Nine Hundred and Eighteen and 46 cents (Rs. 65,490,918.46) and the Scrip Dividend be subject to a dividend tax at the rate of 10%. The shares issued in the scrip dividend shall be valued at Rs. 35.67 per share which results in one (01) Share being issued for each existing 32.75 Shares. Consequently the total number of shares to be issued under the scrip dividend shall be 1,652,420 Ordinary Shares."

- (7) 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
Company Secretary

7th March 2017

PROXY FORM

I/We.....
of.....

Being a member/s of Siyapatha Finance PLC hereby appoint

Mr. M.Y.A. Perera of No 370 F/2, Lake Road, Averihena, Hokandara (south)	failing him
Mr. M. A. Abeynaike of No 81, 6/6, Ward Place, Colombo 07	failing him
Mr. K.M.S.P. Herath of No.428/56, Eden Gardens, Samagi Mawatha, Hokandara-South	failing him
Mr. S. G. Wijesinha of No 146/8, Havelock Road, Colombo 05	failing him
Mr. C. P. Palansuriya of No 118/1, Dr. N M Perera Mawatha, Colombo 08	failing him
Mr. P.M. A. Sirimane of 159/7, Rampart Road, Etul Kotte	failing him
Dr. H.S.D. Soysa of No 197/3, Lauries Lane, Colombo 04	failing him
Mr. W.M.P.L De Alwis of No 40/4 Park Road Colombo 05	failing him
Mr. R. Samaranayake of No.51/A, Weerapuran Appu Mawatha, Lakshapathiya, Moratuwa	failing him
Mr. L. T. Ranwala of No.70/2, Sri Maha Vihara Road, Kalubowila, Dehiwala	failing him

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 March 2017 at 9.30 a.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 31.12.2016	<input type="checkbox"/>	<input type="checkbox"/>
(2) To re-elect Mr. C. P. Palansuriya as a Director under Articles 24(8) of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
(3) To re-elect Mr. M. A. Abeynaike as a Director under Articles 24(8) of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
(4) To re-elect Mr. S. G. Wijesinha as a Director under Articles 24(8) of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
(5) To elect Mr. K. M. S. P. Herath as a Director in accordance with the Article 24(2) of the Articles of Association of the company	<input type="checkbox"/>	<input type="checkbox"/>
(6) To declare the recommended Scrip Dividend of Rs.1.21 per share for the Financial Year 2016 along with the Ordinary Resolution set out in the Notice convening the meeting.	<input type="checkbox"/>	<input type="checkbox"/>
(7) 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.	<input type="checkbox"/>	<input type="checkbox"/>

Mark your preference with 'X'

Signed day of2017.

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 authorised 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;

Company Secretary
Siyapatha Finance PLC
No. 110, Sir James Peiris Mawatha,
4th Floor – Sampath Centre Building
Colombo 02.

NOTES

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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) with a negative outlook.

PRIMARY BRANDS, PRODUCTS AND SERVICES

Please refer Integrated Management Discussion and Analysis Section

LOCATION OF HEAD QUARTERS

No.46/12, Nawam Mawatha, Colombo 02.

REGISTERED OFFICE

No.110, Sir James Peiris Mawatha, Colombo 02

OPERATING COUNTRIES

Operations are limited to Sri Lanka

OWNERSHIP

Siyapatha Finance PLC is a fully owned subsidiary of Sampath Bank PLC. Siyapatha Finance PLC does not have any subsidiaries established.

LEGAL FORM

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. The status of the Company was changed and Siyapatha Finance Limited was converted to Siyapatha Finance PLC upon listing in Colombo Stock Exchange on 31st December 2014.

BOARD OF DIRECTORS:

Name	Description
Mr. M Y A Perera	Chairman, Non-Independent, Non-Executive Director
Mr. M A Abeynaike	Deputy Chairman, Independent, Non-Executive Director
Mr. K M S P Herath	Managing Director (Appointed w.e.f. 05.04.2016)
Mr. C P Palansuriya	Non-Independent, Non-Executive Director
Mr. S G Wijesinha	Independent, Non-Executive Director
Mr. W M P L De Alwis	Non-Independent, Non-Executive Director
Dr. H S D Soysa	Independent, Non-Executive Director
Mr. P M A Sirimane	Independent, Non-Executive Director
Mr. R Samaranayake	Non-Independent, Non-Executive Director
Mr. L T Ranwala	Non-Independent, Non-Executive Director

AUDITORS

Ernst & Young, Chartered Accountants
No.201, De Seram Place, Colombo 10,
Sri Lanka.
Tel: +94112463500
Fax:+94112697369

LAWYERS

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 Developments Bank PLC
Seylan Bank PLC
Deutsche Bank AG
Muslim Commercial Bank

MEMBERSHIPS

Sri Lanka Leasing Association
Finance Houses Association of Sri Lanka.
National Chamber of Commerce
Employers Federation of Ceylon (EFC)

MARKETS SERVED

Our operations are spread across the island covering all nine provinces. Our primary market segments are individual customers, SMEs and corporate clients.

SIGNIFICANT CHANGES DURING THE REPORTING PERIOD:

There are no significant changes during the reporting period.

