

Future Ready



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Siyapatha Finance

(Finance Company of Sampath Bank Group)

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Innovation +

Dedication =

*Future
Ready*

By leveraging technology we hope to deepen our affiliation with our customers elevating our relationship to a partnership.

This enduring partnership with our customers is powerful as we walk along with them offering innovative financial solutions.

Enduring dedication, commitment and engagement represent the unique DNA of Team Siyapatha. Over the years we have re-invented the ideals of customer centricity by serving the community with zealous dedication.

We strive to create sustainable value through unparalleled growth levels to our stakeholders applying ethical business practices with prudent and far-sighted strategies.

With **innovation + dedication** the hallmark characteristics of our success - we are indeed **future ready!**

About Us



Siyapatha Finance PLC is the largest fully owned subsidiary of Sampath Bank PLC. The Company in its 13 year journey has evolved to be a key-player in the Non-Bank Financial Institution (NBFI) sector in Sri Lanka.

Incorporated in March 2005 as a specialized leasing company, the Company was licensed as a Registered Finance Company under the Monetary Board of Central Bank of Sri Lanka in 2013. Thereafter the Company was renamed as 'Siyapatha Finance'.

Today, the Company has an islandwide presence in 26 key cities and towns offering a wide spectrum of financial solutions across a broad segment of customers. The 'Siyapatha Team' consists of 540 vibrant and passionate staff members.

The Company has over the years earned its trust and reliability as a financial institution backed by the strength and stability of Sri Lanka's premier bank - Sampath Bank.

The Company has earned a credit rating of A-(lka) with a negative outlook by Fitch Ratings Lanka Ltd, which is an internationally acclaimed rating agency.



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Siyapatha Finance

(Finance Company of Sampath Bank Group)

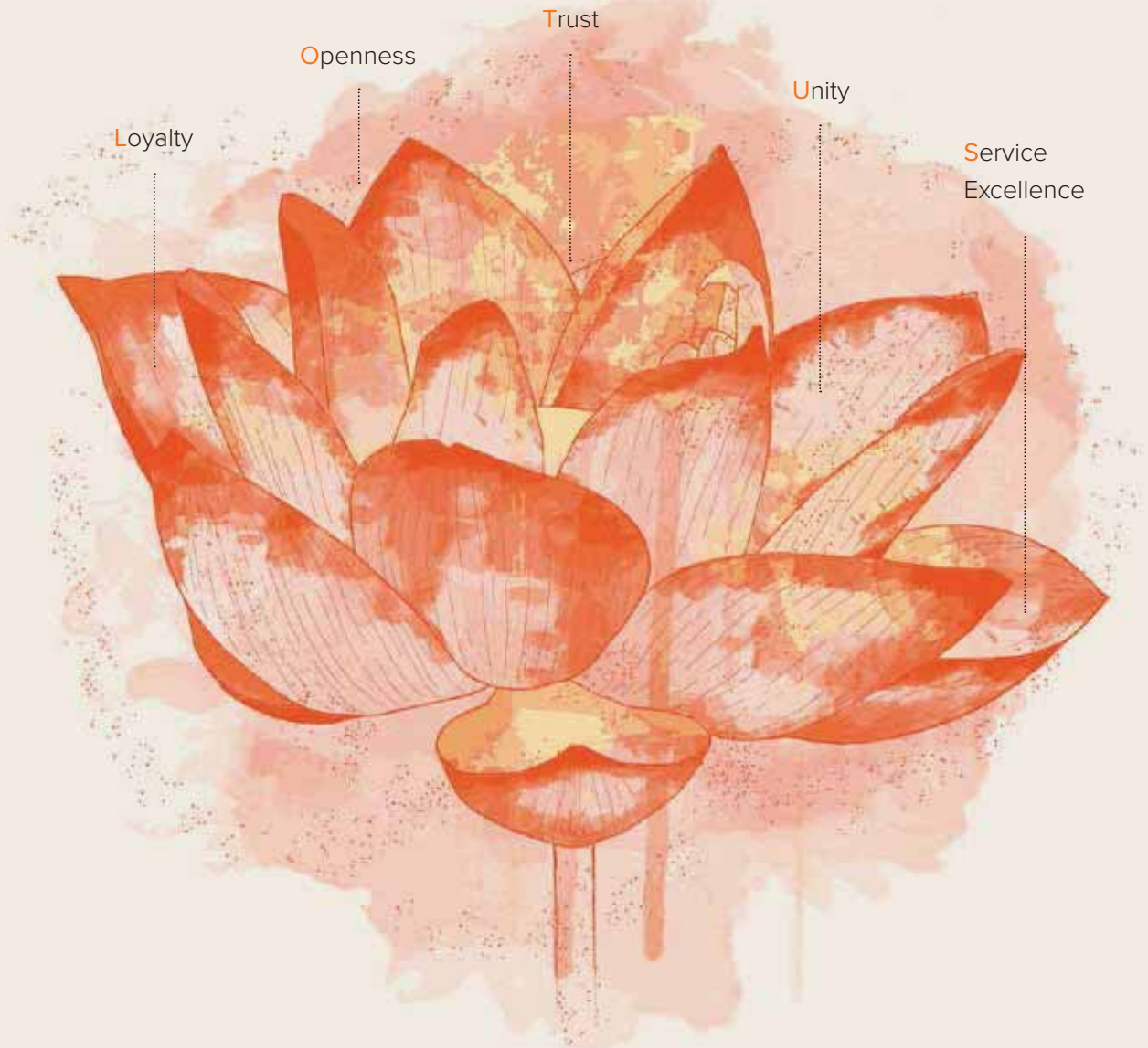
Vision

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

Mission

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

Our Values



Profile of the Report

It is a great pleasure to present our fourth integrated annual report detailing our comprehensive business performance for the financial year ended 31st December 2017. The vital information disseminated concisely through this report will be a source of information while providing an in-depth review of the strategic framework, governance and performance of the Company with a view to increasing trust, confidence & transparency amongst the stakeholders.

SCOPE & BOUNDARIES

This report covers the financial and non financial information of Siyapatha Finance PLC for the year commencing 1st January to 31st December 2017. Comprehensive coverage of operational results, a financial performance review, risk management and compliance framework, an overview of the Company’s corporate governance aspects and sustainability practices are amongst the important matters under discussion.

Reporting Framework of our Annual Report is stated below.

Financial Reporting	▶	Sri Lanka Accounting Standards Companies Act No. 07 of 2007
Sustainability Reporting	▶	GRI Standards
Narrative Reporting	▶	Integrated Reporting Framework by International Integrated Reporting Council which depicts the value creation through six capital components, namely; financial, manufactured, intellectual, human, natural and social & relationship capital
Corporate Governance	▶	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 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
Other References	▶	‘Preparer’s Guide to Integrated Corporate Reporting’ by the Institute of Chartered Accountants of Sri Lanka

Material aspect boundaries are based on the internal and external assessment and detailed in page 16 Such aspects were based on the factors which can substantially affect the value creation process to stakeholders.

There was no re-statement of the financial or non-financial information previously presented. Most recently published previous Annual Report was for the financial year ended 31st December 2016.



FORWARD LOOKING STATEMENTS

Efforts have been taken to provide a balanced review on the aspects reported while ensuring the completeness and accuracy. Management discussion reports contained herein constitute statements based on our interpretation of ongoing and foreseeable future events. Expert professional advice may be sought by readers prior to drawing conclusions on any such aspects reported.

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

EXTERNAL ASSURANCE

Opinion on Financial Statements was provided by External Auditors, Messrs. Ernst & Young, Chartered Accountants. Please refer the page 171 for the independent Auditors' report received. Verification of compliance aspects pertaining to GRI standards sustainability indicators, in conformity with “In accordance – Core” disclosure requirements were also made by Messrs. Ernst & Young, and independent assurance report is given in pages 254 to 255.

The Board of Directors and management do not have any relationship with Messers. Ernst & Young apart from the engagement as its External Auditor of Siyapatha Finance PLC.

RESPONSIBILITY

The Company acknowledges the responsibility of the integrity and the content of the Annual Report. We have collectively reviewed the Annual Report in conjunction with the assurance reports obtained for financial and non-financial information.

FEEDBACK

Please route your feedback, queries or comments on our Annual Report to the contact person mentioned below. We value your suggestions to continuously enhance the quality and content of the Annual Report issued by us.

Please contact:

Head of Finance
 Siyapatha Finance PLC
 No 46/12, Nawam Mawatha,
 Colombo 2.

Tel: 0117 605605 Fax: 0117 605606



Navigating this Report

LEADERSHIP REVIEWS A review of strategy, performance, governance, challenges and opportunities in 2017 is detailed by the Chairman’s Message (pages 18 to 21) & Managing Director’s Review (pages 22 to 27).

STEWARDSHIP
 Corporate Governance (pages 94 to 132) and Risk Management (147 to 155)



OUR PERFORMANCE
 Refer pages 34 to 37 for the review of financial performance.

OUR STRATEGIC FRAMEWORK
 Strategic focus & direction in the Management Discussion & Analysis, Value Creation to Stakeholders contained in the Capital Reports (pages 34 to 72).

Milestones in *Our*
Journey



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Siyapatha Finance**

(Finance Company of Sampath Bank Group)


2005	Incorporation of the Company & obtained 'Specialised Leasing Company' status
	Opening of branches in Kandy & Matara
2010	Appointment of new corporate management
2013	Received the 'Registered Finance Company' status
	Rebranded as "Siyapatha Finance PLC"
	Launch of gold financing business
	Expanded the branch network to 18 branches
2014	Appointment of new Chairman to Board of Directors
	Issuance of its first listed, rated, unsecured, subordinated, redeemable debentures to the value of LKR 1 Bn
2015	Commence deposit mobilization from the general public
2016	Appointment of new Chairman and Managing Director
	Launch of personal & business Loans
	Issuance of second listed, rated, unsecured, senior, redeemable debentures to the value of LKR 2.5 Bn
	Relocation of Negombo Branch.
	Expansion of branch network to 24 branches, Opened branches in Gampaha, Kalutara, Trincomalee and Wellawatte.
2017	Addition of two branches to the Branch network - Galle & Panadura
	Relocation of Kurunegala Metro Branch
	Issuance of rated, unsecured, subordinated, redeemable debentures to the value LKR 1 Bn
	Launch of first corporate campaign along with corporate logo and tagline 'Trust Assured'
	Taking initiatives to implement "Finacle Core Banking System" to become the first in the NBFi sector 2017
	Appointment of new Chairman and two Directors to the Board of Directors

Financial Highlights

	2017	2016	Change (%)
Operating results for the year(LKR Mn)			
Gross income	5,066.05	3,153.91	60.63%
Total operating income	2,301.08	1,530.99	50.30%
Impairment charges/(reversal) for loans and other losses	236.74	79.19	198.96%
Operating expenses	1,048.29	808.11	29.72%
Operating profit before VAT & NBT on financial services	1,016.05	643.69	57.85%
VAT & NBT on financial services	230.81	128.50	79.62%
Taxation	286.38	187.90	52.41%
Profit for the year	498.86	327.28	52.43%
Assets & liabilities (LKR Mn)			
Customer deposits	9,333.62	3,362.66	177.57%
Loans and receivables	27,313.30	19,181.35	42.40%
Total assets	29,810.58	20,790.74	43.38%
Total liabilities	27,332.30	18,860.38	44.92%
Shareholders' funds	2,478.28	1,930.36	28.38%
Profitability ratios (%)			
Net interest margin	7.01%	6.78%	3.39%
Return on Assets (ROA)	1.91%	1.81%	5.52%
Return on Equity (ROE)	23.05%	18.35%	25.61%
Investor information			
Net asset value per share (LKR)	44.43	34.61	28.38%
Earnings per share (LKR)	8.94	5.87	52.43%
Dividend per share (LKR)	1.25	1.21	3.31%
Gross dividend (LKR.Mn)	69.72	65.49	6.46%
Regulatory ratios (%)			
Capital adequacy ratio			
Tier I (minimum ratio of 5%)	9.44%	10.62%	-11.11%
Tier I + Tier II (minimum ratio of 10%)	14.16%	13.93%	1.65%
Statutory liquid asset ratio (minimum ratio of 7.50%)	7.75%	7.56%	2.51%
Other key indicators			
Non performing loan ratio (Gross)	2.91%	2.72%	6.99%
Impairment allowance on gross loans and receivables	1.88%	1.51%	24.41%
Cost to income ratio	45.56%	52.78%	-13.69%
Debt/Equity (Times)	4.95	4.92	0.61%
Interest cover (Times)	1.28	1.32	-3.03%
Fitch rating	A-(lka) Negative	A-(lka) Negative	

FINANCIAL ACHIEVEMENTS

	2017	2016	2015	2014	2013
Return on average assets (%)	1.91%	1.81%	2.87%	2.53%	2.64%
Return on average equity (%)	23.05%	18.35%	25.91%	21.83%	21.74%
Growth in profit after tax (%)	52.43%	-14.89%	47.79%	17.74%	10.36%
Growth in assets (%)	43.38%	42.02%	40.52%	15.94%	54.64%
Cost to income ratio (%)	45.56%	52.78%	49.21%	45.73%	51.60%
Capital adequacy ratio (%)					
Tier I (minimum ratio of 5%)	9.44%	10.62%	12.25%	13.95%	12.06%
Tier I + Tier II (minimum ratio of 10%)	14.16%	13.93%	18.34%	20.92%	12.06%

LKR 5.07 BnTotal Revenue  61%**LKR 29.81 Bn**Total Asset Base  43%**LKR 9.33 Bn**Customer Deposit Base  178%**LKR 27.31 Bn**Net Advances Portfolio  42%**LKR 2.48 Bn**Shareholders' Funds  28%**Non - Financial Highlights**

	2017	2016
Financial and Manufactured Capital (LKR'000)		
Direct economic value:		
Generated	5,066,054	3,153,908
Distributed to	4,256,185	2,736,518
– Depositors and borrowers	2,644,284	1,531,782
– Employees	611,373	439,717
– Business partners	139,558	238,134
– Government	382,666	251,020
– Providers of capital	185,497	146,570
Depreciation and amortization	56,063	49,926
Impairment charges	236,743	79,189
Retained	809,869	417,390
Economic value added	466,960	158,378
Human Capital		
Total employees	540	390
New employee hires	231	146
Attrition rate (%)	16%	20%
Return to work after maternity leave (%)	100%	100%
Total training hours		
– Male	11,378	4,164
– Female	4,208	1,540
Skill development programmes	112	71
Percentage of employees receiving performance evaluations	100%	100%
Natural Capital		
Energy Consumption - LKR (Head Office only)	4,081,087	4,563,823
Waste Disposal *		
– Paper KG	2,101	-

* Introduced in February 2017

Total Employees **2017** 540  **2016** 390

Deposit Customers **2017** 1,759  **2016** 756

Training Hours **2017** 15,586  **2016** 5,704

Value Creating Business Model


VISION

To be the most innovative & trusted premier financial services provider


VALUES

CAPITAL COMPONENTS

Value inputs from organization



FINANCIAL CAPITAL
(refer page 34)



INTELLECTUAL CAPITAL
(refer page 38)

Value inputs from external environment




MANUFACTURED CAPITAL
(refer page 40)



HUMAN CAPITAL
(refer page 44)



SOCIAL & RELATIONSHIP CAPITAL
(refer page 58)



NATURAL CAPITAL
(refer page 69)

BUSINESS ACTIVITIES



OPERATING ENVIRONMENT

- Macro economic factors
- Fiscal & monetary policy
- Changes in demographics
- Technology platforms
- Impact of climate change

Deposit & Lending Products

- Advances
- Lease & Hire Purchase
- Business & Personal Loans
- Factoring
- Gold Financing Products

CORPORATE GOVERNANCE, RISK AND CAPITAL MANAGEMENT

SUPPORT SERVICES

MISSION

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

STRATEGIC FOCUS

- FOCUS ON GROWTH
- PRODUCT EXPANSION
- ENHANCING IT CAPABILITIES
- PERFORMANCE DRIVEN WORKFORCE
- SUSTAINABILITY

Deposits

Fixed Deposits

Savings Products

GENERATING SHARED VALUE TO OUR STAKEHOLDERS

SHAREHOLDERS

Profit after tax	LKR 498.86 Mn
Dividend per share	LKR 1.25
Net asset value per share	LKR 44.43

Strong governance & risk management

CUSTOMERS

Total value of accomodations granted (net)	LKR 8.13 Bn
Total value of deposits placed (net)	LKR 5.97 Bn

Ethical lending practices

EMPLOYEES

Remuneration to employees	LKR 611.37 Mn
Career development (Training)	112
No of employees	540

To be the preferred employer of choice

GOVERNMENT & REGULATORS

Taxes paid to government	LKR 538.90 Mn
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Compliant with applicable laws and regulations

COMMUNITY

Engaging in CSR projects aimed at the differently abled, development of schools and promoting entrepreneurial activity within the community.

Responding to natural disasters with relief programs.

ENVIRONMENT

Promoting environmentally friendly, conscious lending practices

Introducing initiatives to reduce the usage of paper through e-communication methods.

Engaging with Our Stakeholders

The stakeholders of Siyapatha Finance PLC (Siyapatha) are identified as individuals and groups who are affected by the business operations and products offered by the Company. Some of these stakeholders have a profound impact on the external environment within which the Company operates.

As an organization whose primary objective is creating value for all our stakeholders in the longer term, we ensure that we regularly engage with our stakeholders as a means of understanding their aspirations and

needs to identify how to add value to the relationships with the objective of building a sustainable relationship.

Input from these stakeholder engagements are then utilized in the formulation of our business strategies and business goals. This enables the Company to create value for our stakeholders based on their requirements. The Company engages with stakeholders' on different platforms and at diverse levels, depending on stakeholders influence on the Company's business activities. The Company has in place formal mechanisms for engaging with each stakeholder group for which

responsibility is disseminated to distinct functions across the organization.

We foresee stakeholders' influence on the organization as the key to our future success. A success that can only be built on mutual trust. A success which will enable the Company to identify unrealized opportunities not only for improving our business model and strategies, but also for driving innovation. We see our stakeholders as the key to driving our organization towards meeting our goal of sustainable value creation.

The Company identifies these stakeholders as directly impacting our business operation.



Siyapatha’s Stakeholder Engagement Process



Based on our engagement with stakeholders over the years, Siyapatha has also identified key areas of prioritization by the Company to resolve these general stakeholder concerns.

The stakeholder engagement mechanisms identified by the Company, together with the frequency of engagement and the general concerns of stakeholders is shown below.

Shareholders and Investors

Management Philosophy : Ensure Long Term Value Creation & Sustainable Wealth Maximization to Shareholders

Engagement Mechanism	Frequency of Engagement	Concerns of Stakeholders	Our Response
Annual General Meeting	Annual	Financial performance and position	Ensure sound financial performance and a sustainable return on investment
Extra Ordinary General Meeting	Whenever necessary	Ethical practices	Safeguarding the quality of assets
Annual Reports	Annual	Good governance	Maintain reputation and credibility
Interim Financial Statements	Quarterly	Going concern aspect	Transparent and responsible stewardship
Corporate website	24/7	Return on Equity (ROE)	Shareholder views on key governance and policy matters
Disclosures and announcement on CSE	Whenever necessary		

Engaging with Our Stakeholders

Engagement Mechanism	Frequency of Engagement	Concerns of Stakeholders	Our Response
Directives and circulars	Whenever necessary	Rewards and recognition	Management of recruitment, retention and turnover
Open door policy	Regularly	Ethical practices Work life balance	Performance and reward management (Competitive rewards & benefits, performance-based pay etc)
Grievance procedure	Regularly	Job security	Training & development
Departmental meetings	Regularly	Health and safety in working environment	Value driven corporate culture
Training	Regularly	Employee development	Effective handling of grievances
Get-togethers/events	Regularly		Maintain high level occupation, health & safety standards
Intranet	24/7		Ethical employment practices Employee well-being and work - life balance
ATL & BTL Promotions, SMS Alerts	Regularly	Satisfaction on services offering	Maintain service excellence Effective marketing communications
Social media interactions	Regularly	Innovative products Increase in customer communication channels	Affordability of services and convenience Maintain data security and customer Privacy
Customer call centre	Regularly	Promotions on services	Financial education and literacy
Customer surveys via telephone calls	Regularly	Customer recognition and rewards	Effective complaint resolution process
Feedback from visiting customers	Regularly		
Customer complaint handling mechanism	Regularly		
Official website	Regularly		

Engagement Mechanism	Frequency of Engagement	Concerns of Stakeholders	Our Response
Interactions through Purchasing policy	Regularly	Going concern of the Company	Encourage fair and equitable procurement practices
Feedback forms	Whenever necessary	Regular payments	Multiple supplier registration process
Meetings	Regularly	Continuous communication and ethical behaviour	Promoting transparent and ethically responsible business practices
On-site visits and meetings	Periodically		
Directives/Circulars/ Guidelines and other operating instructions	Whenever necessary	Compliance with rules and regulations	Compliance with regulations
Press releases	Whenever necessary	Taxes paying to government	On time submission of regulatory returns and payments
Meetings and forums	Whenever necessary	Policy decisions affecting the industry	Rectification of actions on supervisory concern
Periodic returns	As specified		Response and contribution at meetings/ forums
On-site and off-site supervision	Regularly & whenever necessary		
Training programmes	Regularly		
Press releases, Conferences and media briefings	Whenever necessary	Building of social welfare	Community engagement through CSR activities
Public events	Whenever necessary	Projects to save environment	Transparency and good governance
Delivery channels	Regularly	Community empowerment	ethical business conduct
CSR projects	Regularly		

Materiality Assessment

Siyapatha Finance PLC (Siyapatha) has identified areas of priority which will have an impact on the value creation and sustainability of the Company's business operations in the long term. Through the process of materiality assessment adopted by Siyapatha, the management has identified that several material topics within the broader economic, environmental and social aspects can positively or negatively impact the Company's operations, if not continuously monitored and measured. Further, the identification of material aspects also takes into consideration the concerns raised by the Company's key stakeholders during the stakeholder engagement process.

In determining material topics, we broadly consider internal and external

information sources. Information is gathered from branch managers' meetings, management discussions, internal policies and directives, which are amongst the main internal information sources. Industry research, reports & articles published by industry analysts and investors, pre and post budget discussions and directives issued by regulatory bodies are vital external information sources.

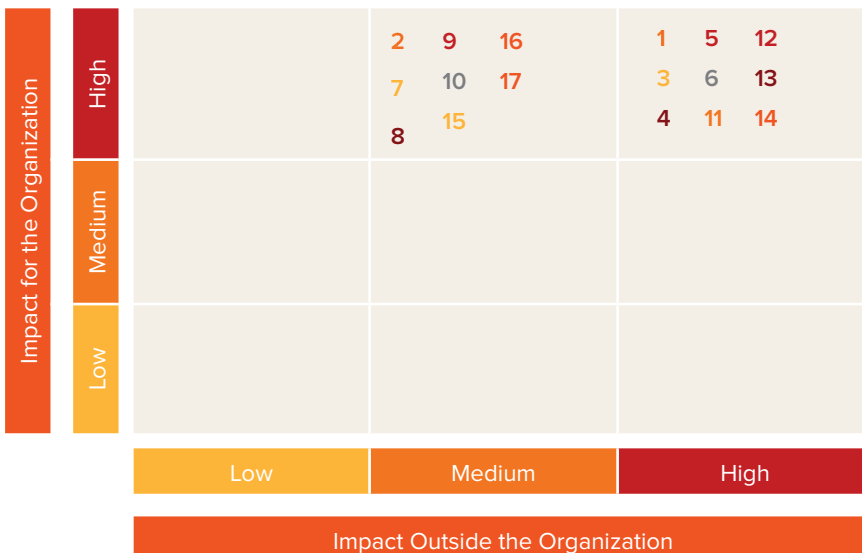
Siyapatha uses a 3-point scale to measure the materiality of topics. These are categorized as High, Medium and Low. Topics categorized as 'high' are continuously monitored and reviewed, while 'medium' category topics are only monitored to ensure compliance and reviewed when required. Those topics categorized

as 'low' are deemed as not being of significant impact to the Company and our stakeholders and are thus only reviewed annually or when there is a need.

The topics categorized as high are disclosed in detailed analysis in the Annual Report, while medium level topics have also been adequately mentioned and discussed. During the year under review, the Company reassess the areas, which are material to the Company. It was observed that certain changes to the material assessment are stemming from the nature of the business the Company is engaged in. However, topics identified as 'low' impact are not captured in detail in this annual report.

	Material Topic	Our Approach	Applicability to GRI Standards	Impact on Internal Stakeholders	Impact on External Stakeholders
1	Profitability & Financial Performance	Ensure long term profitability and financial stability in an intensely competitive sector.	GRI 201 GRI 202	High	High
2	Anti-Corruption Practices	Promulgating ethical business practices and a culture of honesty and integrity.	GRI 205	High	Medium
3	Business Continuity Planning	Building our capabilities to ensure that an uninterrupted service is maintained in the event of any eventuality.	N/A	High	High
4	Brand/Equity	Proving the trust, stability and assurance.	N/A	High	High
5	Customer Access	Enhance visibility and customer reach with a presence in the key locations of Sri Lanka	N/A	High	High
6	Speedy and efficient service levels	Expand IT capabilities and putting the right processes in place	N/A	High	High
7	Employee Relationships	Fostering a good work place with an engaging staff cadre aligned towards the business objectives	GRI 402 GRI 403	High	Medium
8	Staff Recruitment & Retention	Attract and retain the best staff by applying right assessment techniques	GRI 202 GRI 401 GRI 405	High	Medium

	Material Topic	Our Approach	Applicability to GRI Standards	Impact on Internal Stakeholders	Impact on External Stakeholders
9	Training and Development	Enable employees to acquire knowledge and skills essential to be agents of change and introduce innovative business practices.	GRI 404	High	Medium
10	Employee Engagement	Provide recognition for talent and value commitment towards achieving the strategic vision of the Company	N/A	High	Medium
11	Customer Convenience	To address the changing financial needs of customers through our product offerings	N/A	High	High
12	Marketing and Labeling	Rendering fair, equitable, honest service to customers while protecting their interests & the relationship with the Company	GRI 417	High	High
13	Customer Privacy	Enhancing security of IT systems	GRI 418	High	High
14	Managing Complaints	Address and rectify any areas which would lead to issues.	GRI 418	High	High
15	Promoting Financial Inclusivity	Supporting the un-banked segment of the community through our products and services along with geographical reach	N/A	High	Medium
16	Community Development	Engage with communities to uplift and contribute to the wellbeing of society at large.	GRI 413	High	Medium
17	Promoting environmentally friendly lending & business practices	Conscious lending practices	GRI 302	High	Medium



Leadership + focus

Chairman's Message



"The Company achieved significant strides in increasing its asset base, which increased by 43% to reach a remarkable milestone of LKR 29.81 Bn."

Dear Stakeholders,

Having been appointed as the Chairman of Siyapatha Finance PLC on 15th November 2017 it gives me great pleasure to share with you a synopsis of a progressive year.

At the outset let me present an overview of the economic landscape and the Non-Bank Financial Institutions (NBFI) sector performance, which

formed the backdrop to the Company's performance.

During the year 2017, the global economy showed signs of recovery marked by an encouraging growth rate of 3.0%. This confirmed that the economies of advanced and emerging markets across the globe were on the road to recovery.

Sri Lanka's economic growth moderated to 3.7% during the nine months ending September 2017 spurred by the growth in services, manufacturing and large scale infrastructure projects. However, the growth of the agriculture sector was affected significantly due to adverse weather conditions exacerbated by the worst drought in four decades and severe flooding.

Public and private investment spending was affected due to the tight monetary policy stance of the Central Bank as well as the relatively tight fiscal policy stance of the government, which were adopted with the aim of regaining macroeconomic stability. Consumer price inflation increased to 7% mainly due to high food prices due to weather related domestic supply disruptions, revisions to indirect taxes and increased prices of imported commodities.

PERFORMANCE OF THE NON BANK FINANCIAL INSTITUTIONS (NBFI) SECTOR

The year 2017 continued to be a challenging year for NBFI sector, as some of the restrictions placed in 2016 on business of leasing, such as high import duties on vehicle imports and regulatory Loan to Value (LTV) ratio of 70%, continuing in 2017 as well. As a result, the NBFI sector performance was adversely affected during the year

2017. As per the statistics announced by the Central Bank of Sri Lanka, the credit growth in the industry dropped to 9.8% in 2017, as compared to 21% in 2016.

During 2017 the NBFI sector recorded an after tax profit of LKR 17.7 Bn compared to LKR 20.2 Bn in the previous year, reflecting a drop of 12.7%. The net interest margin for the industry too dropped from 7.9% in 2016 to 7.7% in 2017, mainly due to rise in funding cost and competitive loan pricing. The challenging economic environment aggravated by the adverse weather conditions resulted in an increase in the NPA levels for the industry to 6% in 2017, from 5% in 2016.

PERFORMANCE OF SIYAPATHA FINANCE PLC

Siyapatha Finance performed exceptionally well demonstrating a significant growth trajectory in revenue and profitability levels amidst a challenging business environment. Accordingly, the Company achieved a total revenue of LKR 5.07 Bn reflecting a YoY (Year on Year) increase of 61% over the previous year. The Company reported a profit after tax of LKR 498.86 Mn, demonstrating a YoY increase of 52%. These positive performance levels enabled the Company to elevate its position to be the largest subsidiary of the Sampath Bank Group.

The Company achieved significant strides in increasing its asset base, which increased by 43% to reach a remarkable milestone of LKR 29.81 Bn. During the year under review, the Company was able to augment all lending portfolios with significant increases demonstrating resilience and steadfastness of strategies amidst a subdued business environment.

Thereby Siyapatha Finance achieved an overall market share of 2.2% in the NBFI sector, which is a noteworthy milestone in our relatively short journey of 13 years.

The deposit base of the Company also reached a significant landmark of LKR 9.33 Bn. This YoY growth of 178% bears testimony to the trust and confidence garnered since commencing mobilization of funds from the public in 2015.

With prudent lending practices and focused recovery efforts the NPA Ratio was contained at 2.91% despite an increasing trend evident in the NBFI sector with NPA rates moving up to 6%.

The Board has proposed a scrip dividend of LKR 1.25 per share, which will be approved at the next Annual General Meeting to be held on 27th March, 2018.

SETTING THE PLATFORM FOR FUTURE GROWTH

Pivoting on our outstanding performance in 2017, we commenced several new strategic initiatives setting the course for our future direction.

During the year the Company rejuvenated its corporate positioning with a refreshed logo and tagline – 'Trust Assured' with the endorsement 'Finance Company of the Sampath Bank Group'. This strengthened the Siyapatha brand, infusing value propositions of reliability, trust and stability enabling to carve a formidable position in a highly fragmented NBFI sector.

Recognizing the fact that technology places a vital role, we invested in 'Finacle Core Banking' software platform. This IT platform, provides a competitive edge as we would be the

Chairman's Message

"We hope to remain steadfast and resilient in providing relevant financial solutions encompassing the micro and SME segments, focusing on the underbanked segments of rural Sri Lanka."

first NBFIs to possess such a superior IT platform. This requisite technology infrastructure would enable us to serve our customers with an expansive product range and is aligned with our strategic intent to be a mini bank.

We commenced construction of our new corporate headquarters located in Colombo 8 marking a new milestone in our journey. Completion of this strategically located new head office is scheduled by 2020. Customers will be provided with a multitude of benefits, ample parking facilities and ease of access. Featuring state-of-the-art energy efficient "green concept" design elements our new corporate head office would create the right ambience and conducive working environment to our Siyapatha Team.

PROMOTING FINANCIAL INCLUSIVITY

The NBFIs sector is represented by a multitude of players. However, Siyapatha Finance PLC differentiates itself with strength and trust - being a subsidiary of a top - tier commercial bank. This coveted position is available only to a few players in the industry.

We hope to move away from the traditional 'product selling' mindset

to offer a comprehensive range of 'financial solutions' that will fit seamlessly into the daily lives of Sri Lankans. We hope to remain steadfast and resilient in providing relevant financial solutions encompassing the micro and SME segments, focusing on the underbanked segments of rural Sri Lanka.

This unique positioning will provide us the impetus to leverage the strength, expertise, and product breadth of a bank whilst harnessing the flexibility of a finance company. We recognize that this strategy calls for a considerable shift in our business processes, enhancement of competencies of our staff and investing on the right IT platform.

In order to expand our markets we serve, we hope to widen our geographical foot print with aggressive branch expansion thereby serving the rural communities, promoting financial inclusivity.

As the Company sets forth on its evolutionary path we recognize that competencies of our team would need to be aligned and strengthened in line with our strategic path. We will continue to invest in the growth and career development of our staff.

A FOCUS ON STRONG GOVERNANCE

As a subsidiary of one of the leading commercial banks in Sri Lanka, we place significant emphasis on corporate governance and ethics. A strong governance mechanism is embedded in our operations to ensure highest standards of transparency, compliance and risk management strategies.

We abide and comply with 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 along with the Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

A COMMITMENT TO SUSTAINABILITY

We possess a strong ethos on sustainability and are mindful of promulgating environmentally responsible lending practices amongst our customers. Furthermore, we hope to play a significant role in facilitating finance to the underserved segments and providing them with the necessary financial literacy to help them move away from the cycle of poverty. Recognizing the fact that our staff is our main source of long term sustainability we hope to enrich their competencies and levels of engagement.

OUR FUTURE OUTLOOK

As a subsidiary of the most technologically innovative bank in Sri Lanka we are deeply rooted to a tradition of innovation. In line we hope to take the lead in the NBFIs sector by offering financial solutions exploring

digital platforms. This will enable us to be in pace with the digitally savvy customer segment and impending stealth competition.

Our funding strategy per se would focus on diversifying our funding sources. This is particularly important, as we are in an industry exposed to a significant interest rate risk, as a result of a bulk of our funding (borrowings) being at variable interest rates, whereas bulk of our lending is at fixed rates. As such, mobilizing more longer term deposits to reduce our dependency on variable rate borrowings is strategically important. We also hope to venture forth towards foreign funding sources to optimize our cost of funds. Thus cost optimization of our funding base would enable us to pass on the cost advantages through competitive pricing whilst gaining the competitive edge in the market.

CHANGES TO THE BOARD OF DIRECTORS

At this point, I wish to appreciate the valued strategic direction of the outgoing Chairman Mr. Aravinda Perera, who with his visionary leadership steered the Company towards greater heights. I wish to recognize the contribution of the Deputy Chairman, Mr. Mohan Abeynaike who resigned during the year 2017.

Consequently, Mr. Prashantha Lal De Alwis was appointed as the Deputy Chairman of the Company in 2017.

Mr. Sunil Wijesinghe relinquished his duties during the year having served in Board for nine years. Mr. Ranjith Samaranayaka who served as a Non-Executive Non Independent Director retired w.e.f. 08th August 2017 having reached the mandatory age of retirement of 70 years. These two Directors have been associated with the Company during its journey over the years and I thank them for their valued counsel and guidance.

I take this opportunity to welcome on Board two Non-Executive Independent Directors, Mr. P S Cumarathunga and Ms. A Nanayakkara. I am sure that their diverse and extensive exposure would facilitate increased depth of discussion thereby enhancing decision making at the Board.

A NOTE OF APPRECIATION

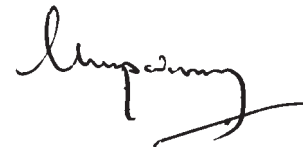
I would like to convey my sincere appreciation to the colleagues on the Board for their valuable support. I wish to thank our loyal customer base who made our remarkable journey possible with their continuous trust and confidence. I extend my appreciation to our business partners, financial institutions who rendered their invaluable support.

I take this opportunity to appreciate the unstinted support of the regulator - the Department of Supervision - Non Bank Financial Institutions of Central Bank of Sri Lanka.

My sincere appreciation also extends to the team Siyapatha led by the Managing Director. Once again they have delivered exceptional performance levels demonstrating their unswerving dedication and ingenuity.

Finally, I would like to offer my sincere appreciation to our parent company, Sampath Bank PLC for their continuous support and guidance.

As we set forth on our evolutionary journey towards excellence, I look forward to your continued support in the future.



Channa Palansuriya
Chairman

05 March 2018

Strategy + efficiency

Managing Director's Review

The financial year 2017 marks a milestone in our evolutionary journey as we recorded the highest ever profit before and after tax in our history, since inception along with continuation of steadfast growth in assets and liabilities. During the year under review, Siyapatha Finance PLC performed exceptionally well in all key parameters of business activity against a backdrop of challenging economic conditions.

Reflecting an impressive growth of 43%, our asset base increased to LKR 29.8 Bn in comparison to the FY 2016. This is well above the market growth rate of 11.8% thereby contributing to enhancing our market share. Liabilities increased to LKR 27.3 Bn mainly attributable to the growth in the fund base inclusive of deposits, borrowings and the issue of debentures in 2017. Shareholders' funds recorded an increase of 28% to LKR 2.48 Bn reflecting an increase of LKR 548 Mn in comparison to the previous year mainly attributed to enhanced retained earnings. Thereby, we were able to exceed the minimum capital of LKR 2 Bn which is the stipulated threshold required for finance companies by 2020.

During the year Siyapatha Finance PLC launched a corporate re-branding campaign to strengthen and revitalize our corporate identity as a member of the Sampath Bank Group. This campaign highlighted our affinity and relationship to our parent Company. This undoubtedly strengthened our positioning as a subsidiary of one of the most respected and established banks in Sri Lanka. In line with this campaign we launched our new logo

and our new corporate tagline "Trust Assured" to establish our own brand identity.

EXTERNAL ENVIRONMENT & CHALLENGES

The Non-Bank Financial Institutions (NBFI) sector witnessed a multitude of challenges posed by depleting margins, decline in vehicle registration due to increase in vehicles prices and new Loan to Value (LTV) regulations leading to slower credit growth within the year. Amidst negative growth across all industries, one of the greatest challenges the NBFI sector faced was eroding asset quality where the industry average of Non-Performing Advances (NPAs) increased to 6% exerting pressure on profitability leading to higher impairment provisions mainly due to challenging environmental conditions worsen by adverse weather patterns.

The supervisory and regulatory framework enacted by the Central Bank of Sri Lanka (CBSL) was further strengthened in 2017 by improving the quality standards of the industry. Tightening the capital requirements of non-bank financial institutions would coerce the industry towards consolidation.

The year also saw the re-enforcement of a wider set of regulations under the Customer Charter, which foresees added transparency in documentation and processes in communication endeavors with stronger policies on customer service standards. We welcome such regulations which would promulgate best practices and ensure

the stability of finance companies in situations of adverse externalities.

OVERALL PERFORMANCE

I am pleased to report that we were able to overcome the challenges posed by market externalities and record an impressive performance for the year under review. We recorded an impressive 61% growth in our revenue from LKR 3,152 Mn in 2016 to LKR 5,065 Mn in 2017 mainly contributed by income from stronger increase in loans and advances portfolio and improved collections. We recorded highest ever Profit before Tax (PBT) of LKR 785 Mn and Profit after Tax (PAT) of LKR 499 Mn compared with LKR 515 Mn and LKR 327 Mn in the previous year respectively. This increase of 52% in PBT and PAT is the pinnacle if this year's performances given the dynamic environment in which company operated.

Our net interest income (NII) grew by 51% from LKR 1.22 Bn to LKR 1.83 Bn from the previous year. Timely re-pricing of assets and liabilities and effective management of funding bases improved the NIM from 6.78% in 2016 to 7.01% in 2017.

Our ROA and ROE were recorded at 1.91% and 23.05% respectively thereby recording highest contribution to the group profits out of the subsidiaries of the Sampath Bank Group.

As a measure to reaffirm our ability to withstand fluctuations in business and reduce our vulnerability in adverse business cycles to our strategy, we



"We recorded an impressive 61% growth in our revenue from LKR 3,152 Mn in 2016 to LKR 5,065 Mn in 2017 mainly contributed by income from stronger increase in loans and advances portfolio and improved collections."

Managing Director's Review

have been adopting a strategy of retaining profits which has had a positive impact. This has enabled us to maintain our capital adequacy ratios well above CBSL's statutory minimum requirements. Resultantly, the shareholder funds of LKR.2.48 Bn reflects a growth of 28% over FY 2016 due to retained earnings. Our Capital Adequacy Ratios were 9.44% and 14.16% for Tier 1 and tier 1+11 respectively, which are well above the regulatory minimum thresholds of 5% and 10%.

ADVANCES PORTFOLIO

The loans and advances grew by 42% from LKR 19.18 Bn to LKR 27.31 Bn during the financial year. This reflects growth rate, which supersedes the industry growth rate of 9.8%. I am happy to announce that increase in our advances portfolio was achieved while maintaining the quality of the portfolio. The growth levels were mainly attributable to the LKR 6.02 Bn increase in the leasing portfolio and increase in loan portfolio from LKR 0.74 Bn to LKR 2.72 Bn during the year.

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

Gold financing demonstrated a healthy growth by LKR 794 Mn, a worthy 45% growth compared to FY 2016. This increase was possible through our range of products catering to business and personal need of the customers.

Factoring portfolio witnessed a decline of LKR.80 Mn in year 2017 mainly due to conscious decision to concentrate more on the other lending products.

Being a finance company with a resolute backing of a giant in the banking industry in Sri Lanka, we demonstrated a sustainable advantage with a low cost of funds and large conversion levels from leases to loans which improves re-pricing abilities at times of increasing interest rates. Pursuing a strong business model and differentiated strategy, we are to resonate with the needs of the consumer.

Improvements in asset quality was key to improving profitability which is reflected in our strong credit processes, which reverberates our remarkable growth recorded from our leasing and loan portfolios. We also embraced a highly improved risk culture, particularly in our front lines which are responsible for accepting risk. Whilst we predict dramatic shifts in the credit cycle, exerting pressure on the non-performing loans, we are confident that Siyapatha Finance is well positioned to manage this vital aspect with the sound progress made during the year. Resultantly, despite the credit growth rate our NPL ratios of gross and net remained well below the industry average of 5.9% and 1.5%. Our gross and NPL ratios were slightly deteriorated from 2.72% to 2.91% and 0.23% to 0.55% respectively.

COST TO INCOME

A healthy cost to income ratio of 45% prevailed during FY 2017 is another milestone achievement, which is a significant improvement from 53% previous year. This positive reduction is mainly attributed to the reduced

cost of operations emanating from rationalization of cost of existing branches along with our special cross functional team's efforts of reviewing cost containment activities to minimize wastage whilst improving overall productivity. Our strategy on eliminating stationery costs by moving towards online processing and e-channel communication substantially reduced costs while improving the effectiveness of timely decisions.

FUNDING BASE

Our funding base comprises of borrowings from banks, deposits from the public and debentures. Since becoming a licensed finance company we commenced mobilizing deposits from the public in 2015.

In 2017 we recorded a gratifying growth of 178% in deposits to LKR 9 Bn well above the industry growth rate of 29.45%. This reflects the success of our strategies in deposit mobilization coupled with the trust and confidence placed by our depositors. With the increase in our deposit base we have managed to reduce our dependency on market related borrowing sources and harness the benefits of having better asset and liability management.

During the year 2017, we were able to successfully raise a sum of LKR 1 Bn through a listed, rated, unsecured, subordinated redeemable debenture issue mainly to maintain the Tier II capital requirement. Through these funding initiatives, we were able to broaden our funding base while minimizing the cost with a view to maintain a higher NIM.

"The Company is in the process of implementing a comprehensive core banking system - Finacle to build up a strong IT platform."

BRANCH EXPANSION

During the year we expanded our geographical footprint by opening 2 new branches. We also relocated our Kurunegala Branch to a strategic location improving visibility and reach. However, our aggressive branch expansion plans were somewhat slowed down due to the factors stemming from the external environment.

During the year we reviewed the operational model of the branches to streamline processes. We hope to introduce a paradigm shift in customer experience and excellence in operations. We believe that strengthening branches with greater autonomy and decentralization would accrue cost benefits and operational efficiencies. The significant changes introduced to the operating models at branches including enhanced supervisory levels with new Branch Operational in Charge (BOI) would improve the operational efficiency at branches and enhancing customer service levels.

TECHNOLOGY PLATFORM

The Company is in the process of implementing a comprehensive core banking system – Finacle to build up a strong IT platform. Thus the Company will be able to transform itself as a robust IT driven solution provider

to extend more benefits to our customers.

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

CORPORATE SOCIAL RESPONSIBILITY

As a finance company with a network of 26 branches, we always believe in community engagements where we share our success with local communities by actively participating in socio economic development activities. In addition to supporting economic development activities by empowering entrepreneurs by adopting environmental friendly lending practices, branch managers are engaged in various social activities under the guidance of the CSR Steering Committee. This included helping the flood victims, supporting the annual religious ceremonies, supporting school development activities and helping in organizing and funding events for differently able communities.

We maintain a closer relationship with all major universities of the country by offering internships for their

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

RISK MANAGEMENT AND COMPLIANCE

Going in tandem with the heightened regulatory requirements and scrutiny over risk management, Siyapatha Finance strengthened its risk management and governance framework.

The Company pursue an integrated approach in setting up the framework for risk management where a balance between risk and return is attained while ensuring compliance to regulatory guidelines set.

The risk assuming functions at the front line are trained and developed to identify risk at the very initial level. Especially credit screening process was further strengthened with extensive training to capture the new products introduced by the Company. In order to mitigate potential adverse effects stemming from people, systems and processors the procedure manuals and policies were further strengthened along with experienced staff members at supervisory roles.

In terms of managing the interest rate risk and liquidity risk, dynamics of the market are monitored closely in order to be ready to reap the benefits or to absorb potential shocks and introducing required adjustments accordingly.

Managing Director's Review

"Our talented and passionate team who serve with dedication and care has been one of the cornerstones of our success."

The management experience of our corporate and senior management represented by experts from the banking and financial services industry ensures high level of oversight in driving the business towards achieving its corporate goals and sustainability agenda. Effective controls and standards were implemented across the business to ensure compliance at all times.

OUR TEAM

Our talented and passionate team who serve with dedication and care has been one of the cornerstones of our success. Over the years we have strengthened our management team with a diverse mix of professionals with varied professional backgrounds, expertise in financial services and banking. This has enabled us to successfully re-engineer our business processes and introduce innovative products.

Training and development is a key area, which we focus on a continuous basis. With our evolutionary change in our business model our staff would need to up skill and gear to offer financial solutions moving away from a conservative product centric approach. Therefore, they would be equipped with the relevant knowledge, expertise and the skills needed to offer the services which are derived by providing the team with local and

overseas training to improve their capacities.

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

The innovative committee formed under the patronage of the Head of HR would continuously review the processes and introduce new ground breaking solutions to our day to day operational aspects making best use of idea generation.

WAY FORWARD

We formulated a Strategic Plan for the three years commencing from 2018 expressing the future aspirations of our stakeholders. Strategy execution is the number one priority of the corporate team considering the fast changing and complex environment by closely monitoring economic, political, social and technological changes and incorporating necessary changes to our planned actions.

Our 'Finacle' enabled strong IT platform would be a business enabler to create a powerful competitive advantage providing cutting edge solutions to customers. As cited earlier, one of our pivotal areas are in transforming our product-centric outlook to that of

providing solutions as a whole in our quest to become a 'one stop shop' for financial services.

We hope to offer innovative value additions to our existing savings, loans and gold financing portfolio embedding a range of benefits to the customer with pricing flexibilities, channel integration etc.

Our product portfolio and delivery channels will continue to grow, supporting customers throughout their life cycles. Product innovation and convenience have been key areas of focus in design and delivery of products facilitating onboarding of customers and positioning Siyapatha for scalable growth.

Deposit growth was particularly convincing as we maintained high levels of customer confidence thereby deepening customer relationships across sectors. We continue to focus on providing value added services to augment our deposit products while offering competitive interest rates. A growing deposit base would enable us to reduce our dependency on bank borrowings thereby optimizing our cost of funds in the medium to long term.

We also plan to introduce a Debit Card and Credit Cards which would enhance the value proposition to our deposit and borrowing customer bases.

As a finance company with a focus on SME lending through leasing, personal and business loans, gold loans and factoring solutions, we hope to pursue the micro customer segment. We envisage serving micro customers with

their specific needs thereby promoting financial inclusivity amongst this segment.

We will continue with our branch expansion drive covering strategic locations and plan to relocate some of the branches for greater convenience to our customers and support business drive.

As a responsible corporate citizen our focus on people and planet is of paramount importance. Over the year we have focused on community engaging CSR initiatives especially at the regional level with the branches in the respective areas taking the lead.

We continue to digitalize internal paper, forms, reports, communications and approval systems to enhance the quality of services and further reduce paper usage to minimize the adverse impacts on the environment by deforestation.

A NOTE OF APPRECIATION

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

I wish to appreciate the guidance and leadership of Mr Aravinda Perera our outgoing Chairman.

I value the wise counsel and leadership of the Board of Directors led by Chairman, Mr Channa Palansuriya and the Chairs of the respective Board Committees.

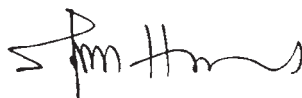
Sincere appreciation is extended to the Chairman and Board of Directors of Sampath Bank PLC who have been a great pillar of support in our journey.

The Governor of the Central Bank, the Director and team of the Supervision Division of the NBFIs of the Central Bank of Sri Lanka has always extended their guidance and advice which is greatly valued. Our business partners consisting of bankers, consultants, suppliers play an integral role and we look forward to a mutually rewarding partnership.

To all the stakeholders of the Company I wish to offer my sincere appreciation in partnering with us.

Team Siyapatha led by the management team, a big thank you for demonstrating professionalism and achieving the objectives with your untiring efforts.

I am sure that together we will continue our momentous journey in achieving greater heights.



Saman Herath
Managing Director

05 March 2018

Future Ready

We offer unparalleled strength to our customers enabling them to achieve their financial aspirations.



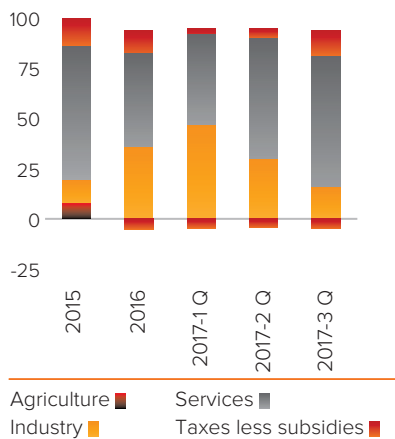
Operating Environment

Macro-Economic Overview

The Sri Lankan economy witnessed a moderate growth of 3.7% during the first nine months ended 30th September 2017. The annual GDP is projected to reach just over 4.0% by the end of 2017.

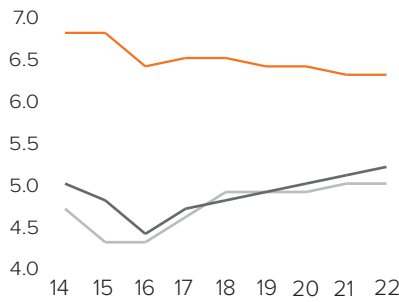
Real GDP growth was primarily driven by the construction sub-sector in industries together with financial services and transportation sub-sectors in services. It is notable that the agricultural sector contributed negatively to economic growth, as in 2016, due to weather related shocks in the earlier part of the year.

Contribution to Real GDP Growth by Sector (%)



According to International Monetary Fund (IMF) estimates Sri Lanka to record annual real growth rates of 5.0% similar to that of other emerging and developing economies in the near to medium term on the back of improvements in fiscal consolidation, modernization of monetary, financial and trade policies together with other structural reforms.

Real GDP Growth (%)



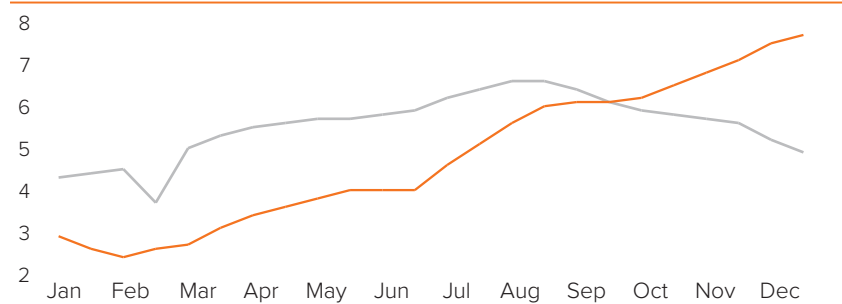
Sri Lanka —
Emerging & developing Asia —
Emerging & developing economies —

INFLATION

Negative spillover effects, costs of disaster recovery and relief packages resulting from adverse weather conditions similar to that of 2016, hampered economic growth in the first half of 2017. A cycle of floods and droughts created supply side shortages in key agricultural produce such as paddy and coconut which led to a sharp rise in local prices and higher import requirements for these commodities amidst rising global market prices.

Core inflation as measured by the National Consumer Price Index was pushed upwards to 4.9% in 2017. However, headline inflation was recorded at 7.7%, significantly higher than in the recent past, on the back of consumer tax revisions and effect on food prices from supply disruptions.

Inflation (%)



NCP — NCPI (Core) —

UNEMPLOYMENT

Sri Lanka continued to maintain its full employment status in 2017 by maintaining the rate of unemployment at 4.2%, lower than 4.5% recorded in 2016.

Following the reduction of agricultural output, the employment mix of the economy too re-balanced with employment in the agricultural sector accounting for 24.3% in 2017 compared to 27.1% in 2016. The corresponding increase was primarily witnessed in the industrial sector where employment increased from 26.8% in 2016 to 29.1% in 2017.

EXTERNAL SECTOR

During 2017 Sri Lanka’s total exports reached USD 11.4 Bn, growing 10.2% YoY primarily driven by the re-instatement of GSP+ status and the uplift of the fisheries export ban to the European Union. Further several key industries recovered from a drop in export value in the recent past particularly tea, rubber and spices on the back of rising market prices.

Sri Lanka’s total imports rose to USD 21.0 Bn, at a rate of 9.4% during 2017. Imports of consumer goods recorded a growth of 4.3%, curtailed mainly by the revision of tariffs imposed on them. Despite a decline in the imports of crude oil by 5.6%, other petroleum imports rose by 23.5% amidst rising crude oil prices thus leading to a 38.2% increase in the value of fuel imports. The resulting trade balance was a net deficit of USD 9.6 Bn, an increase of 8.4% YoY.

Earnings from tourism grew in tandem with growth in arrivals at 3.2% YoY to USD 3.6 Bn supported by 2.1 Mn arrivals. The slow growth of the tourism industry was due to the closure of the Bandaranaike International Airport in the earlier part of the year for a revamp of the runway and also rising global uncertainty.

Inwards remittances from workers’ abroad declined marginally by 1.1% YoY to USD 7.2 Bn reflecting the geo-political uncertainties and subdued economic performance in major remittance originating destinations.

Foreign direct investment, capital inflows, receipt of proceeds from government borrowings and the Extended Fund Facility from the IMF supported Sri Lanka’s balance of payments. Gross official reserves as of the year ending 2017 was recorded at approximately USD 8.0 Bn, an increase of USD 2.0 Bn YoY driven by continuing support from the International Monetary Fund, the lease of the Hambantota Magampura International Port to strategic investors in China etc.

FISCAL SECTOR

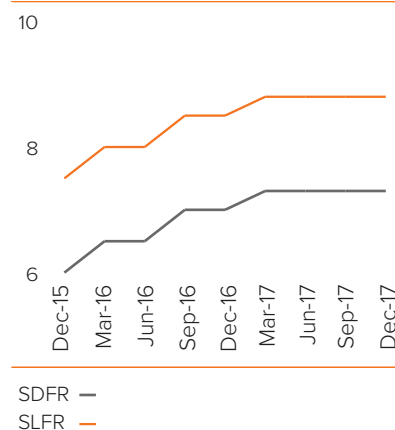
In 2017 the Government witnessed a significant improvement in finances by recording a primary surplus as per preliminary data supported by the advancement of the Government’s fiscal consolidation program. This reflects strongly, despite a challenging environment in terms of disaster-related costs such as relief packages and also delays in implementing certain revenue based measures.

The Government wishes to further strengthen its fiscal consolidation efforts, which was re-affirmed by the passing of the new Inland Revenue Act that is expected to be in force from 1 April 2018. Furthermore, several policy developments such as the Liability Management Act, efficient energy pricing formulas, improvement of governance and revamp of State Owned Entity operations are expected to ease pressure on Government finances in the forthcoming periods and create space for public investment and social spending whilst minimizing public debt levels.

MONETARY POLICY

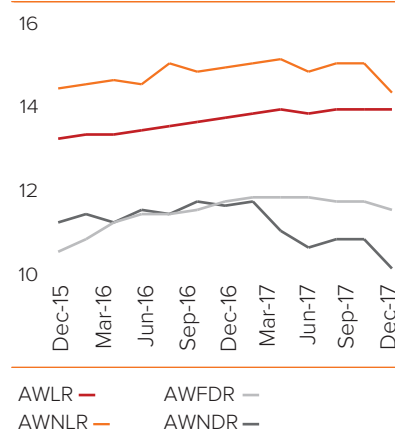
In 2017, the Monetary Board maintained a tighter policy stance adopted during 2016 in order to contain inflationary pressures and manage credit growth at sustainable levels. As such, policy rates – Standing Deposit Facility Rate and Standing Lending Facility Rate were increased by 25 basis points in the first quarter of the year to 7.25% and 8.75% respectively. The Statutory Reserve Ratio remained at the rate of 7.50%.

Policy Rates (%)



Market lending and deposit rates remained broadly constant during the year whilst declining marginally during the latter part of the year.

Lending and Deposit Rates (%)



Operating Environment

MONEY SUPPLY AND CREDIT GROWTH

Credit growth moderated during the year in line with the expectations of the Monetary Board with credit to the private sector growing by 14.7% YoY and net credit to the government growing 10.0% YoY in 2017 in contrast to 21.9% and 12.1% respectively in 2016. Furthermore money supply in the economy too responded in line with the expectations of the Monetary Board as growth subdued to desirable levels.

PERFORMANCE OF THE NBFi SECTOR

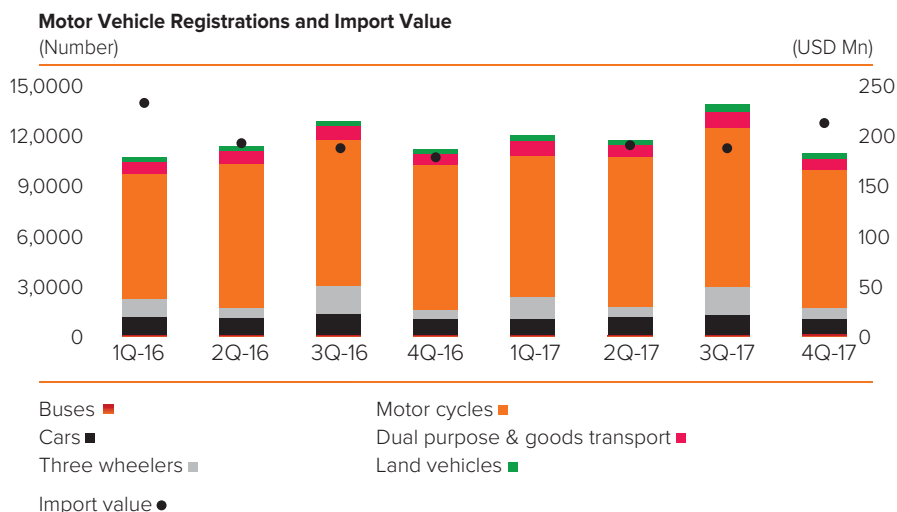
In the midst of higher interest rates and a dynamic conditions in the economy, the Non-Bank Financial Institutions (NBFi) sector faced a challenging year. Nevertheless, NBFis were able to achieve a 12.6% growth in their gross lending portfolio largely supported by the leasing business.

Licensed Finance Companies (LFCs) comprising of 45 players with 1,265 branches as at 30 September 2017 represented 91.3% of the gross lending portfolio of NBFis and 90.7% of the total assets of NBFis.

Gross lending portfolio of LFCs increased by LKR 108.1 Bn during the 12 months up to September 2017 representing a 12.3% growth YoY. Leasing contributed to 63.8% of the total LFC lending portfolio growth by an increase of LKR 69.0 Bn YoY up to 30 September 2017.

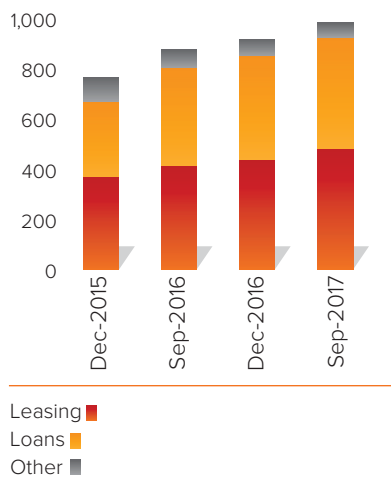
Revision of tariffs on motor vehicles caused registrations to reduce by 8.4% to 451,653 units. However, the value of imports only declined by 2.8% to USD 772.7 Mn. Motor car and three-wheeler registrations declined by 13.3% and 58.7% respectively whilst the decline

was significantly cushioned by higher imports of buses and commercial purpose vehicles.

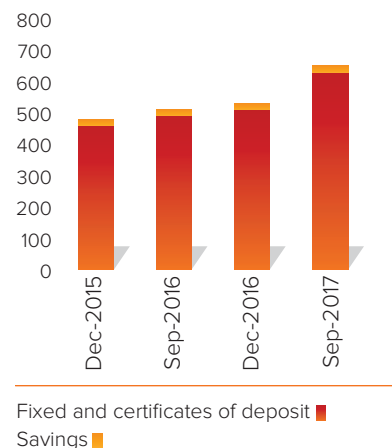


Furthermore the higher interest rate environment has clearly incentivized the demand for deposits as demonstrated by the deposit base of LFCs growing by LKR 140.3 Bn (27.4% YoY) during the 12 months up to 30 September 2017.

Lending Assets (LKR Bn)

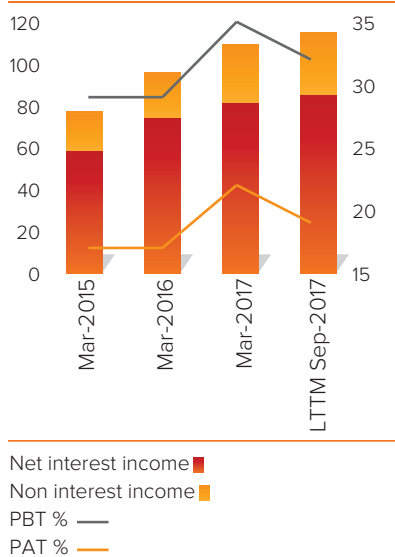


Deposit Base (LKR Bn)



During the year up to 30 September 2017, LFCs were also able to improve diversity of income sources with non-interest income contributing 26.7% of total operating income as compared to 23.2% in March 2016.

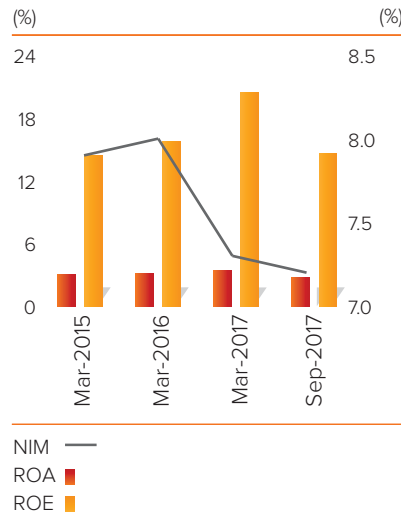
Total Operating Income and Profitability (LKR Bn)



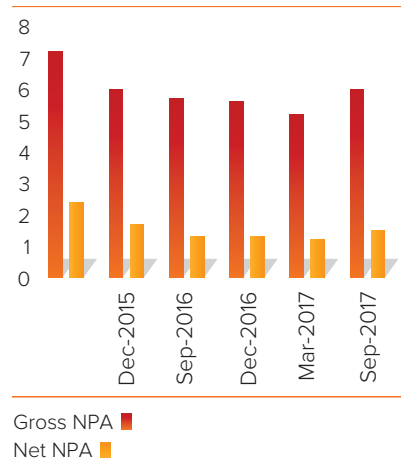
A higher interest rate environment trimmed Net Interest Margins (NIM) of the industry by 100 basis points to 7.2%. However, earning margins of the industry contracted by approximately 300 basis points during the 12 months ending 30 September 2017 as a result of operational cost escalations and impairment charges. The cost to income ratio of LFCs which was recorded at 68.2% during the 12 months up to September 2017 was an increase of 540 basis points from the 12 months up to 31 March 2017.

The LFC sector recorded Return on Assets (ROA) of 2.7% up to 30 September 2017 which is 70 basis points lower than that of the year ending 31 March 2017. Return on Equity (ROE) which declined by 590 basis points to 14.6% on the other hand was impacted by an increase in capitalization during the year.

Profitability Indicators



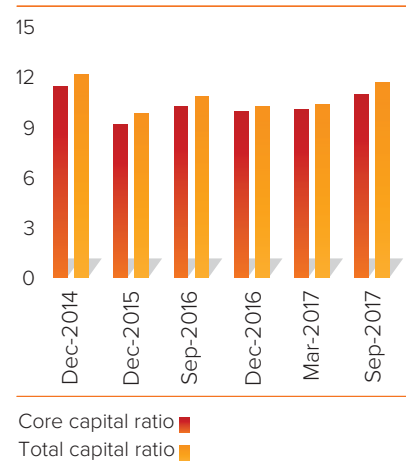
Non Performing Advances (%)



Non-performing advances ratio which was on a declining trend from December 2014 reversed to December 2015 levels on account of poor weather conditions and negative spillover effects on SMEs, agricultural producers etc.

Nevertheless, the industry continued to remain adequately capitalized with strong liquidity buffers supported by a series of capital raising activities to meet regulatory standards.

Capital Ratios (%)



REGULATORY DEVELOPMENTS

In respect of promoting a dynamic and resilient financial sector, the Central Bank of Sri Lanka (CBSL) continued strengthening the framework of regulation for NBFIs and microfinance institutions and resolution of distressed NBFIs. In line with these objectives, the CBSL has imposed stronger capital requirements on LFCs and SLCs and expects that this will result in consolidation of the industry. In addition, the CBSL is actively encouraging to obtain credit ratings and listings on the Colombo Stock Exchange.



Source: http://www.cbsl.gov.lk/pics_n_docs/_cei/_docs/ei/mei_01_2018.pdf

Sources: <http://www.cbsl.gov.lk>

http://www.cbsl.gov.lk/pics_n_docs/02_prs/_docs/press/press_20180222e.pdf

Financial Capital

Overview of Financial Results

Siyapatha Finance PLC posted a strong financial performance amidst a challenging macro-economic environment. The Company posted a strong growth in revenue, recording a Year on Year (YoY) growth of 61% to record a revenue of LKR. 5.07 Bn.

Despite the macroeconomic and other external challenges posed, the Company managed to continue its growth momentum in profitability. The profit after tax reached LKR 498.86 Mn recording a growth rate of 52% in comparison to the profit after tax of LKR 327.28 Mn reported in the previous year 2016. Despite the increase in impairment charge by LKR 157 Mn reflecting an increase of 200% the Company managed to post a strong profitability growth.

Thereby, the Company maintained its growth trajectory in profitability, portfolio growth and deposits. This was achieved mainly through the implementation of the Company's strategies of developing sustainable revenue streams whilst focusing on prudent risk management practices.

Income Statement Analysis

Gross Income

Total Interest Income grew by 62% on YoY to record LKR 4.6 Bn in 2017. This was possible through the improved business volumes as the Company was able to achieve significant strides in its business segments of leases, loans whilst managing risk and return at both product and business levels.

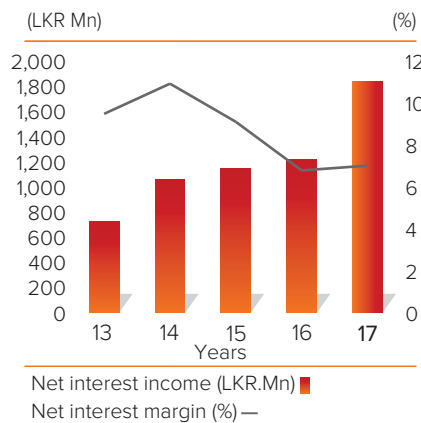
Net Interest Income (NII)

Growth in profitability could be attributed to the significant increase in Net Interest Income (NII), and Net Fee & Commission Income. The significant growth evident in these

areas managed to successfully offset the negative impact of the increase in provision for impairment made during the year.

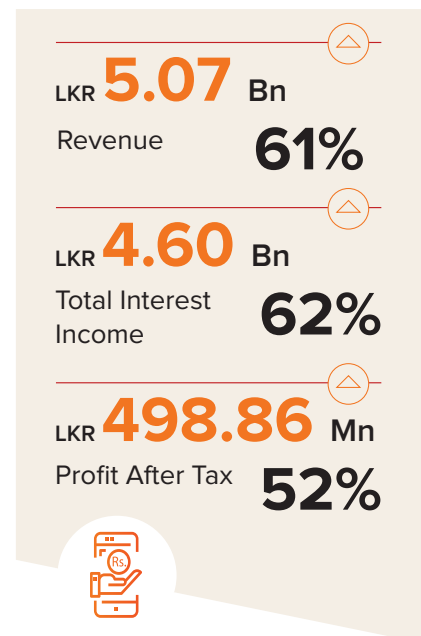
The YoY growth in NII was 51% in 2017 generating a NII of LKR 1.84 Bn compared to LKR 1.22 Bn in the previous year. Growth in lending portfolios particularly the growth in finance leases, personal & business loans and gold financing receivables were the main contributory factor for the increase in NII.

Net Fee & Commission income depicted a significant increase of 77%. NII's contribution to total operating income is 80% in the years 2017 & 2016. Net Interest Margin has reached to 7.01% from 6.78% in year 2017. 'Finance Lease' was the key contributor in achieving the said income.



Impairment Losses

Despite the conservative lending practices adopted in loan approvals and disbursements along with focused recovery efforts by the Company, the YoY gross NPL ratio marginally increased to 2.91% from 2.72%. Changes in weather patterns, inflationary effects and the subdued economic environment played a critical role in driving NPL ratios on an upward trend. However, the Company's NPL ratio is well below the NBFi industry



average which is 6% as at December, 2017.

The Company's impairment model has two key components, namely, collective impairment and individual impairment for significant individual contracts based on pre-determined threshold limits defined by the Company. Following the annual review threshold limits are evaluated to gauge the risk appetite of the Company to make appropriate adjustments to the impairment levels.

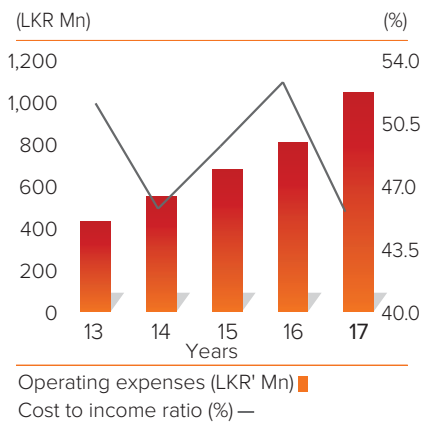
An increase in impairment was visible in the factoring portfolio while impairment charges for leasing also recorded a significant increase of 122%. These increases in impairment were partially attributable to the rapid growth in the loans & advances portfolio.

Operating Expenses

During the year under review, an increase in operating expenses was experienced with a 30% YoY increase. This increased to LKR 1,048 Mn from LKR 808 Mn in the previous year is mainly attributable to the increase

in personnel expenses triggered by increase in new recruitments, increase in remuneration and staff development initiatives.

However, the Company with its cost management strategies was able to manage the Cost to Income ratio at 45.56%.

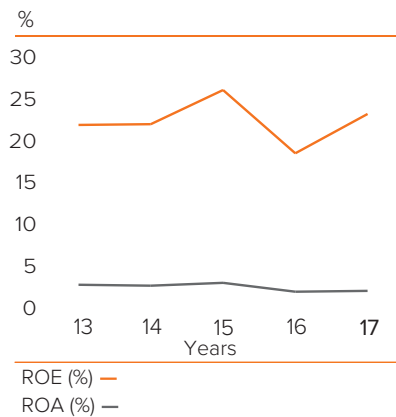


Taxation

The corporate tax rate applicable to the Company is 28%.The effective tax rate for the year is 36.47 %(2016-36.47%) due to disallowable expenses for tax purposes and an increase in financial services VAT in the main.

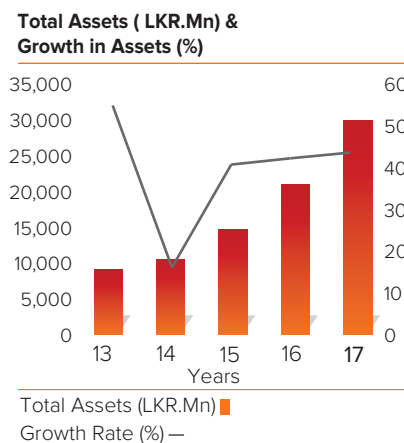
Return on Assets (ROA) & Return on Equity (ROE)

The increasing profitability levels drove the Return on Assets (ROA) to 1.91% & Return on Equity (ROE) to 23.05% which was respectively 1.81% and 18.35% in the previous year 2016.



Analysis of Statement of Financial Position

Total Assets



Growth in Lending Portfolio

In 2017 the Company reached a significant milestone with the asset base reaching LKR 29.81 Bn. This reflects a growth of 43% over the year 2016 and higher than average CAGR of 33% for last 5 years.

It is a noteworthy accomplishment that the Company has significantly increased its lending portfolio amidst challenging business conditions through which it has surpassed the industry growth averages.

This was mainly achieved through focused lending and the business development strategies of the Company. Thereby through growth in loans & advances achieved through the strategic initiatives of the Company. The Company was able to drive volume growth by leveraging opportunities in other lucrative business segments.

The increase in portfolios for the main product categories is depicted in the table below:

	2017		2016		Change	
	LKR' Mn	%	LKR' Mn	%	LKR' Mn	%
Leasing/ Hire						
Purchase	20,125.47	74%	14,689.45	77%	5,436.02	37%
Loans	2,724.78	10%	743.74	4%	1,981.01	266%
Factoring	1,899.70	7%	1,979.24	10%	(79.54)	(4%)
Gold						
Financing	2,563.35	9%	1,768.92	9%	794.43	45%
Total	27,313.30	100%	19,181.35	100%	8,131.95	42%

Financial Capital

Advances Mix

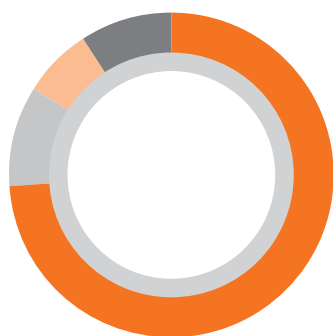
Since the Company's introduction of loans to its product portfolio in the second half of 2016 an accelerated growth trajectory has been maintained in the loan portfolio. In the year under review a net growth of LKR 1.98 Bn was achieved marking an increase of 266%, which is a significant achievement within the second year of operations. Thereby, the significance of loan portfolio within the total portfolio of advances has enhanced to 10% in comparison to 4% in the year 2016.

Leasing/ Hire purchase expanded by LKR 5.4 Bn, reflecting a 37% growth over 2016 with a total portfolio of LKR 20.12 Bn.

The Gold Financing portfolio stood at LKR 2.56 Bn recording an augmented growth of LKR 794 Mn (an increase of 45%). Gold Financing's contribution remained at 9% against total advances.

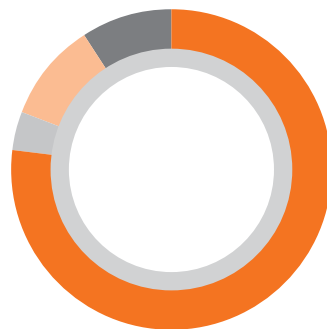
The contribution of factoring portfolio to loans & advances declined to 7%.

Advances Mix-2017



Leasing/Hire Purchase 74% ●
 Loans 10% ●
 Factoring 7% ●
 Gold Financing 9% ●

Advances Mix -2016



Leasing/Hire Purchase 77% ●
 Loans 4% ●
 Factoring 10% ●
 Gold Financing 9% ●

Funding Base

Due to 43% increase in the asset base a corresponding increase is reflected in the funding base of the Company. However, a noteworthy development was the increase in the customer deposits, which is reflected by a YoY increase of 178%.

The importance of customer deposits in the compositional mix of total funding has increased to 36% from 19% in 2017. The deposits grew by LKR 5.97 Bn, recording a growth of 178% over the preceding year. This reflects the trust placed by the depositors in our Company.

Therein, the bank borrowings have reduced to 46% in 2017 from 61% in the previous year. We consider this as a milestone, which will have a significant impact on the future funding strategies of the Company.

Company pursued long term funding options via a debenture issue during the year to strengthen the Tier II capital base of the Company. Listed, rated, unsecured, subordinated, redeemable

Debentures of LKR 1.0 Bn was issued in October 2017. This was the Company's third successful debenture issue.

Funding Mix-2017



Customer deposits 36% ●
 Bank borrowings 46% ●
 Debentures 18% ●

Funding Mix-2016



Customer deposits 19% ●
 Bank borrowings 61% ●
 Debentures 20% ●

Shareholders' Funds

Shareholders' funds rose by 28% in 2017 due to growth in profits and due to revaluation surplus through value appreciation of the land owned by the Company.

Capital adequacy ratios of 9.44% for Tier 1 & 14.16% for total as at 31st December 2017 were well above the CBSL's prescribed minimum thresholds of 5% and 10% respectively. Tier 1 ratio

has slightly declined in the year 2017 due to the increase in risk weighted assets despite the growth in profits and dividends declared in the form of scrip to retain the profits. Total capital adequacy ratio has increased to 14.16% from 13.93% in the year 2016 which was supported by the subordinated debentures of LKR 1.0 Bn issued to strengthen the capital base of the Company.

Liquidity

Adequate liquidity to meet foreseeable events is always maintained while managing adverse effects on profitability arising from excess liquidity. The Company maintained statutory liquid asset ratios above the level prescribed by the Central Bank of Sri Lanka.

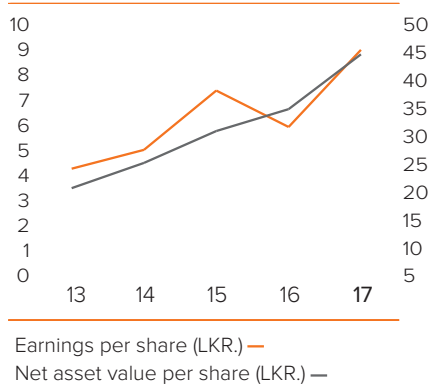
Net Assets Value per Share and Earnings Per Share

Net assets per share reached to LKR 44.43 (LKR 34.61 – 2016) in parallel to the growth in equity & EPS increased to LKR 8.94 per share from LKR 5.87 reported in year 2016.

Dividend

The Board of Directors of the Company has approved a final scrip dividend of LKR 1.25 per share subject to approval of shareholders at the Annual General Meeting to be held on 27th March 2018. Paying dividend in the form of scrip was intended to strengthen the Tier 1 Capital and to retain sufficient capital for business expansion.

EPS & Net Asset Value Per Share (LKR.)



Intellectual Capital Report

Siyapatha Finance PLC (Siyapatha) considers its culture, ethics, values, reputation, brand and most notably the expertise and knowledge base of people acquired through experience as key elements of the Company's intellectual capital. Internal business processes of the Company are designed to enable these elements to seamlessly integrate with each other and together with the Company's physical operations and processes create long term sustainable value for our stakeholders.

Expertise and Knowledge-base

The Company has over its 13-year journey has acquired a wealth of experience, knowledge and expertise in the financial services sector. The primary contributors to the Company's wealth of knowledge are our people - professionals with specialized knowledge, educational backgrounds and work exposure. Our corporate management brings in specialized experience from banking and financial services industry.

The Board of Directors possess multi-disciplinary exposure to legal affairs, human resource management, corporate communications, marketing etc. from varied industries. Their diversity greatly enhances the strategic decision-making process and the success achieved by the Company. The Directors profiles are available on pages 80 to 83.

Our recruitment procedures are also designed to ensure that the Company can continuously enhance and build on its knowledge-base by recruiting people with the right education and adequate exposure to different business functions and industries. Prospective employees are evaluated and selected based on their education,

experience and track record in previous employment.

Furthermore, the Company provides regular training and development to all levels of employees to improve on and build on their own knowledge and skills, further adding to the Company's overarching knowledge-base.

Company Reputation and Brand

Siyapatha Finance PLC is a fully-owned subsidiary of Sampath Bank PLC, one of Sri Lanka's leading commercial banking institutions. The Company was originally named as Sampath Leasing and Factoring Ltd and was renamed in 2013 when the license was obtained to function as a licensed finance company under the Central Bank of Sri Lanka. This move has allowed the Company to use our parent's brand values and reputation as the basis on which to build on our own brand and reputation.

While we have become the largest subsidiary of Sampath Bank PLC in the last 13 years, we are equally proud to be recognized in the market as a fast-growing, reliable and trustworthy finance company in a highly fragmented industry.

As a measure to improve our brand presence and visibility in the market, the Company re-launched its corporate logo and tagline in the year under review. The new logo visually emphasizes the affinity and relationship to the parent, Sampath Bank PLC. The new endorser - Finance Company of the Sampath Bank Group that appears at the bottom of the logo further re-enforces this message. We also developed a new tagline - "Trust Assured" which communicates succinctly and concisely the Company's view on trust and honesty in doing business.

Largest subsidiary of the Sampath Bank Group.

Strong brand values emanating from the parent company.

Expertise, professionalism of management and Siyapatha team.



We launched a targeted advertising as part of the promotional campaign to spread this news to our stakeholders using TV, radio and the press. We also had an event for our employees to celebrate this milestone.

This rebranding exercise of the Company is expected to increase our credibility with existing and prospective customers and other stakeholders. It is also expected to create a significant mileage as Siyapatha pursues its product and branch expansion strategies in the coming years.

Other aspects that contribute to the Company's positive reputation and increasing brand value is the extensive product range, superior service levels and attention to detail. Consisting of leasing, factoring, gold loans, and personal / business loans the Company's products are designed to fulfill its customers every financial need. Our products are in many instances cross-sold to existing customers mainly consisting of individuals, SMEs and mid-sized companies; who wish to

continue their relationship with us in the longer term. Credit extends to our customer-facing employees who build and manage customer relationships in a friendly and professional manner.

Siyapatha Finance PLC offers a wide range of finance leasing and hire purchase solutions for the diversified range of customer segments. This information has been presented comprehensively under Social & Relationship Capital.

Company Culture

Siyapatha's company culture is fostered by our strong corporate values and team spirit that is built within the Company by its people. Our values are utilized by all our people in carrying out their responsibilities and duties on behalf of the Company on a daily basis. Our values drive our internal and external relationship and ensure that our business operations are conducted in a manner that is acceptable and sustainable.

To ensure our new recruits are aware of our values, we conduct a special training session for them, and our values are also re-iterated in many other company trainings and meetings to re-enforce the importance placed by Siyapatha on them.

Ethics & Values

As a subsidiary of one of the most respected banks in Sri Lanka, Siyapatha places a significant emphasis on professionalism, integrity and good governance. We believe it is our emphasis on these aspects that can help us to maintain the outstanding reputation of the Company in our

industry and the marketplace. Integrity, accountability and transparency are also considered as key focus areas when carrying out the Company's day-to-day operations. These aspects are also brought to focus when we conduct ourselves with the customers and other stakeholders.

Our core values are critical to our success and organization's sustainability. Our Company values defines who we are as an organization.

Ethics are the principles and values an individual uses to govern his activities and decisions. In an organization, a code of ethics is a set of principles that guide the organization in its programmes, policies and decisions for the business. The ethical philosophy an organisation uses to conduct business can affect the reputation, productivity and bottom line of the organization sustainability. Business ethics of Siyapatha helps the Company to attract and retain employees, customers, and investors.

All employees in pursuit of their duties are mindful of their obligation to maintain the high standards of competence, business ethics and dignity advocated by the Company. True ethical conduct is more than merely abiding by the letter of explicit prohibitions and requirements. Rather, it requires unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.

Every employee has to be conversant and educated of all laws, regulations and operating instructions relating

to the diligent conduct of business, Company Code of Conduct, company policies, procedure and should comply with them at all times by employee orientation programs, employee hand book and the guidelines given by the Code of Ethics & Professional Conduct. Every employee is required to acquaint himself/herself with the provisions of this Code and sign a form of acknowledgment and return the same to the Head of Human Resources.

Open communication channels and code of ethics further strengthen the business values of the Company.

Manufactured Capital

Tangible fixed assets, branch network and Information Technology (IT) infrastructure are the key components of the manufactured capital of Siyapatha Finance PLC. These assets enable the Company to carry out day-to-day business activities and serve its customers with exceptional service offerings along with the convenience of accessibility and geographical reach.

The Company currently has a wide geographical footprint in Sri Lanka with 26 branches located in key cities and towns. This ensures reach for the Company’s products to our customer base in an easy and accessible manner. All our branches across the country are equipped to provide a full range of products and services to all customer segments.

The IT platform of the Company plays a pivotal role as the backbone of the Company’s operations. The IT platform and systems enable us to deliver exceptional services while generating information and data to provide valuable management information vital for decision-making and the identification of opportunities and managing risks. Furthermore, the robust IT infrastructure of the Company essentially provides a competitive edge in the industry while supporting to execute our core strategies of product and branch network expansions.

Branch Network Operations

The Company is cognizant that the expansion of our branch network will have far reaching benefits to the community as a whole. Our branch network expansion strategy has a multitude of purposes - increasing shareholder value whilst creating new job opportunities and promoting financial inclusivity. Furthermore,

through our branch expansion strategy we create customer convenience, reach and the platform to market our products and services to a wider customer segment, leading to sustainable business growth via geographical penetration.

During the year under review, we extended our geographical footprint to the thriving economic hubs of Galle and Panadura. We also took steps to relocate the Kurunegala Metro branch. This strategic decision was taken to strengthen the visibility and enhance convenience through better accessibility. Resultantly, an investment of LKR 15 Million was made for branch expansions and relocation during the year under review.

26 Branches

02 New Branches } Galle Panadura

Relocation of
Kurunegala Metro Branch



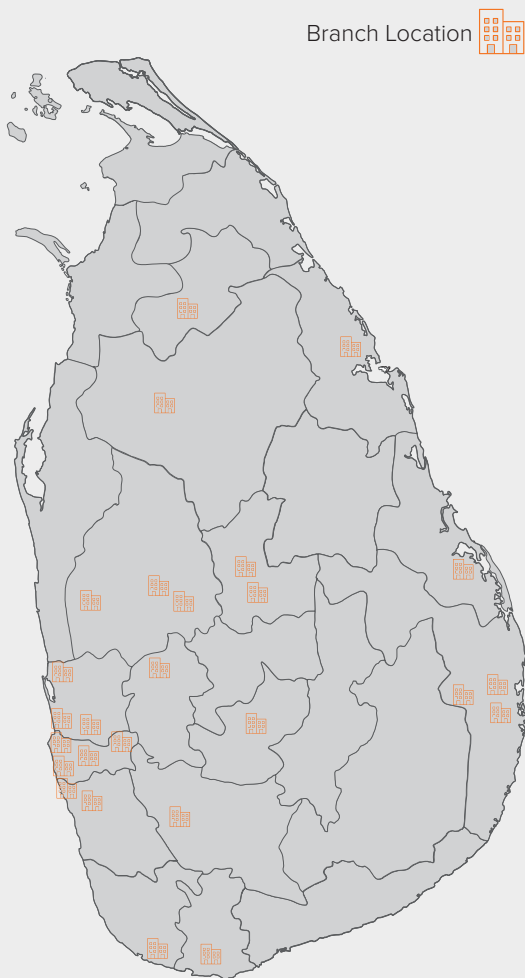
Kurunegala Metro Branch relocation



Galle Branch opening



Panadura Branch opening



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

Manufactured Capital

The expanding branch network facilitates the Company's footprint into rural communities and promote financial inclusivity. The strategy provides the Company a competitive edge to maximize opportunities to attract new customer base for lending products such as gold financing and loan products as well as a captive market for deposits.

In line with our new strategic imperatives of offering solutions viz tailor-made and new products, revisions and upgrades were made in the last quarter of 2017 to the existing branch business model to facilitate product penetration and attract new customer segments.

Branch level autonomy will also be facilitated with the decentralization of authority and faster hassle-free services will be provided to clients, which in turn will result in upgrading the service quality standards of the Company.

The proposed changes to the business model in the branches will require all front-line staff interacting with customers to possess in-depth knowledge and understanding of the Company's product range and be adept in providing solutions to the financial needs of the customers. Accordingly, the Company will focus on providing training and development to upskill employees enabling them to adapt to this new business model.

Plans are in place to pursue aggressive branch expansion to rural areas and establish presence in key cities to support our business expansion strategy in the ensuing years.

Information Technology to Support Business Strategy

In today's technologically driven information age, IT systems facilitate efficiency of business operations and activities. Siyapatha has always considered IT as a business enabler, driving business strategies through the adoption of appropriate IT systems to meet the business vision and goals.

A strategic decision was made during the year to revamp the Company's IT infrastructure and technological capabilities.

Having evaluated several systems, 'Finacle CBS' was decided as the system of choice thereby offering a stable, scalable and agile Core Banking System in keeping with the group's standards on software usage.

Building on the expansion of several security and network systems, hardware and software in 2016, the Company pursued the implementation of a core banking system to complement the new business model being implemented. This decision is the most significant development in 2017 which would have a positive impact in our business operations in the ensuing years. Furthermore, this will enable the Company to respond with agility to the dynamic business environment. The new core banking platform will give greater support in terms of handling a vast array of financial products which is offered by the bank. Thereby the system would support the Company's strategy of expanding its product range to be positioned as a mini-bank.

The 'Finacle CBS' platform is a product of EdgeVerve Systems Ltd, a company based in Bangalore, India. 'Finacle CBS' seamlessly integrates with an

array of general and finance company specific modules such as savings accounts, term deposits, loans, general ledger and leasing, offering a right-fit product with comprehensive features to suit the Company's business operating environment.

The Company commenced the new core banking system implementation project in mid-August 2017 in collaboration with LinearSix Pvt Ltd, Sri Lanka and Nurture Software Solutions, India. The project is expected to be completed in the first quarter of 2018.

Plans are underway to issue an internationally recognized Debit Card to the deposit customers through server/network facilities offered by LankaClear (Pvt) Ltd. This initiative would offer convenience to our depositors. Furthermore, this would enable the Company to offer a wide range of services and thereby add value to the growing deposit base.

Security and safety aspects are a critical area which the Company has been vigilant on. Thereby we hope to deploy additional resources to enhance integrity and safety aspects of the IT systems in the ensuing years. Amongst the measures taken during the year under review, we partnered with TechCert Sri Lanka to conduct vulnerability assessments of all system servers and communication links and immediately applied corrective measures on receipt of recommendations.

In view of the universal escalation of computer crime targeting the financial sector, the Company also obtained a membership in the Financial Sector Computer Incident Response Team (FINCSIRT), Sri Lanka. This membership, administered under

LankaClear (Pvt) Ltd offers services such as security vulnerability alerts, external security review and online monitoring services. In addition, the said membership facilitates sharing of vital information among its members leading to building closer ties among companies for knowledge sharing for long term benefits.

Digital Channels

The Company uses digital channels to predominantly create greater awareness of our products and services in the market. We actively engage with our customers on Facebook to communicate on our products and services while encouraging potential customers to use our products through targeted promotional activities.

The Company's website is geared to provide information for all our current and potential stakeholders from investors, partners and customers to employees. The Company website's 'inquiries page' can be used by all stakeholders to request information from the Company. Another facility available on our website for stakeholders to get any information about the Company, our products or even job openings is the "Request a Phone Call" button where upon entering their details, the stakeholder will receive a phone call from one of our employees to assist them with their inquiry. The Company website also has a section dedicated to job openings that potential employees can review and apply for.

There is much scope for Siyapatha to utilize digital channels to offer a plethora of services to our stakeholders, thus increasing

accessibility for our products and services.

The Company's IT environment will continue to evolve as the external IT environment matures and innovates, together with the launch of new products and the increased virtual promotional activities. We will continue to adopt digital technology platforms enable us to gain a competitive advantage and facilitate the technological requirements of our tech savvy customer segments.

Construction of New Head Office Premises

A notable milestone for the Company in the year under review was the commencement of construction of the new building, which will house our head office. Strategically located in Colombo 08, we envisage this new building once completed to be a landmark in the locality whilst providing a range of conveniences for our customers.

Consisting of a basement, two mezzanine floors, 14 floors dedicated to office-spaces and a roof terrace; the building will be the flagship of the Company's operations.

The design of the building incorporates energy efficiency features. The interior uses cutting edge technology to ensure optimal performance and has a warm and welcoming ambience providing a conducive working environment for our staff.

The construction is expected to be completed by year 2020.

Human Capital

Managing Human Resources

Our journey over the last 13 years is marked by the steadfast support and dedication of our employees. Their competencies, efficiency and professionalism has enabled the Company to meet its goals and objectives over the years. The overall support and direction provided by the Board of Directors has guided and facilitated Siyapatha’s human resource function to act as an enabler of sustainable and profitable business growth. By working towards attracting and retaining qualified and dedicated people, the Company has succeeded in creating a ‘happy atmosphere at work’ while building a workplace culture that sustains learning and growth.

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 that will make Siyapatha a happy place to work.

The culture of Siyapatha encourages people to grow and become knowledge-focused, while enabling competent professionals to achieve great success. Our values ensure that rewards are aligned to performance, and diversely talented employees retained in the long-term enabling them to further their career with us.

The 'Siyapatha People Development Framework' outlines the Company’s human resources strategy aimed at improving sustainable business development and performance. This framework sets out details the strategies relating to learning and development, people management, leadership & management. The framework also enables the streamlining and developing of processes and procedures related to all human resource functions which are aligned with the Company’s requirements.

Figure 1 - Siyapatha People Development Framework.



Growth by **150** people in year 2017, which is equivalent to **38.4%**

81% of our staff base is below 35 years of age

112 training programs



HR Strategic Goals and Objectives 2016-2018

Siyapatha’s ultimate aim is to adopt a people-driven culture under the guidance of its parent Company, Sampath Bank. Challenges, dynamism & complexity in the business environment demands a greater level of HR commitment in order to develop and deliver innovative service. Further, the HR function needs to be aligned to the overall Company vision, mission, goals and strategic objectives. Accordingly, key areas of focus for the next three years were identified and concentration will be on work delivery models through the agile organization Initiatives, implementation of new succession planning programs, enhancing employee engagement initiatives, improve performance-based compensation management systems and introduce innovative technology for new human resources management initiatives.

Organizational Values, Principles, Standards & Norms are initially discussed and agreed in the session of goals setting and the approval is received from the Board HR and Remuneration Committee & the main Board. We are regularly providing

training & awareness sessions for both existing & new employees on company vision, mission & values. The main responsibility of implementing & operational inclusion of Company vision, mission & values to the Company culture lies with Managing Director & Senior Managers of the Company. The Head of HR & the team ensures the staff abides by the necessary guidelines.

Strategic HR planning of the Company is aimed 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’.

However, several challenges are in place in the market space stemming from dynamism and regulatory aspects. We consider the strategic plan as the focal point to address the challenges and to achieve the set purpose.

HR Strategic Plan focuses on several key areas as depicted in Figure 2.
Figure 2



Achievement of HR Goals

Goal	Objectives	2017 Achievements	2018 – Proposed Achievements
To be the “Preferred Employer” / Employer of choice” by 2020.	Talent Attraction- Turnaround time - 60 working days from the date of Manpower Request Form	Achievement –60 to 70 Days	Turnaround time - 30 to 70 days from the date of Manpower Request Form
	Talent Retention - Employee attrition & retain critical talent(voluntarily vacated rate) - 90% Retention	85% Achievement	Employee retention ratio - 90%
Talent Development -Developing the competent human capital	100% hit rate of the training calendar (carry out training as per training plan) per employee - 02 programs per employee (12 Hours) (01 soft skill + 01 technical skill development program)	Achievement - 14 Hours	Training hours per head – 16 hours in 2018 Conduct 10 cross-functional & 20 product-wise trainings in 2018
Build a sense of belonging and friendly, open and performance driven culture which is in line with our organizational values.	Performance driven culture by conducting Annual Performance Appraisal cycle and PBBS within agreed time frame - June & December	100% Achievement	Internal Customer satisfaction survey - 2018 On line 360° Evaluation as PMS for Management staff by 2018

Human Capital

Human Capital Management

We are passionate about managing our employees by adopting best industry practices in an ethical and fair manner. Our employees are the Company's greatest ambassadors. They spend much of their day at work and expend much effort in carrying out their duties and responsibilities in an efficient and effective manner that enables the sustainable growth of the Company. Our workforce grew by 150 people in year 2017, which is equivalent to net growth of 38.4% compared to the previous year.

All our employees are in permanent cadre and they are full time employees in Siyapatha.

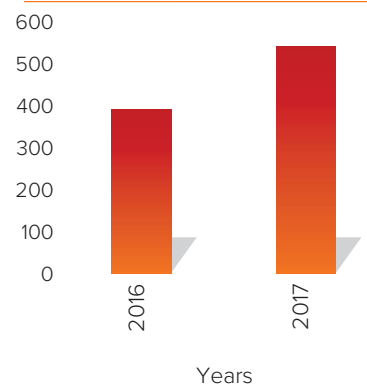
Age & Grade - wise staff distribution

Grade	Age		30-50		50>	
	F	M	F	M	F	M
MD	-	-	-	-	-	1
COO	-	-	-	1	-	-
Senior Manager	-	-	3	4	-	5
Manager 1	-	-	-	5	-	-
Manager 2	-	-	2	6	-	-
Senior Officer	-	-	4	12	-	1
Officer	-	-	5	16	-	-
Senior Executive	1	10	9	71	-	-
Executive	19	91	18	52	-	1
Assistant	78	110	8	7	-	-
Grand Total	98	211	49	174	-	8

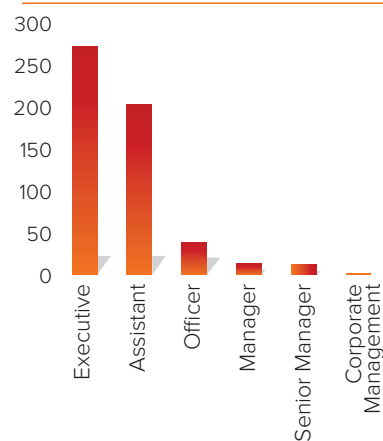
Region - wise staff distribution

Grade	MD		COO		Senior Manager		Manager 1		Manager 2		Senior Officer		Officer		Senior Executive		Executive		Assistant		Grand Total
	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M			
Western Province	-	1	-	1	3	9	-	5	2	6	4	8	5	11	9	49	33	83	49	65	343
Central Province	-	-	-	-	-	-	-	-	-	-	-	3	-	1	-	11	1	12	7	9	44
Eastern Province	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	5	2	22	6	18	55
Nothern Province	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	2	2	3	8
Southern Province	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1	5	-	7	5	4	23
Sabaragamuwa Province	-	-	-	-	-	-	-	-	-	-	-	-	1	-	1	1	8	5	4	-	20
North Central Province	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-	1	3	5	-	12
North Western Province	-	-	-	-	-	-	-	-	-	-	-	1	-	1	-	6	-	9	9	9	35
Total	-	1	-	1	3	9	-	5	2	6	4	13	5	16	10	81	37	144	86	117	540

Cadre Growth 2017 (No. of Staff)



Cadre Analysis - 2017 Grade-wise (No. of Staff)



Employee Recruitment

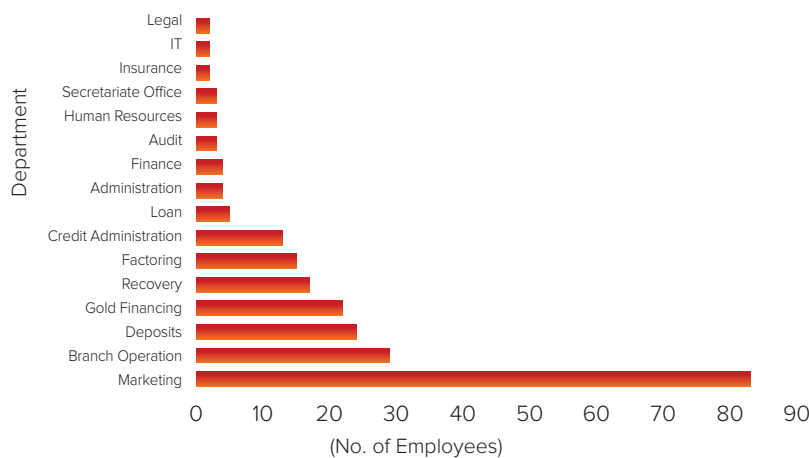
Recruitment process of Siyapatha is designed to ensure that the best suited candidates with the required competencies, skills and qualifications are attracted to support the strategic goals and objectives of the Company. We are committed to provide equal opportunities for potential candidates and ensure diversity of our staff base. This enables the Company to ensure resources are utilized in an effective and efficient manner. Undertaken on a structured basis, the recruitment process strives to strike a balance between requirements of job vacancies with employee aspirations and capabilities.

The Company promotes internally by equipping them with the right training thereby supporting them to take up the new job responsibilities. As per Company policy and best practice, all new job openings are published internally to encourage employees to have the first-choice to apply for these posts. Internal promotions also act as a motivational factor for employees. During the year, Siyapatha recruited 231 employees including replacement and new recruitments.

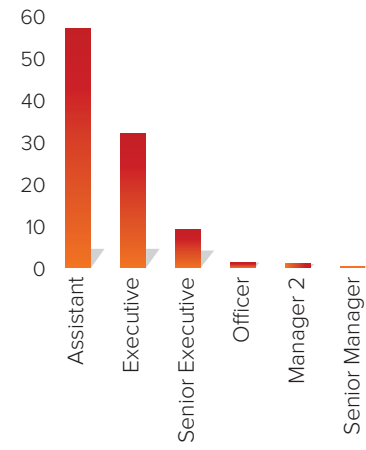
This growth is aligned to the operational expansions of some of the Company’s branches and predicted future requirements. Out of 231 new recruits, 82.25% were absorbed to the direct workforce maintaining a healthy direct to indirect ratio of 1:0.3.

External recruitments were undertaken across the country attracting competent candidates from different cities and towns. The highest numbers of recruits were from the Western Province as majority of the Company’s operations are centered within this area. For external recruitments, we adopt a systematic approach by scouting candidates from local universities, professional bodies, as well as school leavers who satisfy the Company’s job profile.

Department-wise Recruitment - 2017



Grade-wise Recruitment - 2017 (%)



Region-wise Recruitment

Province	Age <30		30-50		55	
	F	M	F	M	F	M
Western Province	33	78	11	27	-	1
Central Province	7	6	-	5	-	-
Eastern Province	3	18	1	4	-	-
Nothern Province	1	1	-	2	-	-
Southern Province	2	4	1	2	-	-
Sabaragamuwa Province	-	3	-	-	-	-
North Central Province	3	4	-	-	-	-
North Western Province	8	5	-	1	-	-
Total	57	119	13	41	-	1

Employee Benefits

Welfare Measures

Siyapatha has implemented comprehensive welfare benefits for employees to enhance upgrade their living standards. All employees who are identified as permanent employees of the Company are eligible for these welfare benefits. Details of these benefits are listed in figure 3.

Human Capital

Figure 3: Welfare benefits offered to employees

Welfare Benefits	Permanent staff	Fixed Term Contract	Interns/ Trainees
E- Medicine, doctor consultation facility via online	Entitled	Entitled	Not Entitled
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			

Statutory Obligations

The Company is highly committed to comply with laws and regulations to promote ethical practices. Voluntary adoption of international practices are also promoted as the employees will benefit in the long run. Statutory obligations are met on a timely manner with high level of accuracy which include contributions to the Employees' Provident Fund, Employees' Trust Fund and maintaining the gratuity scheme as required by law. Guidelines issued by regulatory bodies are considered in formation of policies relating to HR aspects.

Remuneration Policy

The remuneration policy of the Company is aligned to industry and group norms. On recommendations given by the Human Resources & Remuneration Committee, the remuneration of key management personnel is decided by the Board of Directors. Advising and guiding the Managing Director of the Company on key areas relating to the Human Resources function such as salary revisions for all employees, the alignment of the organizational structure and processes for the optimal effectiveness of business operations and the need for and the right-fit salary and compensation packages to suit the business, its industry and employee expectations are amongst the functions of HR & remuneration committee.

Salary Distribution by Gender (%)



Female 20% ●
Male 80% ●

Salary Distribution Ratio

Grade	M	F
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 to the number of years of service of the employees and gender composition.

Employee performance and responsibilities are key determinants of remuneration and no discrimination is made due to by gender or any other criteria. Fair and equitable treatment is promoted amongst all staff and rewards are based on the efficiency and effectiveness of the assigned duties and responsibilities.

It is our belief that a right mix of employees is in place with both experienced professionals and the innovative millennial employees to drive our business ahead. Equal opportunities were given to our staff members to improve skills and competencies in their respective areas

of specialization. It is significant to note that the 81% of our staff base is below 35 years of age. Dynamism in our staff base drives us to be ahead of our competitors.

Cadre 2017 - Gender Analysis (%)



Female 27% ●
Male 73% ●

Siyapatha follows the 'Shop and Office Employees Act' in determining the terms of maternity leave and related benefits to female employees and paternity leave concept is not being practiced in the Company. In compliance with the Act, female employees are entitled to 84 working days leave for the birth of the first and second child and 42 working days for the birth of the third child. After returning from maternity leave, female employees are also encouraged to take two hours for feeding entitlement until the new born baby is one year old. During the year under review 16 employees went on maternity leave, corresponding to 27% of the total female employees. Of the 16 employees, all 16 employees returned to work proving the return to work rate of 100%.

Labor/Management Relations

Employee Relations

The Company focuses on maintaining a healthy relationship with our employees. We always encourage

fair labor practices creating a win-win situation for both parties. It is our practice to provide our employees with benefits well-above the minimum statutory requirements, and thus Siyapatha is in a good position to enjoy friendly relations with all our employees.

The Board approved 'Stakeholder Communication Policy' ensures effective communication is adopted by the Company which eases and expedite the communication with employees. Top-down and bottom-up communication channels are effectively used as the open door communication policy is promoted. All strategic decisions are communicated to the corporate management and operational decisions/changes in systems are communicated to all employees as appropriate through the pre-designated communication channels of the Company.

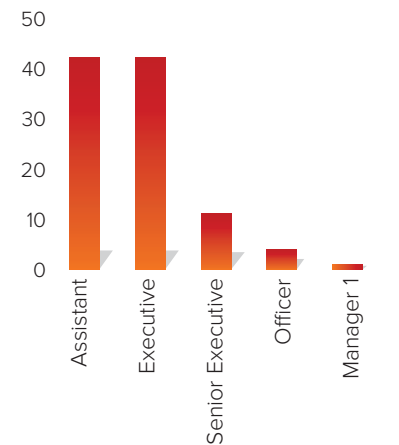
The adoption of a flat organization structure and simplified work processes have also enabled the management and employees for better communicate with each other allowing for more effective decision-making to take place within the dynamic external environment we operate within.

Employee Attrition

Employee attrition is a part of any organization. We respect the right of employee to change their jobs while ensuring that no interruptions to business processes are occurred. Smooth transition of responsibilities are monitored and one-month notice period is required for acceptance of resignations to the Company.

Market and industry fluctuations, personal, family commitments, and higher education are amongst the reasons for resignations from the Company. 79 employees resigned from the Company providing the requisite notice during the year under review. Our employee turnover was 16% in 2017. The percentage has been decreased by 2.46% compared to 2016 which is a positive improvement towards employee retention considering the cadre increase of 150 during the year 2017.

Grade-wise Resignation - 2017 (%)

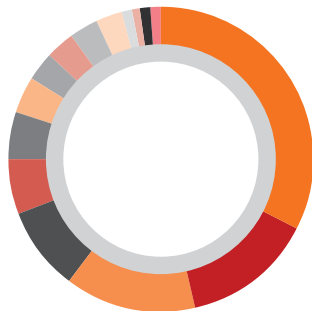


Region-wise Resignation

	Age				
	<30		30-50		50>
Province	M	F	F	M	-
Western Province	28	10	1	12	-
Central Province	2	3	-	-	-
Eastern Province	7	2	-	2	-
Nothern Province	1	1	-	-	-
Southern Province	-	-	-	-	-
Sabaragamuwa Province	-	-	-	1	-
North Central Province	2	-	-	2	-
North Western Province	-	3	1	1	-

Human Capital

Department-wise Resignation - 2017 (%)



Marketing 33%	Administration 2%
Branch Operations 14%	Finance 3%
Factoring 14%	Loan 3%
Gold Financing 9%	Secretariate Office 3%
Deposits 6%	Credit Administration 1%
Recovery 5%	Human Resources 1%
Operations 4%	Insurance 1%
	Internal Audit 1%

Employee Mobility

Siyapatha believes that employee mobility through on-the-job training opportunities leads to the enhancement of employee competencies while grooming them to become future leaders. The Company gives the first preference to existing employees when there is a business need for internal transfers of employees among departments and branches. In many instances internal transfers are facilitated to accommodate the request from employees based on their need to enhance the balance between their work-life and family life. Internal transfer forms detailing all aspects of the transfer are available for use by employees. The Company facilitated over 41 internal transfers during the year under review. Such transfers are made at the request of staff members as well as for identified business needs of the Company.

Operational Changes implemented in the Company

Operational changes such as change in Company processes, process re-engineering or system modifications are implemented with the active participation of relevant team members and after consultation with employees who are affected to receive their feedback and inputs for a smooth transformation to the new process or system. The Company gives team members adequate notice and ensures they are fully aware of the changes taking place.

Employee Training and Development

Training and development are pivotal to retain our competitiveness in the market place. Comprehensive development programs are in place for employees at all levels within the organization to upskill and upgrade employees' professional knowledge, capabilities and abilities as the success of our business strategies are dependent on the competency levels of our staff members.

We expect to build future leaders through dedicated employee leadership development programs. Encouragement of employees for professional and academic advancements degrees will allow to improve their knowledge and to have advanced career aspirations.

It is aimed to foster and inculcate a learning culture among employees. Accordingly, a wide range of training and development opportunities to enhance employee soft and technical skills is made available after critically evaluating the organizational-level, departmental-level and individual-level training and development needs. During the year under review the Company conducted 112 training programs. 22% were training sessions aimed at employee soft skills development and 78% trainings were conducted for the development of employees' technical skills.

Year	2012	2013	2014	2015	2016	2017
No of Training Programs	8	12	39	61	71	112
Total Investment yearly/ LKR:'000	116	760	1,106	1,760	2,462	5,145
Total Training Hours /Hrs	168	975	2,308	4,881	5,704	15,587

The total number of training hours provided to employees in 2017 was 112. 70.77% of training hours were allocated to Executive and Assistant Grade employees, while the balance 29.33% was allocated to the management of the Company. Total training investment amounted to LKR 5.15 Million, while investment on training per employee amounted to LKR 10,585/- considering the cadre composition of the Company, male employees have received higher number of training opportunities compared to female employees.

The Chairman and the Board of Directors approved the Learning and Development budget for the year 2017 which was a 114% increase compared to the previous year's budget.

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

Gender-wise Training Participation (%)



Female 18% ●
Male 82% ●

The Company continues to invest in the development activities of employees to enable them to unleash their true potential. During the year under review we invested LKR 5.15 Million in total, realizing a growth of 114 % compared to the investment made in people development in the previous year.

Internal Training

Internal training sessions are mainly conducted by Internal facilitators who have first been trained externally. On-the-job training and job rotation are also methods employed to train newly recruited employees and those who are being groomed for promotions. In the year under review, 25 employees were cross-trained within the organization as internal resource persons and have successfully conducted internal training programs related to technical expertise, operational knowledge and the corporate value system.

External Training

The Company provides external training programs to employees providing them an opportunity to build their personal and professional networks and gain an in-depth understanding of new technologies, best practices, and current trends in the industry. Central Bank of Sri Lanka, CIMA Sri Lanka Division, Institute of Chartered Accountants of Sri Lanka, Institute of Personnel Management Sri Lanka (IPM), Association of Accounting Technicians of Sri Lanka (AAT) and other professional bodies which provide training workshops to our staff members.

Company organized a professional language skills program for employees in the Executive and non Executive category spanning a period of three months in order to enhance communication and leadership skills. Siyapatha initiated a ‘Speech Craft Program’ for the management staff under the guidance of the Sampath Bank Toastmasters Club, who was the sponsoring club.

Induction Program

An induction program is in place to support new recruits to adopt with the new environment for successful performance of the job. Initial induction program which covers over a week include HR process operations, processes, systems, procedures and corporate values and ethics. Employees are also placed for on-the job training at the head office, at all departments and at branch level for them to get an overview of all critical business functions.

New recruits are also given many networking opportunities with peers and the management to familiarize themselves with their teams and build

team spirit. In 2017, HR initiated an ‘Employee Activity Book’ in addition to the induction program, which is used to evaluate an employee performance from the first day on the job.

Overseas Program

Siyapatha Finance PLC strongly believes that investing in individual employees through overseas training and development programs help to realize the full potential and assist to focus on their strengths based on the needs of the Company. This has two objectives - fulfilling the individual need for personal development and job satisfaction along with achievement of organizational strategic objectives. With the above focus Siyapatha implemented an overseas training policy in 2017 and by allowing them to acquire an international exposure in training and development to perform their jobs effectively. Siyapatha intends to initiate the program by sending senior employees on corporate leadership development. In 2018, Siyapatha focusses on continuing the program by providing enhanced opportunities to its employees to gain international exposure.

Leadership Pipelines

As part of the Company’s on-going measures to achieve sustainable growth we believe that it is critical to develop a high quality leadership pipeline within the Company. Accordingly, we have put in place a number of initiatives to build the required leadership pipeline. A progressive approach in developing successors and critical talents has been adopted with Individual Development Plan (IDP) and Management Development Plans (MDP) which are in place.

Human Capital

Employee Performance Management

The Company has in place a well-structured and transparent performance management mechanism to evaluate employee performance, enabling and motivating employees to work to the best of their abilities and knowledge, whilst supporting employees to meet their departmental goals and individual Key Performance Indicators (KPIs).

Each category of employee is allocated different weightage for the key performance areas falling under organizational, financial, customer and operational excellence aligned to their job roles and responsibilities. Set of predefined competencies are also allocated to each employee category and grade based on the relevant weightage.

The Company's performance management scheme allows employee appraisals to be done in an unbiased manner aligned to pre agreed annual KPIs. These assessments together with development activities aligned to the expansion and sustainable growth of the Company ensures that our employees are ready to follow through to meet the Company's strategic objectives as a united team.

Through the performance management system, every employee in the Company is given the opportunity to review his or her performances annually. Employees are promoted to their enhanced job roles taking into consideration the result of their past performance together with their knowledge, skills, attitudes and competencies. Following the review meeting based on performance, employees are promoted to the relevant grades with due recognition.

In order to recognize, reward and motivate employees for their individual and overall performance annual salary increments are provided along with promotions. Siyapatha implemented a team bonus scheme as Performance Based Bonus Scheme (PBBS) under the guidance of the parent company to enhance the team culture of the Company. This ensures that the Company possesses relevant and competent human capital to achieve present and future corporate objectives while also motivating and retaining critical talent for future Company success and growth.

In the year 2017, the promotions percentage was above 10% of the total cadre for employees. Employees in the marketing department and the gold financing department received the highest promotion percentages.

Siyapatha believes that performance-based recognition leads to;

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

However, from a gender perspective, males received the most number of promotions at 77% compared to females in 2017 based on the cadre distribution.

In addition to promotions, the performance management system facilitates new recruits to review first twelve-month performance (one year probation) with the Company. New recruits become eligible for confirmation based on the first 12 months performance. 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 any discrimination on any grounds.

Employee Diversity

Our team comprises of a diversified staff base from different age groups, ethnicities and professional backgrounds. This allows for a friendly competitive spirit to be nurtured among peers and colleagues. Different views generating from this diversified workforce ensure the success of the organization whilst improving performance levels.

A higher percentage of total cadre is represented by executive grade staff members.

Due to the nature of our business a larger share of our workforce is male particularly those involved in marketing the Company's products and services. Resultantly, most of our cadre is dominated by male employees with 393 of the total cadre being male while the balance is female. Therein, 27% female employees majority engaged in back-office functions.

Rewards and Recognition

The Company has a rewards and recognition program in place to keep employees motivated engaged in today’s dynamic and challenging work environment. Employees receive recognition for meeting their goals and targets and for undertaking any activities beyond their allocated scope of work. Employees are also encouraged to provide the Company with innovative ideas that will allow for improved or more effective work processes and methods.

The Company’s performance review process is also supported by a fair and equitable reward and recognition system which creates a climate for performance excellence at every level of the organization. The Company also recognizes the value of open door communications and encourages employees to discuss and negotiate possible reward

mechanisms, both when planning performance expectations and during the performance review as part of the process.

Equal Opportunities

We are an equal opportunity employer, No discrimination is made due to the ethnic group, age, gender, caste or creed. We are open to employing anyone as long as they meet the required criteria of the job and satisfy the Company’s employment requirements. All employees have an equal opportunity to progress in their career with the Company and avail themselves of development opportunities. The number of job opportunities were increased during the year as a result of expanded branch network of the Company.

We have in place a strict policy of not using child labor. The Company also

does not employ forced labor either directly or indirectly.

Our HR policy and procedure manual consists of 16 guidelines that direct employees towards strategic business objectives. The principle of equal opportunity focuses on embracing greater diversity within our workforce with a well balanced mix of ethnicity.

We serve the larger community including all ethnic and minority groups and people from different socio-economic group to avail themselves of our services.

Employee Work-Life Balance and Engagement Activities

The Company places significant emphasis on nurturing a workplace conducive to the well-being of employees. Measures are taken to promote healthy life style for all our staff members promoting work life balance.



Annual Pirith Ceremony



Mercantile Chess Championship -2017



Siyapatha Lotus Night -2017



Netball Team - Finance Houses Association Sports Day

Human Capital

Annual Sports Day



It is our belief that work-life balance has a positive impact on employee well-being, motivation and productivity in the longer term. Accordingly, we encourage building harmony, fellowship and team spirit among teams by facilitating activities and events that employees can participate in mentoring, coaching and counseling sessions are also conducted annually to assist employees to cope with unexpected twists and turns that life brings.

New year celebrations, days of religious significance such as Vesak & Christmas, sports events such as region wise Cricket & Volleyball tournaments, annual sports day and annual staff get together are amongst the annual events organized by the Company.

In addition, we also encourage employees to help those in need as we believe such endeavors encourage building a united team culture based on the platform of humanity. During 2017, the Siyapatha team provided a helping hand for those who needed shelter and support of the society. Employees got together to help victims of natural disasters such as the flood that occurred in 2017.



Helping hand for flood victims

Occupational Health and Safety

We have re-engineered our processes and system over the last few years by implementing modern technologies to improve efficiency and effectiveness to enable the achievement of greater competitive advantage in the marketplace. The modern work environment fostered within the Company enhances employee work satisfaction while mitigating risks of occupational diseases and work-related fatalities.

We conduct regular programs on first aid and health & safety to improve employees knowledge and responsiveness to disaster management and emergency situations. We also conduct fire drills to make employees ready for evacuations in case of fire.

The Company has in place a policy on the timely and regular review of health and safety procedures. The Health and Safety Committee is responsible for introducing new methods to upgrade employee health in relation to the work environment. There is a 100% employee representation at department level in this Committee. As a result, the Company continues to maintain a zero level of work related fatalities, injuries and occupational diseases in the year 2017.

As the Company operates within the service industry, there are no employees in occupational activities which have a high risk of occupational diseases. However, the Company always aligns with the health and safety standards set by relevant official bodies.

Siyapatha adheres to the provisions of the health and safety policy which has been approved by the Board and is aligned to the Shop and Office Act, 1954 to ensure the health & safety and welfare of our employees and to promote a safe work environment while mitigating the potential risks to employees at the workplace.

Human Rights

Siyapatha's value system is fully aligned to the employment and work-related policies as set out by the International Labor Organization. The Company concedes and conforms to the International Labor Standards and the Universal Declaration of Principles of Human Rights. The Company is fully committed to follow these principles and has in place firm measures to safeguard human rights within the organization. Any disciplinary action taken against employees does not violate human rights of the individual and physical punishments are strictly prohibited under any circumstances.

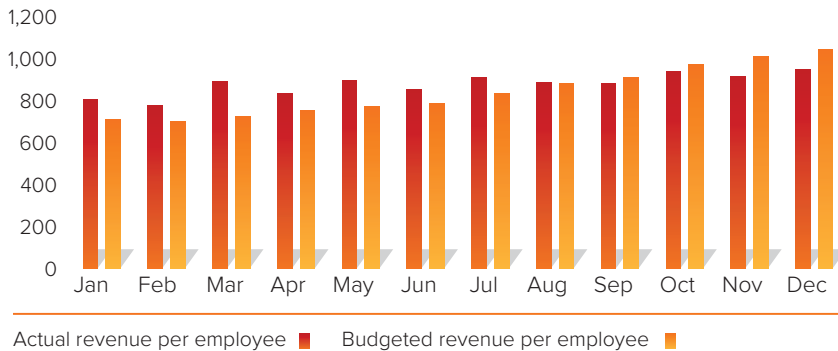
Siyapatha is a member of the Employers' Federation of Ceylon which handles all the Company's employee relation concerns within its professional and legal background.

HR Productivity Measurements

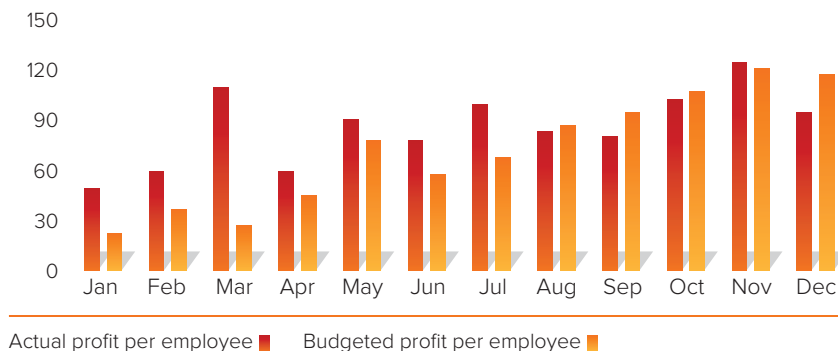
The proof of Siyapatha's success in managing its human resources is seen through the productivity increases gained by the Company over the last three years. Notwithstanding expansion and changes within the Company and the dynamism of the external environment, our employees have continued to demonstrate increased productivity levels which in turn has supported the increased revenue and profitability of the Company.

Human Capital

Revenue per Employee (LKR.000) - Year 2017



Profit per Employee (LKR.000) - Year 2017



Grievance Handling

The Company has an ‘Open Door Policy’ in place for grievance handling. The HR department has the strength to monitor and review employee grievance issues through a streamlined and structured procedure and review system whilst maintaining relevant documents relating to the same. All employees’ grievances are treated as confidential and only shares with parties to whom they are relevant.

All heads of departments and branches are provided guidance on and advised by the HR department at the Head office to follow the grievance procedures and processes set by the Company. Managers and Supervisors are also encouraged to have regular “open dialogue” sessions with their subordinates and encourage them to bring up any issues for discussion in their day-to-day management of operations.

The HR environment of Siyapatha is such that the issues, concerns or feedback on policies and practices within the workplace are freely communicated to the immediate supervisors. However, the option to apply the formal process which is designed to be independent and mediated by the Head of HR is in place to handle any unsuccessful attempts at department level. The Company maintains a fair, open and confidential grievance handling procedure; where employees are encouraged to communicate with the senior management on any serious issues.

The Company has trained a designated HR officer to counsel employees with grievances. This Officer also handles the grievance process and maintains all reported grievances in a strictly confidential manner. The dedicated HR officer deals directly with the respective Head of the Department or senior management member on issues which require escalation for their review and input. Grievances are further elevated for review by the Head of HR to the Chief Operating Officer or the Managing Director, if requirement arose.

No significant grievances were reported during the year 2017. Some minor grievances which were reported have been duly addressed and resolved. The majority of the year’s grievances were originated from female employees.

There is no necessity for trade unions as the expression of views, ideas and grievances are facilitated with the top management. Grievances are successfully handled by HR representatives acting as counselors.

A Whistleblowing Policy is in place under the purview of the Internal Audit Department. Employees are allowed to raise their concerns on employee rights, violation or misdeeds through this mechanism. The confidentiality of issues raised under this policy remain strict and are maintained at the Board level.

Siyapatha introduced the “We Care” program in 2016 and continue the program in a way that employees are freely offered an opportunity for staff members to express their views and discuss grievances with HR representatives who visit different branch offices. Suggestions related to procedure changes and any other pertinent issues communicated are routed to senior management through HR representatives. This has reduced the common and recurring grievances by employees and improved employee motivational levels at our branches. We ensure that every branch was visited by HR representatives at least once in a year through this program.



Dear All,
 As communicated, with the purpose of Sustaining and Inspiring our Great Team with great passion to make SIYAPATHA a Happy Place to Work, we are pleased to inform you that HR Team will visit your branch as per the schedule below:

Date	Branch	HR Representative

HR Representatives will submit a Branch Visit Progress Report on each branch visit with follow up actions.

Social and Relationship Capital

Social and relationship capital of Siyapatha Finance PLC (Siyapatha) comprises of shared values, commitments and knowledge built through collaborations with stakeholders to generate greater value for all which has provided the foundation for trust and the reputation. This can broadly discussed under customers, business partners, regulators, shareholders and the community at large.

Siyapatha Brand and Values	
	Customer Relationships
	Business Partnerships
	Regulators
	Shareholders
	Community

We have fostered goodwill by strengthening our stakeholder relationships which form an integral component of our business activities. This factor is intrinsically linked to the corporate brand and values of Siyapatha.

Company prioritizes the understanding, the requirements of stakeholders ensuring that our systems and processes together with our people are geared towards meeting these relationship needs. We continuously seek ways to interact and engage with all our stakeholders on a regular basis. A detailed stakeholder analysis can be found on pages 12 to 15.

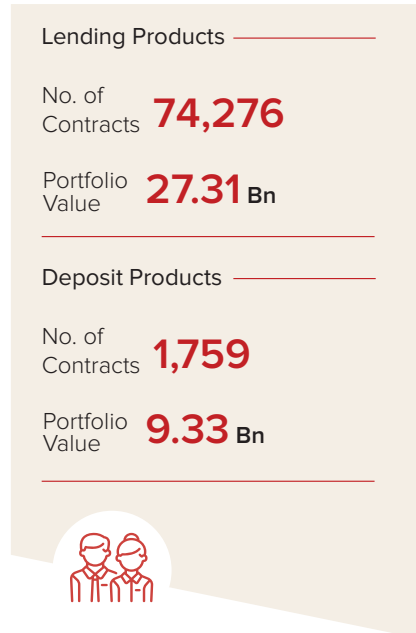
Creating Values to Customers

Building & Enhancing Client Relationships

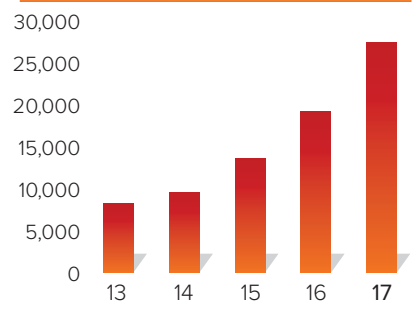
Our customer value proposition focused on facilitating the financial needs of customers while practicing responsible lending, transparent services with due consideration to customer privacy. We have been successful in increasing our lending and deposit portfolios coupled with an expanding customer base through our customer centric approach. This bears testimony to the sustainable long term customer relationships we have been able to build over the years. Our wide spectrum of products catering to varying customer segments and financial needs, branch network and exceptional service standards are the key contributory factors for our success over the years.

By expanding our product range over the years, we have been able to serve a multitude of financial needs of a range of customers providing them the support and guidance to achieve their financial aspirations. Our geographic reach has enabled us to engage positively with our customers and serve them to mutual satisfaction.

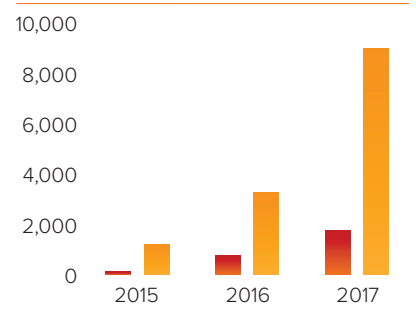
In line with the increase in advances customer base of lending products have witnessed an increase of 66%. It is noteworthy that we managed to increase our deposit base by 178% while increasing the customer base by 133%, despite the intense price competition prevailed amongst the bank and non-bank financial institutions. This demonstrates the trust, reliability and strength we have demonstrated as a financial services provider.



Lending Portfolio Value (LKR Mn)



Deposits Portfolio Value (LKR Mn)



No. of contracts ■
Deposits portfolio value (LKR.Mn) ■

As the Company continues its planned expansion strategy of branches along with the expansion of the product range, we envisage our customer relationships to be

further strengthened and deepened. The Company's continued focus on positioning itself as a mini-bank will also increase the value creation to our existing and new customers, leading to Siyapatha becoming a 'one-stop-shop' catering to diverse financial needs. This strategy will further enable us to cross-sell and up-sell our products across our customer base.

Customer Convenience

As the customers' demand more convenience, through technologically driven platforms such as mobile apps and internet we have recognized the importance of moving in line with the changes in customer preferences. Plans are underway to increase digitalization, automation and customer touch points in digital platforms.

Social Media Engagement

We have identified social media as a powerful tool to reach customers to share details about our promotions and products offered. Recognizing this as a key imperative we engage with our customers through such platforms to ensure engagement and top-of-mind recall. The Company's Facebook page effectively engages with and satisfy the information needs of our millennial and digitally savvy customer segments. New product offers and other information relevant to potential and existing customers is regularly posted on our Facebook page, thereby increasing reach and creating continued interest.

The Company engaged in the corporate website and an active Facebook page, which depict the new corporate identity with the appropriate colours and brand elements.

- Siyapatha Finance corporate website
- Siyapatha Finance corporate Facebook page
- Siyapatha Finance YouTube

SMS and EDM's for email marketing are widely used for wider customer reach other than existing digital platforms used by the Company. Following are amongst the measures taken to optimize the benefits of the Facebook page:

01. Increase number of fans for the Facebook page through advertising and series of engagement activities and organic growth.
02. Generation of leads through social media pages such as Facebook and use 3rd party websites.
03. Google advertisements to create awareness about products to the target audience.
04. Attracting clients visiting the corporate website.

Furthermore, SMS and e-flyers were frequently circulated for greater product push. Social media platforms are being increased through Instagram and LinkedIn profiles as well.

Customer Accessibility

We mainly access customers through our branch network of 26 branches located in close proximity to key cities and town. Our geographical penetration strategy is executed based on an intensive evaluation on several factors in order to ensure that we are able penetrate our target customer segments with our differentiated services.

Branch network with wide range of products coupled with our service standards facilitates the accessibility of target customers. Floor plans of branches are carefully designed to provide convenience to our customers.

It is intended that we progress to create financial inclusivity through both digital and physical – 'brick & mortar' platforms. Our expansion strategy will promote financial inclusivity and generate employment opportunities while adding diversity to our customer base & segments.

During the year under review, the Company improved the customer service infrastructure at the branches both at the physical tangible level and using psychological influence to create a better and more enjoyable experience for customers visiting the Company's branch offices.

Social and Relationship Capital

Products and Services

Siyapatha Finance PLC offers a wide range of solutions for a diversified range of customer segments: The following product range/ branches are currently marketed by the Company.

Asset Financing & Loans

Leasing



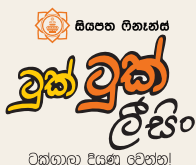
Customized leasing solutions for brand new and unregistered vehicles.



Leases on flexible payment schemes for agricultural vehicles & machinery



A financing scheme facilitating purchase of registered motor vehicles and to borrow against existing vehicles.



A financing scheme to purchase a brand new or registered three wheelers.



Lease options to purchase brand new and registered buddy trucks and lorries.

Business Loans



A loan facility targeted at individual businessmen, SME and mid sized companies offered with or without security by evaluating the profile of the client. Finance short term/ long term working capital & capital expenditure requirements.

Personal Loans



Personal Loans granted to individuals to finance there personal commitments.



Gold Financing



Advances against loans for individuals and the SME sector to finance urgent cash requirements.



Financing against gold for small and medium scale entrepreneurs to fulfil instant cash requirements.



Financing facilities to individuals to purchase gold articles.

Factoring



Accommodations will be given based on account receivables of credit sales, at a discount. Advance amount will be upfront 70% -80% of the volume of invoices. Factoring helps to finance the working capital requirements of businesses.

Fixed Deposits



The Company accepts term deposits from the public with the assurance of an unmatched return while ensuring 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.

Social and Relationship Capital

Products and Services

Responsible Lending Practices

We are committed to responsible lending practices and ensure that the customers are aware of the terms and conditions prior to obtaining lending products. Important information such as interest rates, payment terms and other covenants are explained in detail in a familiar language to ensure our transparency in dealings.

Required steps are taken to distribute product brochures and marketing collateral to ensure our compliance with the directions and guidelines issued by the Central Bank of Sri Lanka and other relevant legislations. No violations or non-compliances were related in relation to any product or service-related guidelines.

We have stepped ahead to ensure the wealth creation to customers are made through leasing and newly introduced housing/business loan facilities. Our employees at customer serving pace are well trained to cater to the financial needs of customers.

Customer Privacy

Customer privacy is a key priority of our entity and a concern of our customers. The Company is highly committed to ensure and safeguard customer interests in relation to privacy and confidentiality of all customers and

their transactions. All the employees have signed for an oath of secrecy and restrictions are placed for disclosing information to third parties. Regular compliance reviews and audits cover the aspect of privacy and confidentiality.

Our employees are trained on these matters and are aware of the required standard of customer privacy and how to deal with any issues that may arise in this area.

The Company seeks to ensure that the measures are taken to capture & foresee rapidly evolving threats.

Customer Satisfaction/Feedback Surveys and Complaint Management

Safeguarding and protecting customer confidence is a critical factor for our success. We value feedback from our customers to improve our product quality and service standards. Several feedback mechanisms are in place to reflect our commitment to obtain required feedback and allow them to talk freely with us.

The details of the customer feedback mechanisms are generally explained to customers when they first approach the Company to inquire about our products. Majority of these surveys and

feedback mechanisms are handled at the Head Office centrally as a practice.

Centralized 'Customer Complaint Handling Process' is practised aiming to convert dissatisfied customers to being "satisfied customers" enabling evaluation and handling of customer centrally. This has expedited and streamlined the entire process while increasing efficiency and effectiveness.

The Company views the processes in place to gather customer feedback as an invaluable tool to build rapport with existing customers, resulting in customer loyalty leading to long-term customer retention and strengthening of the relationship. During the year under review, we were successful in implementing valuable suggestions received from customers in improving our service standards.

Measuring of customer satisfaction is assessed by 'Customer Retention & Feedback Collection Unit' located at Head Office and such measures are made through a two-stage approach namely; Customer Satisfaction and Feedback Assessment Process'.

Stage One: At the inception of the facility

One-on-one phone conversations to gather information related to;

- The level of satisfaction with the marketing officer that served them including behavior and actions during the overall process.
- Whether the facility was obtained as per the customer's expectations.
- Level of satisfaction for the support given by the branch the customer used.
- Customer's willingness to recommend Siyapatha Finance PLC to other potential customers.

Stage Two: At the time of settling the facility

Customers who are at the completing stage of their leasing period or settling their lease prematurely, are contacted in advance to offer further services. Customer feedback in this instance is gathered under the following criteria;

- Level of satisfaction for the product/service of the Company.
- Customer's willingness to obtain another facility from the Company.
- Areas that need to be improved or changed for better quality product offerings and upgrade service levels.

Leading Siyapatha to improve product quality and service standards to create greater value to customers

In addition to the feedback collected through the said process, other mechanisms are also placed to provide suggestions, views, feedback and comments. Customers are notified of the resolution and any corrective action taken in relation to feedback provided. Acknowledgement letter/email is sent to customers informing the status of feedback in an event where circumstances are such that satisfactory immediate solution is not provided.

<p>Customer Suggestion and Feedback Boxes</p> <ul style="list-style-type: none"> Placed at all branches of the Company. These boxes are checked by a dedicated employee in a regular basis. Any pressing issues are escalated to the risk and compliance department. 	<p>In Person</p> <ul style="list-style-type: none"> Customer Assistants will channel the respondent to the correct responsible officer based on the query / issue to be rectified.
<p>Telephone Calls</p> <ul style="list-style-type: none"> Customer Assistants will handle the telephone calls and coordinate with relevant parties to respond to the queries / issues raised. 	<p>Emails/Letters</p> <ul style="list-style-type: none"> Customer Assistants will refer the emails / letters and forward same to relevant parties to respond to the queries / issues raised.

Company reviews and judges the overall performance of Marketing Officer and Branch Officers considering the customer satisfaction percentage/ratio received from the said assessment process. Any complaint against a officer or the Company's processes, procedures, products or services is immediately escalated to the relevant Manager and an investigation will be initiated.

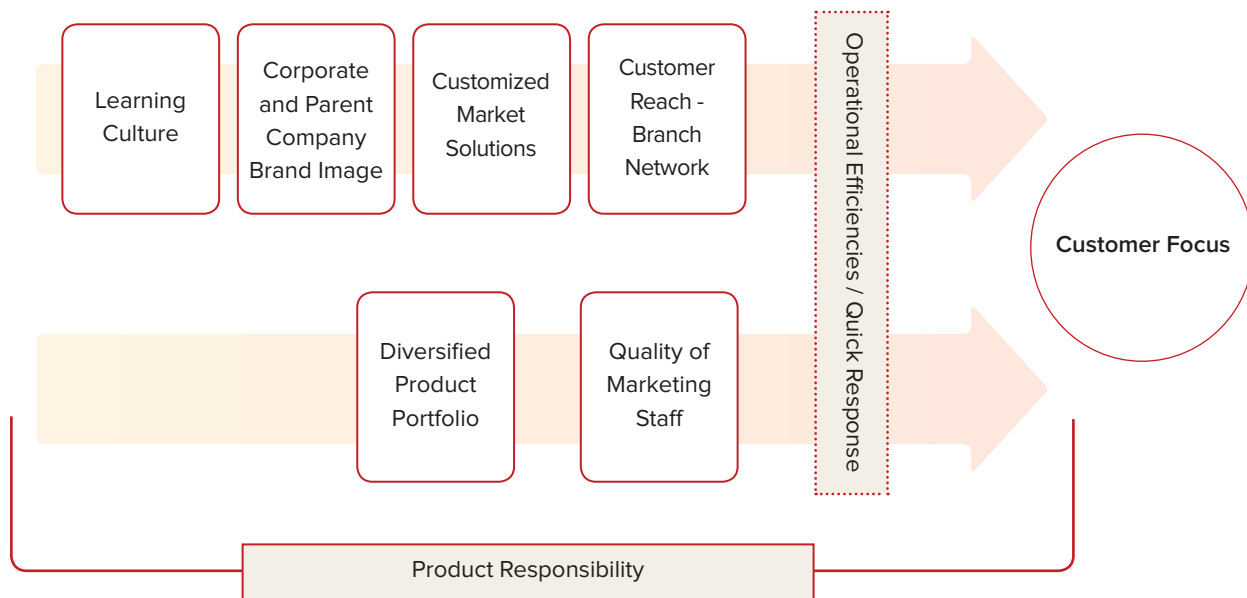
Marketing Officer or the branch is directly responsible for handing of customer complaints with satisfactory one-time resolution, while ensuring the Company's interests and reputation are safeguarded if found to be at fault after the investigation concludes.

Product Responsibility

The Company has a responsibility to embed sustainability in every aspect of product development without compromising performance. This should be carefully evaluated as it could bring far reaching negative effects on other capitals and value creating endeavors.

A customer centric decision-making model is used to manage and differentiate products which bring product diversification coupled with the learning culture.

New product development is carefully carried out with the inputs of various disciplines of the Company and ensures that our offerings are made in conformity with the laws and regulations and ethical practices.

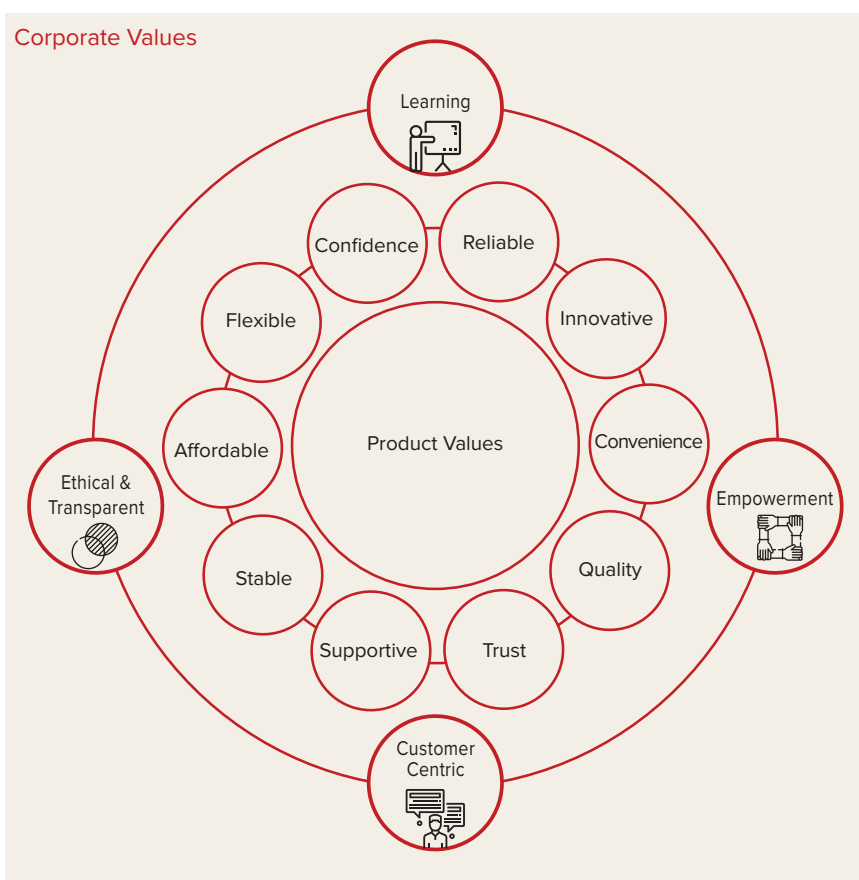


Social and Relationship Capital

Products and Services

‘Siyapatha’ Corporate and Product Values

The corporate and product values of Siyapatha are designed to support business operations and the cultivation of the corporate culture, which is suitable for a company operating within the sphere of the financial services industry. These values are ingrained in every aspect of business activities and embraced by all our employees, thus contributing to the overall value created by the Company for all stakeholders.



Marketing Communications and Branding

The Company created awareness and created visibility amongst the target customers through key initiatives taken for the year 2017. Siyapatha launched a corporate campaign in last quarter of 2017 aiming the building of corporate image linking same to the rebranding of the logo and the tagline of the Company. The TV commercial, press and radio advertisements re-enforced the relationship with Sampath Bank PLC, our parent company together with the customer value propositions of the Company.

The Company invested LKR 54.98 Million on advertising campaigns during the year including the corporate rebranding campaign conducted in the third quarter of 2017. Long term value creation is expected from rebranding exercise while enabling us to build a sustainable organization.



Marketing Promotional Campaigns

Different promotional campaigns were made targeting different customer segments in view of the diversity of the customer base which consists of individuals, the SME sector, corporate establishments and the micro segments.

Some of the key promotional initiatives of the Company for the year 2017 is as follows.

Siyapatha Avurudu Campaign

To celebrate Avurudu with Siyapatha a ‘fixed deposit campaign’ was launched during the month of April 2017. Fixed deposit customers who placed deposits were rewarded with different kinds of traditional oil lamps based on the value of the deposits during this period. Promotions were carried out on radio, newspapers and on the Company website and Facebook page. In addition, the Company’s branch offices were branded with the "Avurudu Ganudenu campaign" theme providing an opportunity for avurudhu celebrations and events.

Siyapatha Bonanza

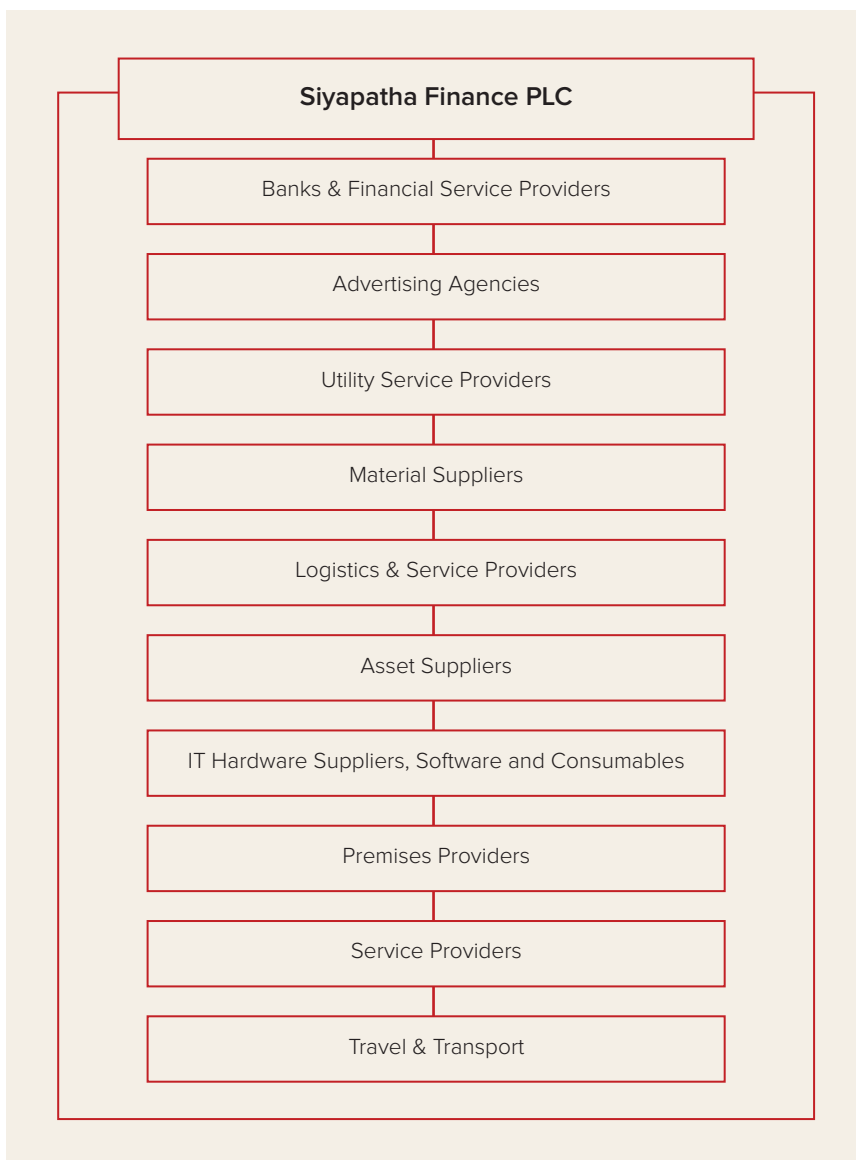
To celebrate the 12th Anniversary of the Company, a promotional campaign was conducted over a period of three months identified as ‘Siyapatha Bonanza’. This was based on encouraging customers to purchase the Company’s leasing, loans, hire purchases and gold financing facilities during a three-month period, whereby those customers would be entered in a raffle draw where winners would be entitled to a grand prize of a brand new Renault KWID Motor Car, and other prizes such as 20 gold coins and other promotional gift items.

Social and Relationship Capital

Products and Services

Creating Value through Business Partnerships

We maintain sound business relationship with our business partners which an integral to success of our business and invaluable in the quest of business success and expansion. Such business partnerships mainly consist of suppliers of products and services such as advertisers, utility companies and bankers; and asset suppliers such as building owners, furniture and fitting suppliers and IT hardware providers.



	No. of Contracts
Asset & material	95
Outsourced services	11
Financial services providers	8
TOTAL	114

We maintain a constant dialogue with our suppliers to ensure competitive pricing and ensure timely deliveries of supplies.

To ensure transparency and good governance in the procurement process, the Company set-up a Procurement Committee in 2014. This Committee consists of the Chief Operating Officer, Head of Finance, Manager Administration, Head of Branches, Head of Gold Financing and Head of Credit. When specialist expertise or knowledge is required to assess a purchase decision, the Committee invites the relevant department managers/officers for their input. The Committee meets regularly and on request whenever an impending purchase decision requires their input.

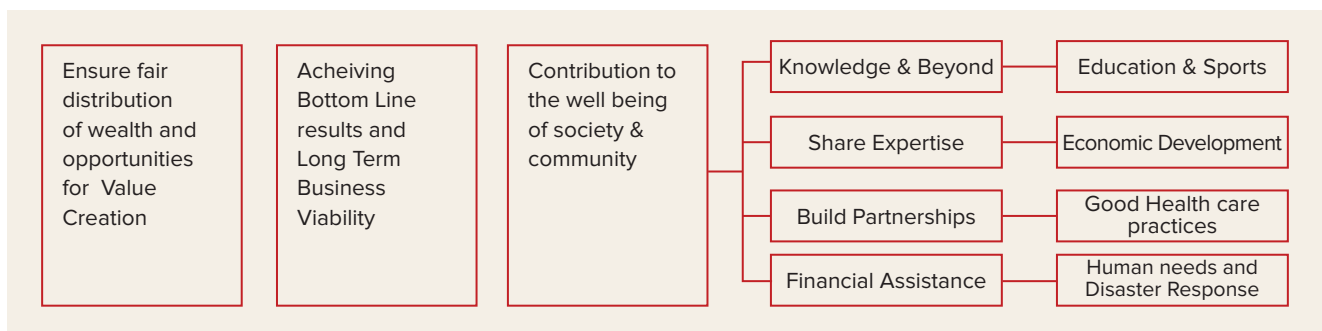
The Committee is responsible for the Company’s procurement actions and to ensure that the approved procurement procedures have been properly applied. The Committee evaluates the mandatory three quotations based on cost and quality, reputation and track record of the supplier and suitability of the supplier. Studying of geographical locations, main markets and customer base, understand historical prices and the updated prices in the market, comparison of competitive bids, prior quotations and published price lists, number and kinds of labor hours required, any special tools and facilities proposed and a reasonable plan for

use and disposal of scrap are amongst the factors which consider prior to making a final purchase decision.

We intend to improve our supplier screening process by including labor, environment, human rights and social screening aspects.

Community

Community within which we operate our business and conduct business activities is a vital important stakeholder. The Company believes in engaging in a positive manner and building long term relationships that will benefit all parties concerned. We have built strong relationships with different community groups with whom we interact frequently over the years. The Company’s Corporate Social Responsibility (CSR) activities are based on the framework shown below.



The Company encourages employees to volunteer their time and effort towards the CSR programs carried out by the Company. Such activities were organized at regional levels with the contribution of branches taking the lead. Such CSR programmes achieved a success with time, effort and dedication of our staff members.

A few key CSR programs are showcased herewith.

Focus on Child Development & Education

A number of sponsorships and donations were provided to encourage children and their extracurricular activities in schools to build up child personality and to balance their study life.

Internship opportunities were offered to school leavers and undergraduates providing opportunities to expose with corporate environment.

Social and Relationship Capital

Products and Services

Contributing to Disaster Reliefs

A number of donations were offered at for disaster relief programmes focusing on basic needs of disabled and special needed individuals.

Team Siyapatha has also taken many initiatives during times of national disaster, where several flood relief initiatives were organized during the year.

Memberships in Associations

The Company believes in engaging with relevant professional and business associations to enable networking with like-minded peers and business

organizations. Further, through these memberships we are able to contribute to the Company's value creating activities such as providing job banks and working with the Company on CSR programs.

The Company is a member of Leasing Association of Sri Lanka, Finance Houses Association of Sri Lanka, Employers Federation of Ceylon (EFC) and the Credit Information Bureau of Sri Lanka. The Company, being a listed finance company holds membership of Central Bank of Sri Lanka, Colombo Stock Exchange and Securities & Exchange Commission of Sri Lanka.



Helping hand to flood victims - delivery of goods



Distributing Bodhi Pooja Books at Kalutara Bodhiya



Ice Cream Dansala - Anuradhapura Branch



Kadala Dansala - Negombo Branch

Natural Capital

As a responsible corporate citizen, Siyapatha Finance PLC (Siyapatha) continuously focuses on improving and enhancing environmentally friendly business practices. The Company is committed towards minimizing direct environmental impacts of its business operations by assessing and monitoring the usage of natural resources and adopting responsible practices in the discharge of organic and non-organic waste.

Due to the nature of the Company’s business, our environmental impact is limited to the consumption of natural resources such as energy, water and paper while the Company’s outputs from operations are mainly office waste and emissions from employee travel.

Energy Management

We strive to use energy in the most efficient, cost effective and environmentally responsible manner. Energy consumed by the Company consists of electricity, which is obtained from the national grid, and fuel used by the Company-owned vehicles.

The Company’s electricity usage is monitored monthly, and measures are to manage energy consumption

The Company’s energy efficiency is managed and implemented through a comprehensive action plan. A summary of this plan is shown below.

levels are in place to ensure optimizing energy usage by the Company. At present the Company only monitors the electricity consumption of the Head Office. During the year under review electricity consumption cost decreased by 10.5% mainly due to our electricity conservation initiatives. Our beliefs are such that proper energy management support our goal of becoming ‘greener’ and will boost our bottom line.

The electricity consumption between 2016 and 2017 for the Head Office premises of the Company is as follows:

Total Energy Consumption	2017	2016
Cost (LKR Million)	4.08	4.56
Cost per Employee (LKR)	7,557	11,702

Siyapatha’s commitment to energy management is further proven by the new state-of-art Head Office building of the Company being designed to be energy efficient and incorporate other key aspects of “green building designs”. Accordingly, the building itself



has a north-south orientation, which protects the structure from the direct rays of day-time sunlight, enabling the building to retain a cooler atmosphere throughout the day.

Key Focus Areas	Our Planned Actions
Reduction of energy usage	<p>Introduced LED lightings to branches.</p> <p>Replaced 500w flasher lights with 50w LED flood lights.</p> <p>An employee was chosen from each department/area and assigned the task of switching off lights at the end of the work day or when the area was not in use.</p> <p>All employees were requested to switch off ACs whenever they left a department/area last.</p> <p>Bamboo blinds were introduced in our branches as a method to reduce heat emanation as a measure to lower AC usage.</p>

Natural Capital

Key Focus Areas	Our Planned Actions
Creating awareness among employees to conserve energy	<p>All branches and head office departments were advised to set the AC temperature at 24°C to optimize electricity consumption.</p> <p>Regular monitoring of energy bills with respective department heads and branch managers being informed when higher than expected levels of energy consumption is observed.</p> <p>Posters and other relevant notices such as 'switch off lights' and 'reduce the AC temperature' have been developed and displayed prominently in relevant areas to act as a constant reminder to employees to adhere to these best practices.</p>
Employee engagement activities to reduce energy consumption	<p>Teams at the branches and head office departments are regularly educated on the need to minimize energy usage and wastage.</p> <p>Cross functional team was set up to monitor Cost to Income ratio for carrying out this initiative on a continuous basis.</p>
Policies and practices	<p>A formal policy and guidelines for energy conservation is being developed as a best practice initiative and as a measure to assist the management of the Company to formalize processes and procedures and enable closer monitoring of energy consumption.</p>
Promoting a paperless office concept	<p>Use of electronically scanned documents for approval, reference and archiving purposes.</p> <p>Discouraging photocopying by streamlining processes and introducing practices that minimize the requirement of duplicate documentation.</p> <p>Sharing internal working documents through IT-based systems.</p> <p>Putting in place systems that enable day-to-day approvals to be given via online systems. E.g. Employee leave approvals.</p> <p>Using electronic communications for business purposes such as emails and letters sent as electronic documents such as PDFs.</p> <p>Subscribing to receive electronic statements and bills from banks, telecommunication companies and other key suppliers.</p> <p>Using E-Banking facilities for utility bill payments and payments to suppliers, thus reducing cheque usage. Adopting electronic statement processes for Company's own customers and promoting the Company's electronic statement facility.</p>

Key Focus Areas	Our Planned Actions
Reducing usage of paper and reusing paper	<p>The Company conscientiously reduced the budget for the purchase of paper for internal use.</p> <p>Introduced a policy of double-sided printing for any printed documents.</p> <p>Encouraging employees to reuse one-sided non-confidential printed papers for printing internal documents and for rough work.</p> <p>The IT department was tasked with the duty of ensuring all printers used by the Company enabled double-sided printing as a default.</p>
Recycling paper	<p>The Company has distributed recycle bins to every department in the Head office and its branches as the point of collecting paper for recycling.</p> <p>To the Company has partnered with GEOCYC (Private) Ltd to collect the waste paper for recycling weekly.</p>
Creating awareness among employees on waste disposal practices	<p>Employees are trained on the accepted practices of paper usage, paper disposal and e-waste disposal by the Company.</p> <p>Branch employees receive continuous reminders awaring on minimization of paper usage.</p> <p>As awareness measures, posters and other notices are also put-up at strategic locations at the Head office and the branches as a constant reminder for employees to adopt best practices recommended by the Company.</p>
Policies and practices	<p>A formal policy and guidelines document for waste management is being developed as a best practice initiative and as a measure to assist the management of the Company to formalize processes and procedures and enable closer monitoring of waste generation and disposal.</p>

Waste Management

The primary waste generated by the Company's operations consists of paper and e-waste. The Company has partnered with GEOCYC (Private) Ltd to recycle all used and discarded paper. Paper waste is collected for recycling weekly. During the year under review the Company recycled 2,101 kg of waste paper and in the processes earned LKR 23,275/- during the year from recycling paper.

The Company responsibly disposes of its e-waste. Other waste generated by the Company is mainly organic which is disposed of through the Municipal Council Garbage Services of the country. The Company's waste management initiative is managed and implemented through a comprehensive action plan.

Impact of Climate Change

The Company being in the financial sector has no direct impact on climate change from its operations. However, as a financial services institution lending to the agriculture sector, the Company may indirectly

impact climate change. As a result, the Company has adopted 'Green Lending Initiatives' that screens on impact to climate change during the credit evaluation process.

Green Lending Initiatives

Being a responsible lending institution, Siyapatha in 2017 ventured into exploring opportunities for green lending initiatives. The Company being cognizant of the importance of lending to environmentally friendly businesses as a measure to control our indirect impact to climate change and to encourage the development of sustainable enterprises incorporated

Natural Capital

systems and processes to our review process and also customized some products to encourage customers to be more environmentally conscientious.

Accordingly, environmental screening criteria were included within the credit evaluation stage of new customer evaluations, and due diligence is also carried out to ensure customers' compliance with the Central Environmental Authority and other relevant environmental governing bodies and regulations. The Company has adopted a strict policy of not lending to business enterprises, which produce adverse environmental impacts.

In addition, the Company also promotes lending facilities for individuals who are actively seeking to use environmentally friendly measures to upgrade their homes with solar panels and water heaters. Furthermore, the Company encourages our customers to use hybrid and electric vehicles by offering them customized specialist leasing packages.

During the year under review, a promotional campaign was carried out to increase awareness of such leasing products in the market. This campaign together with the growing market of environmentally concerned consumers resulted in this leasing category capturing 18.3% share of the total lending portfolio of the Company as at the end of the year.

Investor Information

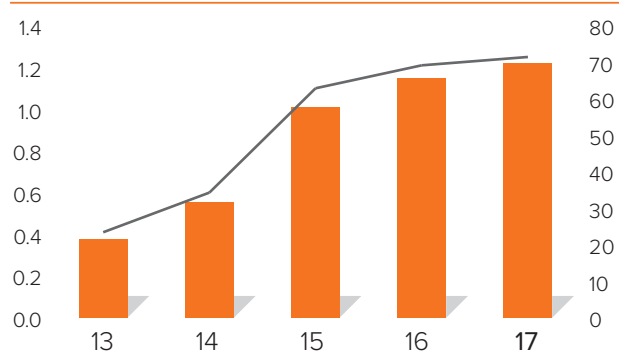
Value Creation for Shareholders

	2017	2016	Change (%)
Profit for the year (LKR.Mn)	498.86	327.28	52.43%
Earnings per share (LKR.)	8.94	5.87	52.43%
Shareholders' funds (LKR. Mn)	2,478.29	1,930.36	28.38%
Net Asset value per share (LKR)	44.43	34.61	28.38%
Dividend per share (LKR)	1.25*	1.21	3.31%
Dividend yield (%)	13.98%	20.62%	-6.65%
Market price per share (LKR)	N/A **	N/A **	

* The Board of Directors have recommended a scrip dividend of LKR.1.25 per share on 55,777,146 ordinary shares totaling to LKR.69.72 Million subject to approval of Shareholders of the Company.

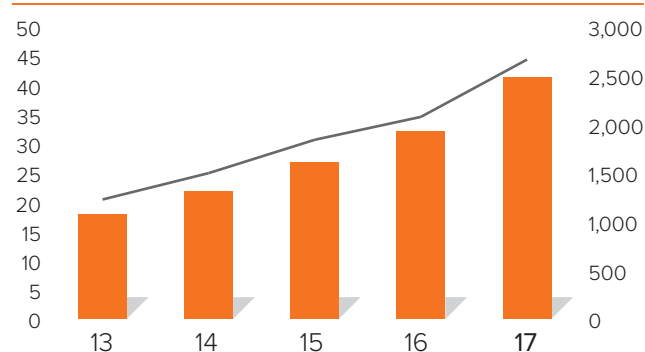
N/A **-This is not applicable as the Company's shares are currently not traded on Colombo Stock Exchange.

Gross Dividend (LKR.Mn) & Dividend per share (LKR)



Gross Dividend (LKR.Mn) ■
Dividend per share (LKR) —

Shareholders' funds (LKR.Mn) & Net asset value per share (LKR)



Shareholders' funds (LKR.Mn) ■
Net Asset value per share (LKR) —

Distribution of Share Ownership

	31/12/2017			
	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%	55,777,139	100.00%
	8	100.00%	55,777,146	100.00%

Investor Information

Information on Shares

Stated capital as at 31 December 2017 was represented by the number of shares in issue as given below.

	As at 31 December 2017		As at 31 December 2016	
	Number	LKR.	Number	LKR.
Ordinary Shares	55,777,146	635,916,827/-	54,124,726	576,975,000/-
Total	55,777,146	635,916,827/-	54,124,726	576,975,000/-

Shareholder Information

Shareholders' list as at 31 December 2017

	Name	No of Shares	%
(01).	Sampath Bank PLC	55,777,139	100.00%
(02).	Mr. M A Abeynaike	01	0.00%
(03).	Mr. S G Wijesinha	01	0.00%
(04).	Dr. H S D Soysa	01	0.00%
(05).	Mr. W M P L De Alwis	01	0.00%
(06).	Mr. C P Palansuriya	01	0.00%
(07).	Mr. Ranjith Samaranayake	01	0.00%
(08).	Mr. S Sudarshan	01	0.00%
		55,777,146	100.00%

Public Holdings

The percentage of ordinary shares held by the public as at 31 December 2017 was 0%.

Directors'/ CEO's holding in shares as at 31 December 2017

Name	Position	No: of Shares
Mr. C P Palansuriya	Chairman	01
Dr. H S D Soysa	Director	01
Mr. W M P L De Alwis	Director	01

Information on Listed Debentures

(i). Market Values

	Highest (LKR)		Lowest (LKR)		Period End (LKR)	
	2017	2016	2017	2016	2017	2016
Debentures -2014/2019	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded
Debentures-2016/2019	98.00	100.00	98.00	100.00	98.00	100.00
Debentures-2016/2021	100.00	100.00	100.00	100.00	100.00	100.00
Debentures-2017/2022	Not Traded	N/A	Not Traded	N/A	Not Traded	N/A

N/A-Not Applicable

(i). Market Values

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

N/A-Not Applicable

(iii). Interest rate of comparable Government Securities

	31-12-2017	31-12-2016
6 months treasury bill	9.22%	10.70%
1 year treasury bill	9.89%	11.30%
5 year treasury bond	11.33%	13.07%

(iv). Current Yield & Yield to maturity

	2017		2016	
	Current Yield (%)	Yield to Maturity (%)	Current Yield (%)	Yield to Maturity (%)
Debentures Issued-December 2014 5 year Fixed rated (8.90% p.a. payable annually)	8.90%	Not Traded	8.90%	Not Traded
Debentures Issued-September 2016 3 year Fixed rated (13.00% p.a. payable annually)	13.00%	13.90%	13.00%	12.93%
Debentures Issued-September 2016 5 year Fixed rated (13.50% p.a. payable annually)	13.50%	13.43%	13.50%	13.49%
Debentures Issued-October 2017 5 year Fixed rated (12.50% p.a. payable annually)	12.50%	Not Traded	N/A	N/A

(v). Ratios

	31-12-2017	31-12-2016
Debt to Equity Ratio (Times)	4.95	4.92
Interest Cover (Times)	1.28	1.32
Quick Asset Ratio (%)	99.74%	105.95%

Future Ready

Our range of financial solutions support and help your business to grow and prosper.



Board of Directors



- | | |
|--|---|
| <p>1 Mr. Channa Palansuriya
Chairman (Non-Executive Non-Independent)</p> | <p>4 Dr. Dilanjan Soysa
Director (Senior, Non-Executive Independent)</p> |
| <p>2 Mr. Prasantha Lal De Alwis
Deputy Chairman (Non-Executive Independent)</p> | <p>5 Mr. Asoka Sirimane
Director (Non-Executive Independent)</p> |
| <p>3 Mr. Saman Herath
Managing Director (Executive)</p> | <p>6 Mr. Tharaka Ranwala
Director (Non-Executive Non-Independent)</p> |



- 7 Mr. Sumith Cumararatunga**
Director (Non-Executive Independent)
- 8 Ms. Aroshi Nanayakkara**
Director (Non-Executive Independent)
- 9 Mr. S Sudarshan**
Group Company Secretary

Board of Directors

1

Mr. Channa Prabodha Palansuriya

Chairman (Non-Executive
Non-Independent)

Served as the Chairman of Siyapatha Finance PLC till October, 2016 and was re-appointed as the Chairman of the Company on 15th November 2017.

Qualifications, Skills & Experience:

Earned a Masters of Business Administration from Open University of Malaysia and has gained over thirty years of extensive experience in the Apparel sector by heading the Orit Group of Companies and through continuous leadership given to other companies in the Apparel Industry. Further, being a Board member of the BOI for ten years, he gained wide 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.

Current Appointments:

Chairman of Sampath Bank PLC, Director of National Livestock Development Board, Director of Indra Holdings (Pvt) Ltd, Executive Committee Member of Joint Apparel Association Forum (JAAF).

Previous Appointments:

Chairman of Orit Apparels Lanka (Pvt) Ltd, Chairman of Orit Trading Lanka (Pvt) Ltd, Chairman of Style Kraft Sportware (Pvt) Ltd, Chairman of Orit Inspired Creations Ltd, Chairman of GC Lanka Clothing (Pvt) Ltd, Deputy Chairman of National Livestock

Development Board, Board member of Board of Investment Sri Lanka, Executive Committee Member of Sri Lanka Apparel Exporters' Association and Executive Committee Member of Sri Lanka Apparel Sourcing Association (SLASA).

Membership of Board

Sub-Committees:

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

2

Mr. Watuthantrige Mahiman Prasantha Lal De Alwis

Deputy Chairman (Non-Executive
Independent Director)

Appointed to the Board on 25th February, 2011.

Qualifications, Skills & Experience

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

Mr. Alwis is a Certified National Trainer in Human Resource Management of the Junior Chamber International and visiting lecturer of Faculty of Law, University of Colombo, including subjects of Banking in LL.M Programme.

Previous Appointments

Mr. Alwis was a Director of Sampath Bank from January 2002 to January 2011. He continues to be an Advisor to the Board of Sampath Bank since

January 2011. He was a member of the Consumer Affairs Authority, Board of Sri Lanka Foreign Employment Agency and Official Language Commission in Sri Lanka.

Current Appointments

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 Incorporate Council of Legal Education, Board of Management Centre for Human Right Development - University of Colombo and Law Faculty Board of University of Colombo. He is presently Commander of St. Johns Ambulance Brigade.

Membership of Board Sub-Committees

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

3

Mr. Kothwala Mudiyansele Saman Priyantha Herath

Managing Director (Executive
Director)

Appointed to the Board on 5th April, 2016.

Qualifications, Skills & Experience

Mr. Saman Herath is an experienced banker with 35 years' worth of experience. Beginning his banking career at Commercial Bank in 1981, he later joined Sampath Bank PLC as an Executive in the Finance Division in 1987. Mr. Herath worked his way up the proverbial ladder of the bank's

hierarchy until he reached the position of Senior Deputy General Manager of Corporate Banking from which he retired in June 2015. A result oriented person, Mr. Herath contributed largely to the development of Sampath Bank.

He is a fellow Member of the Chartered Institute of Management Accountants of UK (FCMA, UK) and a Chartered Global Management Accountant (CGMA). Mr. Herath is also an Associate Member of the Institute of Bankers, Sri Lanka and holds a number of qualifications including, a Diploma in Credit Management from the Institute of Bankers, a Certificate in Asset and Liability Management from the Postgraduate Institute of Management and has also completed a number of courses in General and Strategic Management conducted by institutions such as The National University of Singapore.

Previous Appointments

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

Membership of Board Sub-Committees

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

4

Dr. Henedige Srinath Dilanjan Soysa

Director (Senior, Non-Executive Independent)

Appointed to the Board on 01st January, 2011.

Qualifications, Skills & Experience:

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

Current Appointments:

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

Previous Appointments:

Dr. Soysa started his working career as an Executive Officer at Grindlays Bank PLC. He has held several key corporate positions which include Management Consultant, Development Financial Corporation of Ceylon Limited and Citi Bank. In the field of leasing, he was involved in starting operations in 1983 at Mercantile Lloyds Leasing Limited from where he retired as Deputy Managing Director in 2000. He then joined Commercial Leasing Company Limited as General Manager/CEO in 2002 and served in that position until his retirement in 2010.

Membership of Board Sub-Committees:

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

5

Mr. Parakrama Maithri Asoka Sirimane

Director (Non-Executive Independent)

Appointed to the Board on 3rd August, 2010.

Qualifications, Skills & Experience

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

Previous Appointments

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.

Current Appointments

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

Mr. Sirimane also serves on the Board of The Colombo Fort Land & Building PLC (CFLB) and holds several other Directorships in the CFLB Group.

Membership of Board Sub-Committees

He is the Chairman of Board Audit Committee and holds memberships

Board of Directors

of the Board Corporate Governance Committee, the Board Nomination Committee and the Board Related Party Transactions Review Committee.

6

Mr. Lasith Tharaka Ranwala

Director (Non-Executive Non-Independent)

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

Qualifications, Skills & Experience:

Mr. Ranwala is the Senior Deputy General Manager (Consumer Banking) of Sampath Bank PLC responsible for overseeing the areas of the entire retail banking business of the Bank including the Branch network. He has over 16 years experience in the Banking Industry in roles of increasing responsibility in Retail Banking and Marketing. During this period he had exposure in Credit Card, Branch Banking, Brand Management, Corporate communications, Market Development, CSR, Consumer and International Marketing.

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

Current Appointments

Mr. Ranwala is a member of the Sampath Bank CSR and Corporate Sustainability Steering Committee.

He 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.

Membership of Board Sub-Committees

Serves as a Member of the Board Credit Committee.

7

Mr. Palavinnege Sumith Cumaratunga

Director (Non-Executive Independent)

Appointed to the Board on 30th October, 2017.

Qualifications, Skills & Experience:

Mr. Palavinnege Sumith Cumaratunga was formerly Chairman & Managing Director of the David Pieris Group of Companies, where he served for 30 years and 9 months – 24 years as a Director and 2 years prior to that as General Manager. He retired as Chairman on 31st March 2016, having joined as Accountant on 01st July 1985. During this tenure, the organisation transformed from a relatively small business unit in a single location, to one of the most profitable, professionally managed conglomerates in Sri Lanka, with an island-wide reach and a consistent track record of exceptional performance, successfully overcoming numerous challenges.

Mr. Cumaratunga is a Chartered Management Accountant (ACMA),

a Certified Practising Accountant (CPA) and a Member of the Chartered Institute of Marketing (DipM MCIM).

Current Appointments

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

Previous Appointments

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

Membership of Board Sub-Committees

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

8

Ms. Aroshi Nanayakkara

Director (Non-Executive Independent)

Appointed to the Board on 6th November 2017

Qualifications, Skills & Experience

Ms. Nanayakkara is the CEO of the Global Consulting Company. She is a dynamic leader in the fields of Strategic Planning, HR and Risk Management

having gathered extensive experience 20 years in multinationals as well as some of Sri Lanka's prominent blue chip companies. She holds a BSc. from the Massachusetts Institute of Technology (MIT), Boston, USA in addition to a MSc. from the London School of Economics (LSE), UK. She also holds the professional qualifications of ACMA and CGMA from the Chartered Institute of Management Accountants (CIMA), UK.

She is a corporate trainer and certified coach and her expertise has been leveraged by leading organizations in the banking, manufacturing and services sectors.

Previous Appointments

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

CEO of Brandix Hangers (Pvt) Ltd. She was a member of the "University & Higher Education Steering Committee" of the National Human Resource Development Council of Sri Lanka and has authored the Corporate Governance section of the "Handbook of Good Governance for Chairman & Boards of Directors of Public Enterprises."

Current Appointments

Ms. Nanayakkara serves on the Board of Hela Clothing (Pvt) Ltd and is a Director of the Sri Lanka Institute of Directors. She is the incoming President (2020) of the Rotary Club of Colombo.

Membership of Board Sub-Committees

She is the Chairperson of Board Corporate Governance Committee and holds memberships of the Board Audit Committee, the Board Integrated Risk Management Committee, the Board HR & Remuneration Committee and the Board Related Party Transactions Review Committee.

9

Mr. Sathananthan Sudarshan

Group Company Secretary

Mr. Sathananthan Sudarshan, was appointed as the Company Secretary of Siyapatha Finance PLC with effect from 7th December 2015.

He is a Chartered Secretary by profession and is an Associate of the Institute of Chartered Secretaries & Administrators (UK) and the Institute of Chartered Corporate Secretaries in Sri Lanka. He has been awarded a MBA from the University of Lincoln, Hull, United Kingdom.

He successfully completed the "Company Director's Course" conducted by the Commonwealth Association for Corporate Governance on behalf of the Commonwealth Fund for Technical Co-operation.

After completing his education at Ananda College, Colombo 10, he started on his Company Secretary career at Hulugalle Associates (Pvt) Limited. Later he joined the Corporate Secretarial division of PricewaterhouseCoopers (PWC) where gained wide experience in many industries.

After a few years he joined Pugoda Textiles Lanka Ltd; a subsidiary of an Indian Multi National Company and was appointed as its Company Secretary.

He later joined Sampath Bank PLC as its Company Secretary and was later appointed as Group Company Secretary. He served the longest tenure as a Company Secretary of a listed Bank. He is well versed in Board room activities in advising Board on Corporate Governance. He is well acquainted with Stock Exchange regulations and its activities.

He is also the President of the Institute of Chartered Corporate Secretaries of Sri Lanka.

Corporate Management Team



1



2



3



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5



6

- 1. Saman Herath - Managing Director
- 2. Rajeev De Silva - Chief Operating Officer
- 3. Hasuni Gayasha - Head of Finance
- 4. Rohana Dissanayake - Head of Deposits
- 5. Thilani Punyawansa - Head of Risk & Compliance
- 6. Nimal Luxshman - Head of Internal Audit

STEWARDSHIP



- 7. Mathisha Hewavitharana - Head of Branches
- 8. Prasad Udugampola - Head of Human Resources
- 9. Shama Selvaratnam - Head of Factoring
- 10. Shajeewa Dodanwatte - Head of Recoveries
- 11. Dushyantha De Silva - Head of Credit Administration
- 12. Ajantha Kumara - Head of Gold Financing
- 13. Saman De Silva - Head of Credit

Other Key Managers



Hisham Ziard
Senior Regional Manager - Credit

Thilak Adikari
Senior Regional Manager - Credit

James Peries
Senior Manager - Corporate Business



Manjula Balasuriya
Manager - IT

Sampath Himendra
Manager - Operations

Damith Shaminda
Manager - Internal Audit

STEWARDSHIP



Nimasha Kumarasiri
Manager - Finance

Lakmini Perera
Manager - Factoring

Malaka Asiriwardana
Manager - Administration



Aruna Nawarathna
Manager - Recoveries

Lushan Perera
Manager - Branding

Kanil Perera
Manager - Deposits



Amila Liyanarachchi
Manager - Insurance

Anura Jayasinghe
Manager - Micro Finance

Asirinie 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



Buddhika Rathnayake
Branch Manager- Matara

Mohamed Primsath
Branch Manager- Sainthamaruthu

S M Faiz
Branch Manager- Kalmunai



Ashoka Rupasinghe
Branch Manager- Ampara

Bhathiya Asanka Kumara
Branch Manager - Kurunegala

Saliya Maluddeniya
Branch Manager -Kandy



Rasika Rathnayaka
Branch Manager- Katugasthota

T Prabakaran
Branch Manager - Batticoola

Dinesh Eranda
Branch Manager- Trincomalee

Branch Managers



Gayan Sampath
Branch Manager- Negombo

Sandaruwan Wijerathne
Branch Manager- Gampaha

Malaka Maddumage
Branch Manager- Kalutara



Harsha Rathnayaka
Branch Manager- Head Office

Sandaruwan Somarathna
Branch Manager- Kurunegala Metro

Anuradha Deshapriya
Branch Manager- Anuradhapura



Gayan Mallawarachchi
Branch Manager- Panadura

Manoj Udayakumara
Branch Manager- Nugegoda

Rashmika Rajapakshe
Branch Manager- Wellawatta

STEWARDSHIP



L H M Dhanushka
Branch Manager- Awissawella

Rengan Balakrishnan
Branch Manager - Nuwaraeliya

Nuwan Amarasinghe
Branch Manager - Galle



Ananda Jayakody
Branch Manager- Kegalle

Rangika Lakmal
Branch Manager- Peliyagoda

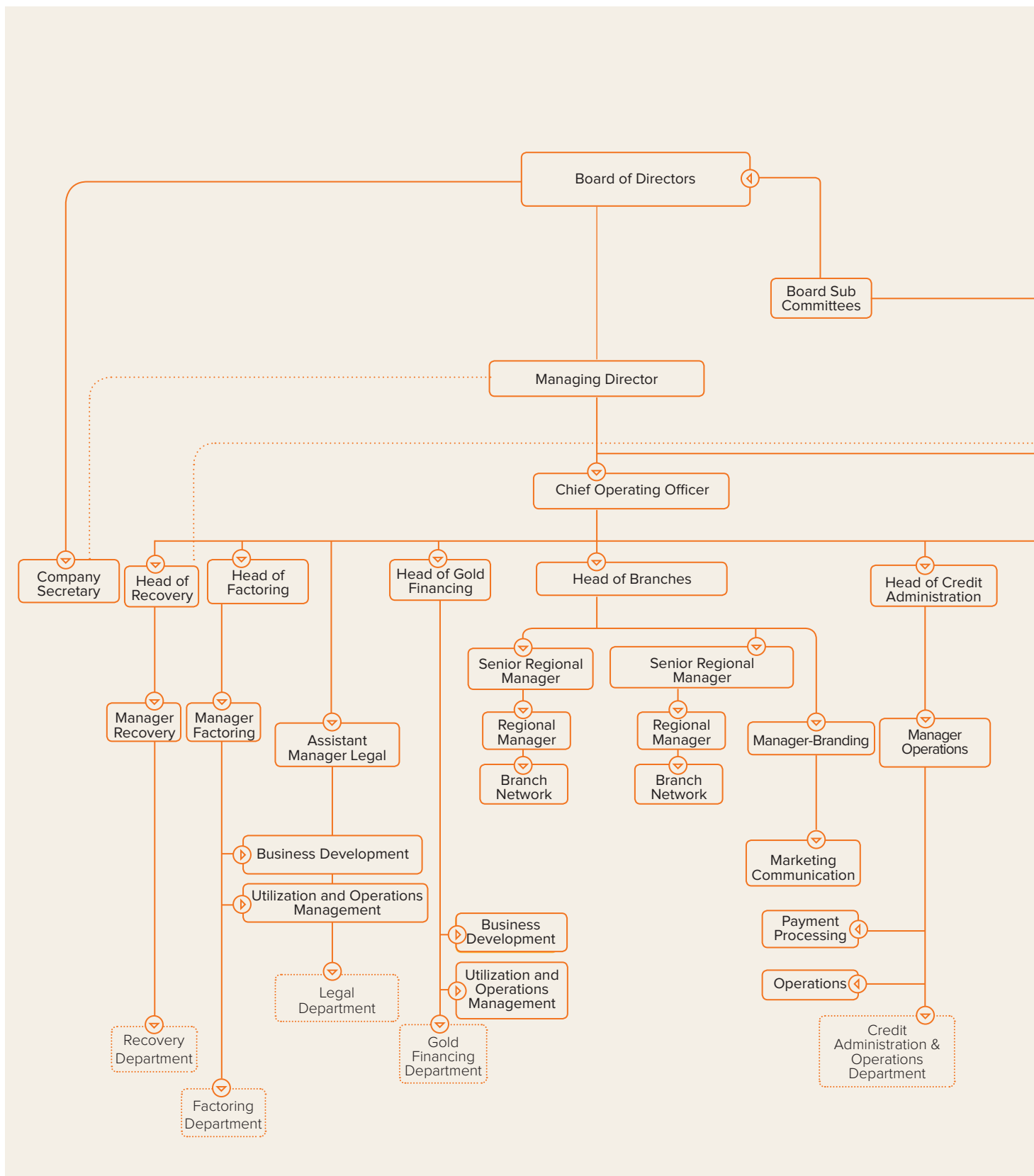
Megavannan Jesinthiran
Branch Manager- Vauniya



Sameera Indrajith
Branch Manager- Rathnapura

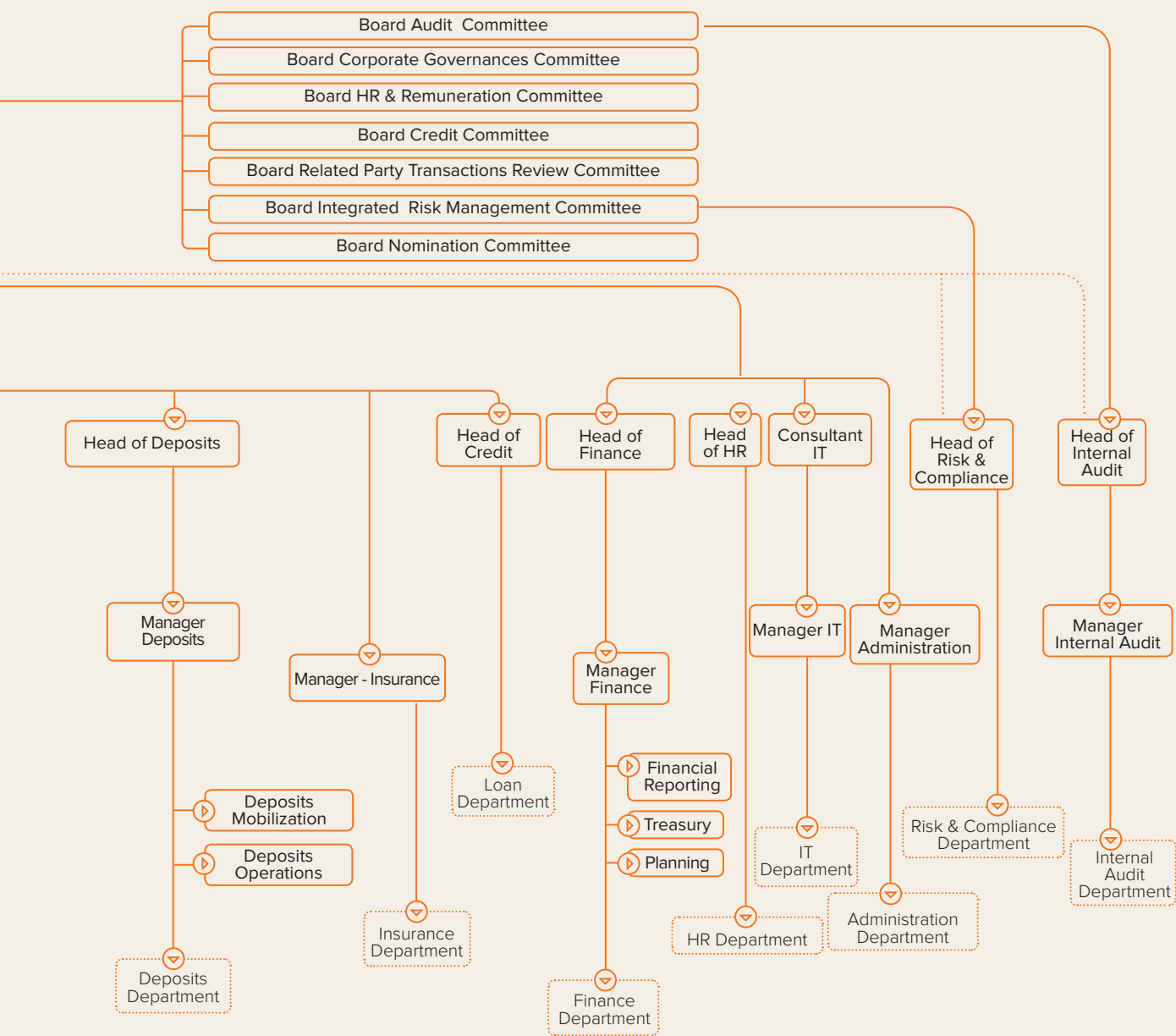
Amitha Chandrasekara
Branch Manager- Kuliyaipitiya

Organization Structure



KEY

- Functional Reporting
- ⋯ Administrative reporting
- ▭ Function
- ◻ Functional Head



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
THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS		
2(1)(a)	Strategic objectives and corporate values	Board approved Business Plans for 2018-2020 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 mechanism with measurable goals	<p>Board approved Strategic Plan for 2018-2020 and projected financial statements for the year 2018 are in place. Risk Policy including risk management procedures, mechanisms with measurable goals for next three years have been approved by the Board in line with the Strategic Plan. The Board measures the corporate performance against the predetermined goals.</p> <p>Company's Strategic Plan 2018-2020 includes measurable goals for the next 3 years.</p>
2(1)(c)	Managing the risks in the Company	<p>There is a process in 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>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 in the Company to identify the adequacy 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 is in the process of reviewing the integrity of the same.</p> <p>Accordingly, the Board also reviews the adequacy and the integrity of the Company's MIS through the internal audit reports and MIS Reports submitted by the Internal Auditors of the Company.</p>
2(1)(f)	Identification of KMP'S of the Company	Further in line with the Central Bank requirements all Heads of Departments of the Company have been identified as KMPs.

Section	Corporate Governance Principle	Compliance
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 Board of Directors and Board Sub Committees.</p> <p>Job Descriptions of Key Management Personnel which includes the functions and responsibilities of the KMP have been approved by the Board.</p> <p>Areas of authority are covered under the Delegation Authority (DA) limits assigned for KMP.</p>
2(1)(h)	Appropriate oversight affairs of the Company by KMPs	In order to ensure management, development and effective performance of the Company, KMPs make regular presentations to the Board on matters under their purview.
2(1)(i)	Effectiveness of the Board of Directors' own governance practices	Siyapatha Finance has set up its own Board Nomination Committee, with a majority of Independent Non Executive Directors, who recommend names of individuals to be appointed as Directors to the Board of Siyapatha Finance PLC.
	Selection, nomination and election of Directors and Key Management Personnel	Appointment of KMPs is recommended by the Board HR & Remuneration Committee under the direction of the Board of Directors of the Company.
	Management of conflicts of interest	As per Company's Article 26, there is a requirement in place for the Directors to declare the nature of their interest. Directors' interests are disclosed to the Board and any Director who has a particular interest abstain from voting.
	Determination of weaknesses and implementation of changes	<p>Determination of weaknesses in Board of Directors' own governance practices and implementation of changes is addressed through the self-evaluation process among the Board members.</p> <p>Self evaluation forms for the year 2017 have been obtained and a summary will be submitted to the Board during the ensuing year.</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	MD and COO are called for regular Board Meetings to review policies and monitor progress towards the corporate objectives. The other KMPs attends Board meetings on invitation and makes presentations, which provide the opportunity to share their views and contribute towards the performance of the Company.
2(1)(l)	Understanding the regulatory environment	All directions issued by CBSL have been presented to the Board members by the Company Secretary on a regular basis for their knowledge and guidance. The Head of Risk & Compliance submits a Compliance Certificate and Statutory Compliance report which contains the details of returns submitted to CBSL and to other Statutory Bodies, new regulations/statutes and their implications on the business, significant non-compliance events and compliance with regulatory requirements/returns. Thus, the Directors are fully conversant with the regulatory environment.

Corporate Governance

Section	Corporate Governance Principle	Compliance
2(1)(m)	Hiring and oversight of external auditors	<p>Company's Article 38(4) addresses the general procedure for the appointment of External Auditors by the shareholders. Further, as per the Terms of Reference (TOR), Board Audit Committee (BAC) has a process for this purpose and final approval is obtained from the Board.</p> <p>Rotation of the Audit Partner is monitored and done by the Company to maintain a high standard of transparency within the system. At the completion of his tenure the former Audit Partner retired and the current Audit Partner took over in 2016.</p>
2(2)	Appointment of Chairman and CEO and their responsibilities	Board of Directors of Sampath Bank PLC recommends the name of Chairman to be appointed to the Company and the appointment of MD is approved by the Board. Board of Directors of the Company has approved the functions and responsibilities of the Chairman keeping in line with good governance.
2(3)	Procedure for seeking Independent Professional Advice	A Board approved procedure is in place to enable Directors, upon reasonable request to seek independent professional advice in appropriate circumstances, at the Company's expense.
2(4)	Dealing with conflicts of interest	<p>Under Company's Article 26 (1 & 5) Directors declare their nature of interest and abstain from participating at discussions and voting on any Board resolution in relation to a matter in which he/she or any of his/her close relation or an entity in which a Director has a substantial interest.</p> <p>Directors of the Company are independent from business transactions and have no personal connections with the Company's matters. They have disclosed their interest in the Affidavits and Declarations which have been sent to the Central Bank annually.</p>
2(5)	Schedule of matters reserved for Board Decision	Board approved "Code for Board of Directors and Board sub Committees" is in place and it defines the functions and matters specifically reserved for the Board.
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 Company is unable to meet its obligations and is about to become insolvent. Such a situation has not arisen during the year 2017.
2(7)	Publish Corporate Governance Report	Corporate Governance Report is set out on the pages 94 to 129 of Annual Report
2(8)	Scheme of self- assessment for Board	A procedure is in place for Annual self-assessments of Directors which provide an opportunity to discuss the findings that are made during the year. Self - Assessment forms are obtained from the Directors annually by the Company Secretary and the summary of the Self Assessment is submitted to the Board meeting enabling Directors to discuss relevant matters if any.

Section	Corporate Governance Principle	Compliance
3	MEETINGS OF THE BOARD	
3(1)	Regular Board Meetings	<p>Board Meetings for the year have been scheduled at the end of the previous year and an annual meeting calendar is submitted to the Board. Special meetings were conducted as and when required. Fourteen Board Meetings were held during the year under review.</p> <p>Board approved procedure is in place to minimize obtaining consent through circulation of written or electronic resolutions/papers other than those under urgent circumstances.</p>
3(2)	Arrangements for Board Members to include proposals in the agenda	<p>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 are relating to the promotion of business and the management of risks of the Company</p>
3(3)	Notice of Meetings	<p>Annual Board meeting calendar is scheduled at the end of the previous year enabling Board of Directors to attend meetings. As a practice, Directors are given notice of at least 7 days for regular Board Meetings under normal circumstances.</p> <p>All board papers are circulated to Board members through the BoardPAC on iPads and all current and previous Board minutes are archived on the system enabling Board members to access them at their convenience.</p>
3(4)	Attendance of Directors	<p>Board of Directors has fully complied with the requirement and each Director of the Board is well informed acquainted about their attendance. Company Secretary also monitors the attendance.</p> <p>During the year 2017 no Director has been absent from three consecutive meetings. Details of Directors attendance are set out on pages 130 to 131 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 Agenda	Company Secretary is responsible for the preparation of the agenda, in consultation with the Chairman.

Corporate Governance

Section	Corporate Governance Principle	Compliance
3(7)	Access to advice and service for Company Secretary	Board approved procedure is in place to enable all Directors to have access to advice and services of the Company Secretary to ensure all Board procedures, applicable laws, rules, directions and regulations are followed
3(8)	Maintenance of Board Minutes	<p>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 previous board minutes are archived on an specialize IT system enabling Board members to access them at their convenience.</p>
3(9)	Minutes of Board Meetings	<p>Company Secretary maintains the minutes with the following contents</p> <ul style="list-style-type: none"> • A summary of data and information used by the Board in its deliberations the matters considered by the Board • The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; • The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; • Board's knowledge and understanding of the risks to which the relevant establishment is exposed and an overview of the risk management measures adopted • The decisions and Board resolutions • Minutes are under safe custody of Company Secretary.
(4)	COMPOSITION OF THE BOARD	
4(1)	Composition of the Board	<p>Board consists of eight Directors which is within the statutory range.</p> <p>Mr. M Y A Perera (* Resigned Chairman of the Company w.e.f. 15th November 2017), Mr. C P Palansuriya (*Appointed Chairman w.e.f. 15th November 2017) Mr. K M S P Herath, Mr. P M A Sirimane, Dr. H S D. Soysa, Mr. W M P L De Alwis, Mr. L T Ranwala Mr. R Samaranayake (* Retired as a Director of the Company w.e.f. 8th August 2017), Mr. M A Abeynaike (* Resigned as a Director of the Company w.e.f. 17th October 2017), Mr. S G Wijesinha (* Resigned as a Director of the Company w.e.f. 22nd October 2017), Mr. P M A Sirimane (* Ceased to be an Alternate Director to Mr. S G Wijesinha w.e.f. 22nd October 2017) , Mr. P S Cumaranatunga (*Appointed w.e.f. 30th October 2017) and Ms. A Nanayakkara (*Appointed w.e.f. 6th November 2017) are the Directors of the Company as at 31.12.2017.</p>
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 has been appointed as the Managing Director of the Company w.e.f 5th April 2016.

Section	Corporate Governance Principle	Compliance
4(4)	Number of independent Non executive Directors	<p>The Company has five Independent Non-Executive Directors out of Seven Non-Executive Directors.</p> <p>The composition of the Board of Directors is published on page 164 of the Annual Report</p>
4(5)	Appointment of alternate director	Mr. P M A Sirimane, Independent Non-Executive Director ceased to be an Alternate Director to Mr. S G Wijesinha with effect from 22nd October 2017.
4(6)	Skills and experience of Non-executive Directors	All the Non-Executive Directors of the Company possess vast experience and skills in the relevant fields.
4(7)	Quorum for Board Meetings	Board approved procedure is in place which stipulates the number of members required to meet the quorum at a Board meeting to be not less than 50% of the total Directors of the Company and out of this quorum at least one third should include Non-Executive Directors. Section 31 of the Articles of Association also states the requirement of the quorum, which has been complied with at all Board Meetings during the year 2017. A summary of attendance of the Directors at meetings is set out on pages 130 to 131 of Annual Report.
4(8)	Composition of Board	Composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors has been disclosed on page 164 of the Annual Report
4(9)	Appointment of new Directors	The Board Nomination Committee recommends names of proposed Directors to the Siyapatha Finance PLC Board.
4(10)	Appointment of Directors to fill casual vacancy	As per Company's Article 24 (2), the Board has power to appoint Directors to fill a casual vacancy which is subject to re-election by shareholders at the Annual General Meeting, Mr. P S Cumarantunga (*Appointed w.e.f. 30th October 2017) and Ms. A Nanayakkara (*Appointed w.e.f. 6th November 2017) are the Directors who filled casual vacancy of the Company.
4(11)	Resignation and removal of Directors	<p>There were no removals of Directors.</p> <p>Mr. M Y A Perera (resigned from the Company w.e.f. 15th November 2017)</p> <p>Mr. R Samaranayake (retired as a Director of the Company w.e.f. 8th August 2017)</p> <p>Mr. M A Abeynaike (resigned as a Director of the Company w.e.f. 17th October 2017)</p> <p>Mr. S G Wijesinha (retired as a Director of the Company w.e.f. 22nd October 2017)</p> <p>Mr. P M A Sirimane (ceased to be an Alternate Director to S.G Wijesinha w.e.f. 22nd October 2017)</p>

Corporate Governance

Section	Corporate Governance Principle	Compliance
5	CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS	
5(1)	Age Limit of a Director	None of the present Directors of the Company are above the age of 70 years
5(2)	Directorships in more than 20 companies	As per declarations given by the Directors for 2017 none of the Directors holds office 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 monitors by means of reasonable methods the exercise of powers so delegated. This delegation is also permitted under Company's articles 25(2) and under Section 186 of the Companies Act.
6(2)	Reviewing of delegation process	Board has reviewed the delegated authority limits to ensure that delegation is acted upon within the controls.
7	THE CHAIRMAN & THE CHIEF EXECUTIVE OFFICER	
7(1)	Roles of Chairman & CEO	The roles of the Chairman and MD of the Company are segregated to ensure their independency.
7(2)	Appointing a senior director where Chairman is non independent	The Chairman is a Non-Independent, Non-Executive Director. Therefore Dr. H S D Soysa, an Independent Non-Executive Director has been appointed as a Senior Director to the Board. The designation of the Senior Director is disclosed on page 81 of the Annual Report.
7(3)	Identification and disclose relationship between Chairman, CEO and Board Members	The names of the Chairman and the Managing Director are published in the Annual Report and there is no financial, business, family or other material relationship between Chairman, Managing Director and Board members, other than a distant relationship between Mr. M Y A Perera (former Chairman) who resigned from the Company w.e.f. 15 November 2017 and Director - Mr. L T Ranwala. A Board approved procedure is in place to monitor the relationship between 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	Chairman's key responsibilities and duties has been approved by the Board. Self-evaluation process of the Board ensures that the said requirements are fulfilled.
7(5)	Preparation of Agenda	Company Secretary prepares the agenda in consultation with the Chairman, as this function has been delegated to the Company Secretary by the Chairman.
7(6)	Ensure to Communicate to Directors the issues arising at board meetings	The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner
7(7)	Full and active contribution of Directors	The Chairman encourages all Directors to make a full and active contribution to the Board's affairs. Further this is also evaluated through the Self Evaluation process designed for the Board of Directors.

Section	Corporate Governance Principle	Compliance
7(8)	Effective contribution of non-executive Directors and constructive relationships between executive and non-executive Directors	<p>Board consists of Non-Executive Directors and Executive Directors and they give their fullest and effective contribution to the Company while discharging their duties collectively.</p> <p>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>Self evaluation process covers the contributions of both Executive and Non-Executive Directors.</p>
7(9)	Refrain from direct supervision of KMPs and executive duties	Chairman does not engage directly or indirectly in supervision of KMPs and executive duties. MD is responsible for the day to day operations of the Company
7(10)	Effective Communication with shareholders	Since the Company is a 100% owned subsidiary of Sampath Bank PLC, effective communication is maintained with the Bank (Parent Company) through Chairman , Mr. C P Palansuriya and Mr. L T Ranwala who have been appointed to the Company's Board to look into the interest of the parent Company.
7(11)	APEX Executive of the Company	MD functions as the apex executive in charge of the day to day operations of the Company and he acts as a direct liaison between the Board and Management of the Company.
8	BOARD APPOINTED COMMITTEES	
8(1)	Board sub committees, their functions and reporting	<p>Board has established two Board Committees namely Board Audit Committee (BAC) and Board Integrated Risk Management Committee (BIRMC) as per the requirements of CBSL.</p> <p>Apart from the above two Committees, the Company has established five more Board Sub-Committees, namely Board HR & Remuneration Committee, Board Corporate Governance Committee, Board Credit Committee, Board Related Party Transactions Review Committee and Board Nomination Committee.</p> <p>Company Secretary is the Secretary to all Board Sub Committees. He discharges his secretarial functions under the supervision of Chairmen of Committees. Performance, duties and functions of all Committees are been disclosed on pages 133 to 146 of the Annual Report.</p> <p>All minutes of the above Committee are submitted to the Board for their review.</p>
8(2)	AUDIT COMMITTEE	
8(2)(a)	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 ICASL is the Chairman of the Board Audit Committee.

Corporate Governance

Section	Corporate Governance Principle	Compliance
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. R Samaranayake (retired w.e.f. 8th August 2017), Mr. M A Abeynaike (resigned w.e.f. 17th October 2017), Mr. S G Wijesinha (resigned w.e.f. 22nd October 2017) Mr. W M P L De Alwis (appointed to the Committee w.e.f. 1st November 2017) and Ms. A Nanayakkara (appointed w.e.f. 6th November 2017) All of them have expertise and knowledge in the fields of finance, banking, leasing etc.
8(2) (c)	Recommendations made by the Audit Committee	<p>Audit Committee has made the following recommendations.</p> <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	<p>External Auditor is independent since he directly reports to the Chairman and the Board Audit Committee.</p> <p>Audit is carried out according to the Sri Lanka Accounting standards and best practices</p>
8(2)(e)	Provision for Non-Audit Services by external auditors	Board approved policy on the engagement of an external auditor to provide non-audit service is in place.
8(2) (f)	Nature and scope of the external audit	The Board Audit Committee (BAC) has discussed and finalized the nature and scope of the audit, with the External Auditors in accordance with SLAS. The Audit Engagement Letter for the year ending 31.12.2017 is submitted to the BAC.
8(2)g	Reviewing of financial information	The Committee reviews the financial information. Monthly financials have been presented to the main Board by the MD
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. 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	Committee has reviewed the External Auditor's management letter relating to the audit for the year ended 31.12.2017 and management responses thereto.

Section	Corporate Governance Principle	Compliance
8(2)j	Internal Audit Functions	Board Audit Committee has discussed the adequacy of the scope, functions and resources of the Internal Audit Department
	i) Review the adequacy of the scope, functions and resources of the internal audit department	The Audit Committee has reviewed and approved internal audit program. Internal Audit reports have been submitted to the Committee with the Management comments and action taken to rectify the issues have been reported and discussed at the BAC
	ii) Review the internal audit program and results of the internal audit process	The Chairman of the Board Audit Committee has carried out the performance appraisal of the Head of Internal Audit for the year 2017. This has been approved by the committee.
	iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department	As recommended by the Board Audit Committee, the Service Contract of Head of Internal Audit has been extended.
	iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function	
	v) Appraisal of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning	There were no resignations of senior staff members of the Internal Audit Department during the reviewed period
	vi) Independent of the audit activities impartiality of the performance, proficiency and due professional care.	Internal Audit Department functions independently and does not perform any managerial activities
8(2)(k)	Major findings and management response	The Committee oversees the major findings of any internal investigations and Management response thereto.

Corporate Governance

Section	Corporate Governance Principle	Compliance
8(2)(l)	Attendance at Audit Committee Meetings	Members of the Board Audit Committee, Managing Director, Head of Internal Audit, Manager -Internal Audit, Chief Operating Officer, Head of HR, Head of Finance, representatives of External Auditors and Head of 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	<p>The Board approved Terms of Reference is in place and it stipulates the required authority of the BAC.</p> <p>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.</p>
8(2)(n)	Regular Meetings of Board Audit Committee	Meeting calendar for Audit Committee is scheduled at the end of the previous year enabling members to attend meetings, which are to be held quarterly, with not less than four meetings per year. If necessary, Committee may decide to convene additional meetings. There were seven (07) Audit Committee Meetings held during the year 2017 and two separate meetings were held without the executive management.
8(2)(o)	Disclosure in Annual Report	Activities of BAC, number of meetings and attendance of BAC members are been published in the Annual Report on pages 134 to 136 & pages 130 to 131.
8(2)(p)	Secretary of the committee	Company Secretary who is the Secretary of the Audit Committee maintains detailed minutes of meetings held.
8(2)(q)	Whistle blowing policy	Board approved Whistle Blowing Policy is in place, enabling employees to voice their concerns over possible improprieties in financial reporting, internal control and other matters. No complaints were reported through the Whistle Blowing Policy during the year 2017.
8(3)	BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)	
8(3) (a)	Composition of BIRMC	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 three Non-Executive Directors of the Committee. The Committee closely works with Key Management Personnel and makes decisions on behalf of the Board on matters which are within their jurisdictions. The Committee consisted of five Non- Executive Directors up to 31 October 2017 and then this has been reduced to four w.e.f. 1 November 2017.
8(3)(b)	Assessment of Risk	<p>BIRMC has an appropriate process to assess all risks including credit, market, liquidity, operational and strategic risks in the Company through appropriate risk indicators and management of information.</p> <p>There are no subsidiaries or associate Companies of Siyapatha Finance PLC.</p>

Section	Corporate Governance Principle	Compliance
8(3) (c)	Review the adequacy and effectiveness of management level committees	In fulfilling its responsibilities the Committee reviewed the adequacy and effectiveness of Sub Committees to manage risks within quantitative and qualitative risk limits. Assets & Liabilities Committee (ALCO) reports and minutes are submitted to BIRMC. The Committee assesses the functional effectiveness via meeting minutes and the reports discussed therein.
8(3)(d)	Corrective action to mitigate risk exceeding prudential level	BIRMC reviews the risk which is beyond the prudent levels and takes prompt and corrective action to mitigate the effects of such risk.
8(3)(e)	Frequency of Meetings	The Committee meets at least quarterly, or more frequently as circumstances arise. BIRMC has held four meetings during the financial year 2017 and has assessed all aspects of risk management
8(3)(f)	Actions against officers who fail to identify risk	BIRMC is responsible for assessing different types of risk, to which the Company is exposed. 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.
8(3)(g)	Submission of Risk assessment report to the main Board	Board of Directors has ultimate responsibility in risk management of the Company. Therefore minutes of the BIRMC are tabled at the subsequent Board meeting and the Chairman of BIRMC briefs the main Board, on significant issues and decisions taken up at the risk meeting, enabling the Board to make correct decisions.
8(3)h	Compliance Function	The Head of Risk and Compliance who has been identified as a KMP in the Company assesses the level of Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. Compliance Officer has obtained monthly confirmations from all Department Heads to ensure compliance with approved policies/procedures of the Company.

9 BOARD RELATED PARTY TRANSACTIONS

9(2)	Identification of related parties and avoid conflict of interest	The Board is well aware of the requirement of identification of related party transactions and a Board approved Procedure, which identifies the categories of related parties and types of transactions, is in place. Directors are individually requested to declare their interest in entities with which they transact. They are responsible for providing declarations to relevant regulators and statutory bodies as and when required.
9(3)	Types of related party transactions	A documented procedure approved by the Board is in place to avoid favorable treatment in related party transactions. All related party transactions have been disclosed in the Financial Statements. No accommodation has been granted to Directors and/or their close relatives during the year 2017.

Corporate Governance

Section	Corporate Governance Principle	Compliance
9(4)	Avoid More Favorable Treatment	<p>There is a documented process approved by the Board which speaks on related parties and transactions and to ensure that the Company does not engage in such transactions in a manner that would grant such related parties “more favorable treatment” than that accorded to other constituents of the Company carrying on same business with the Company.</p> <p>A manual detective system is in place which has been developed in- house to monitor RPT transactions. This system captures all the products of the Company and thus all the transactions with the related parties.</p> <p>However, the Company will strengthen this process to extract RPT reports manually to assess and ensure that there are no favorable treatments offered to such related parties than that accorded to other constituents of the Company carrying on the same business.</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 171 of the Annual Report
10(2)(b)	Internal Control Report by the Board of Directors	Effectiveness of the Company’s internal control mechanism has been certified by the Directors on pages 169 to 170 of the Annual Report under the heading “Directors’ Statement on Internal Controls over Financial Reporting:”
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	<p>The names of the Directors have been set out on pages 80 to 83 of the Annual Report.</p> <p>The Company did not have any transactions with any of its Directors during the year 2017, other than those listed in 10(2)(g).</p>
10(2)(e)	Directors’ fees and Remuneration	The fees & remuneration paid has been disclosed on page 238 (Note 46.2 to the Financial Statements) of the Annual Report. short term employee benefits include the salary of the Executive Director.

Section	Corporate Governance Principle	Compliance																												
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 the year 2017.</p> <p>There were no outstanding value of loans and advances granted to KMPs (as per CBSL direction) as at 31.12.2017.</p>																												
		LKR 000'																												
		<table border="1"> <thead> <tr> <th>Category of RPT</th> <th>Accommodation granted / approved credit limit during the year</th> <th>Accommodation O/S as at 31.12.2017</th> <th>Percentage of Regulatory capital</th> </tr> </thead> <tbody> <tr> <td>Non Executive Directors their close family members</td> <td>Nil</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Key Management Personnel (KMP) and their close family members</td> <td>Nil</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Subsidiaries</td> <td>Nil</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Joint Ventures</td> <td>Nil</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Entities controlled by Directors and their close family members</td> <td>Nil</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Other RPT</td> <td>Nil</td> <td>Nil</td> <td>Nil</td> </tr> </tbody> </table>	Category of RPT	Accommodation granted / approved credit limit during the year	Accommodation O/S as at 31.12.2017	Percentage of Regulatory capital	Non Executive Directors their close family members	Nil	Nil	Nil	Key Management Personnel (KMP) and their close family members	Nil	Nil	Nil	Subsidiaries	Nil	Nil	Nil	Joint Ventures	Nil	Nil	Nil	Entities controlled by Directors and their close family members	Nil	Nil	Nil	Other RPT	Nil	Nil	Nil
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Corporate Governance

Section	Corporate Governance Principle	Compliance												
10(2)(g)	Aggregate values of remuneration paid for KMPs and aggregate values of transaction of the Company with KMPs	<p>Please refer note 46 to the audited financial statements for the aggregate value of remuneration paid to the Board of Directors.</p> <p>Total value of short term employee benefits paid to KMPs (as per CBSL direction) during the year is LKR 81.47 Million.</p> <p>Loans and Advances -Nil</p> <p>Investment made - Nil</p> <p>Deposits outstanding as at 31st December 2017</p> <table border="1"> <tr> <td>Non Executive Directors</td> <td>LKR 112,458,868/-</td> </tr> <tr> <td>Executive Directors and Other Key Management Personnel</td> <td>LKR 27,426,310/-</td> </tr> <tr> <td>Close Family Members and Key Management personnel</td> <td>LKR 42,308,200/-</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 46.2 to the Financial Statement</td> </tr> <tr> <td>Aggregate Value of remuneration paid to Managing Director</td> <td>disclosed in Note 46.2 to the Financial Statement</td> </tr> </table>	Non Executive Directors	LKR 112,458,868/-	Executive Directors and Other Key Management Personnel	LKR 27,426,310/-	Close Family Members and Key Management personnel	LKR 42,308,200/-	Remuneration paid (LKR' 000)		Aggregate Value of remuneration paid to Board of Directors	disclosed in Note 46.2 to the Financial Statement	Aggregate Value of remuneration paid to Managing Director	disclosed in Note 46.2 to the Financial Statement
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Aggregate Value of remuneration paid to Managing Director	disclosed in Note 46.2 to the Financial Statement													
10(2)(h)	Details of Compliance with prudential requirements, regulations, laws and internal controls and measures relevant to non compliance	Details of compliance & non-compliance would be highlighted in the 'Annual Report of the Board of Directors on the state of affairs of the Company' on pages 160 to 168 of the Annual Report.												
10(2)(i)	Non-Compliance Report	There were no regulatory and supervisory concerns in the Company's risk management or non compliance with the act, rules and directions that have been communicated by the Director of the Department of Supervision of Non Bank Financial Institutions.												
10(2)(j)	Certification of Compliance by External Auditors	Board has obtained Auditors' confidential letter to the Management (Auditors' factual findings report) issued by External Auditors.												

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 DIRECTORS				Complied
A.1 THE BOARD				
<p>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.</p>				
A.1.1	Board meetings	Complied	<p>Board meetings are planned well ahead and dates of meetings which are scheduled monthly are finalized at the end of the previous year.</p> <p>Board meetings are mainly focused on reviewing the Performance of the Company and other routine matters. Board spends more time on Strategic Planning and the Company’s direction on future. Key Officers in their monthly presentations to the Board, focus 100% on their performances and future plans to achieve the strategic vision.</p> <p>Special Board meetings are convened whenever necessary. These meetings ensure that prompt actions are taken to align the business processes to achieve the expectations of all stakeholders. During the reviewed period 14 Board meetings were held.</p> <p>Please refer ‘Number of Meetings held and attendance’ table given in pages 130 to 131 on the Annual report.</p>	Board of Directors and Company Secretary
A.1.2	Responsibilities of the Board	Complied	<p>The Board while acting in line with the organization and the Group values, is responsible for the formulation of a sound business strategy for the organization. The management formulates a three year strategic plan which addresses the future challenges, which is tabled, discussed and approved by the Board.</p>	Board of Directors

Corporate Governance

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
			<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 required skills, experience and knowledge to accept any challenge that the Company may face in the future. The Board will implement a succession plan, with a view to ensuring there is a strong successor to shoulder the responsibilities of the Company if it becomes necessary.</p> <p>The Board takes necessary steps to fulfill the duties entrusted to them by securing the integrity of the information, managing risks and implementing an effective internal control system. In this process, compliance is ensures that all applicable laws and regulations and adherence to the organization and the group ethical standards and corporate values are met in order to ensure that the interests of all stakeholders are taken into consideration in the corporate decision-making process.</p>	
A.1.3	Agreed procedure on seeking independent professional advice	Complied	Clear, formulated and approved procedure is in place for the Directors to seek independent professional advice as and when required. The Board Sub-Committees advise the Board on various matters under their purview, when necessary.	Board of Directors and Company Secretary
A.1.4	Advice and services of the Company Secretary	Complied	Clear formulated and approved procedure by the Board is in place for the Board members to have full access to the Company Secretary to ensure that proper Board procedures are followed and that all applicable rules and regulations are complied with. Legal matters for which clarifications are needed by the Board are referred to the Company Secretary who is a Chartered Secretary. He provides such information after obtaining necessary professional advice whenever required.	Board of Directors/ Company Secretary
A.1.5	Independent judgment of Directors	Complied	All Directors are free to bring independent judgment for decision making of the Company and for the decisions taken by the Board on issues of strategy, performance, resources and standards of business conduct. Different arguments and the ideas are recorded in detail by the Company Secretary with a view to indicate the rationale in which decisions are arrived at.	Board of Directors/ Company Secretary

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
A.1.6	Dedicating adequate time and effort by the Directors	Complied	All Directors of the Company dedicate adequate time and effort at Board and Committee meetings to fulfill their duties. Further they also spend their time before and after the meetings, to ensure that the duties and responsibilities owed to the Company are discharged according to the highest standards. Board Papers/ Committee papers are dispatched in advance to the Directors, well ahead of scheduled meetings.	Board of Directors/ Company Secretary
A.1.7	Training for new and existing Directors	Complied	Directors have recognized the need for continuous training and expansion of their knowledge and take part in such professional development as they consider necessary in assisting them to carry out their duties as Directors. Market experts and professional services are obtained to share new knowledge from time to time. Any training programmes relevant to the Board are informed to the Board by the Company Secretary for Directors participation.	Board of Directors/ Company Secretary
A.2 CHAIRMAN AND MANAGING DIRECTOR (MD)				Complied
<p>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.</p>				
A.2.1	Separation of the roles of Chairman & MD	Complied	<p>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.</p> <p>There is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Company in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board and for its effectiveness. The MD's role is primarily to conduct the business operations of the Company with the help of the Corporate Management. The roles of the Chairman and MD are clearly distinct from one another.</p>	Board of Directors

Corporate Governance

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
A.3 CHAIRMAN'S ROLE				Complied
Chairman is responsible to ensure that all Board members make a full contribution to the Board's affairs and ensure that the Board acts as a team while discharging Board functions. He also provides leadership to the Board and effectively manages the Board while preserving order and facilitating effective discharge of Board functions.				
A.3.1	Role/ Functions of the Chairman	Complied	<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 Board of Directors. Ensure that the Board works effectively and discharges its responsibilities. Ensure that all key and appropriate issues are discussed by the Board, in a timely manner. Responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. Ensure that all Directors are properly briefed on issues arising at Board meetings and that all Directors receive adequate information in a timely manner. 	Board of Directors
			<ul style="list-style-type: none"> Encourage all Directors to make a full and active contribution to the Board's affairs and to take the lead to ensure that the Board acts in the best interests of the Company. Facilitate the effective contribution of non-executive Directors in particular and ensure constructive relations among the non-executive and executive Directors. Not to engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever. Ensure that appropriate steps are taken to maintain effective communication with shareholders (at general meetings and in general) and that the views of shareholders are communicated to the Board 	

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
A.4 FINANCIAL ACUMEN		Complied		
<p>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 ten Directors are Qualified Accountants having professional qualifications and are equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.</p>				
A.4	Financial acumen and knowledge	Complied	<p>The Chairman of the Audit Committee, Mr. P M A Sirimane is a Fellow member of the Institute of Chartered Accountants of Sri Lanka.</p> <p>Mr. P S Cumaranatunga and Ms. A Nanayakkara are both Associate Members of the Chartered Institute of Management Accounts of UK (ACMA, UK) and they also hold the Chartered Global Management Accountants (CGMA) qualification. Mr. P S Cumaranatunga is also a Certified Practising Accountant (CPA, Australia).</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) and holds the Chartered Global Management Accountants (CGMA) qualification.</p> <p>These members of the Board have the ability to offer guidance on matters of finance to the Board.</p>	Board of Directors
A.5 BOARD BALANCE				
<p>The Code requires that a balance is maintained between the Executive and Non-Executive Directors (NEDs) thus that no individual or a small group of individual Directors is able to dominate the Board's decision making.</p>				
A.5.1	Presence of a strong team of NEDs	Complied	<p>Seven out of Eight 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.</p>	Board of Directors
A.5.2 & A.5.3	Independence of NEDs	Complied	<p>Five out of the Eight NEDs are Independent which is well above the minimum prescribed by this Code which is two NEDs or NEDs equivalent to one third of the total number of NEDs, whichever is higher.</p>	Board of Directors and Company Secretary
A.5.4	Annual Declaration of NEDs	Complied	<p>Every NED of the Company has made written declarations as to their independence against the specified criteria set out by the Company, which is in line with the requirements of Schedule H of this Code.</p>	Board of Directors and Company Secretary

Corporate Governance

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
A.5.5	Annual Declaration by the Board on the independence of Directors	Complied	The Board has determined the independence of Directors based on the declarations submitted by the NEDs as to their independence as a fair representation and will continue to evaluate their independence on this basis annually in line with CBSL directions, the SEC and the Code of Best Practice. No circumstances have arisen for the determination of independence by the Board, beyond the criteria set out in the Code. Independent Non-executive Directors are: Mr. P M A Sirimane, Dr. H S D Soysa, Mr. W M P L De Alwis, Mr. P S Cumaratunga and Ms. A Nanayakkara	Board of Directors and Company Secretary
A.5.6	Alternate Director	Complied	With the retirement of Mr. S G Wijesinha, Mr. P M A Sirimane ceased to be an alternate Director. At present there are no alternate Directors.	Board of Directors and Company Secretary
A.5.7& A.5.8	Requirement to appoint a 'Senior Non-Executive Director' and making himself available for confidential discussions	Complied	Since the Chairman of the Company is a Non-Independent Director, the Company has appointed Dr. Dilanjan Soysa as a Senior Director of the Company. Dr. Dilanjan Soysa participates at 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 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 such information is adequately detailed by the Company Secretary in the minutes. Rather than minuting only the decisions, the Company Secretary minutes how the decision is arrived at all times. All minutes are kept in a detailed manner.	Board of Directors and Company Secretary

A.6 SUPPLY OF INFORMATION

The Code requires the Company's management to submit timely information to the Board with sufficient information for making decisions which would enable it to discharge its duties.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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, where necessary. In addition, key members of the Executive Management make their presentations at every Board meeting on their performance and issues of importance during the reviewed period. The Chairman ensures that all Directors are briefed adequately on issues arising at Board meetings.	Board of Directors, Company Secretary and Executive Management
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 the meeting, and all minutes of previous meetings, agenda and Board Papers are dispatched in advance. Further, adequate notice is given to all Directors prior to emergency/special Board meetings. This ensures that the Board members have adequate time to study the related papers and prepare for a meaningful discussion at the meetings.	Executive Management and Company Secretary

A.7 APPOINTMENT TO THE BOARD

Company has a formal and transparent procedure in place to appoint new Directors.

A.7.1 & A.7.2	Presence of a Nomination Committee and annual assessment of composition of the Board	Complied	Siyapatha has set up its own Board Nomination Committee. The Board Nomination Committee after perusing names, assesses the Company's needs and recommends names to the Board of Siyapatha Finance. 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. 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 Company, Board of Directors and Company Secretary
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Corporate Governance

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
A.7.3	Disclosure of required details to Shareholders on new appointments to the Board	Complied	All new Directors who are appointed to the Board come up for election at the subsequent A.G.M.	Company Secretary
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 to re-elect by rotation is 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
A.9 APPRAISAL OF BOARD PERFORMANCE				
The Code requires the Board to appraise its own performance periodically to ensure that its responsibilities are satisfactorily discharged.				
A.9.1 & A.9.2	Annual appraisal of the Board's performance and the performance of its Sub-Committees	Complied	The performance of the Board is evaluated by the Chairman with the Board's assistance. The Board Sub-Committees carry out a self-assessment process annually to ensure they function effectively and efficiently with the objective of facilitating continuous improvement and to be in line with the good governance.	Board of Directors and Company Secretary
A.9.3	Disclosure of criteria used for the performance evaluation	Complied	Please refer Board Human Resources and Remuneration Committee Report for details of the criteria considered for performance evaluation of the Board.	Board of Directors and Company Secretary
A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS				Complied
The Code requires that details of Directors be disclosed in the Annual Report for information of the shareholders				

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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 80 to 83 (b) Other business interests – page 166 (c) Remuneration – Note 46.2 on page 238 (d) Status of independence - page 164 (e) Details of Board Meetings and Board Committee Meetings held during the year - pages 130 to 131	Company Secretary
A.11 APPRAISAL OF 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/ Managing Director	Complied	At the beginning of each financial year, the Board discusses with the MD and sets long term, medium term and short term financial and non-financial goals for the Company that are to be guided and achieved by the MD within the course of that year. Assessment of performance of the MD is carried out by the Board yearly to ensure that performance is achieved.	Board of Directors and Company Secretary
B DIRECTORS' REMUNERATION				
B.1 REMUNERATION PROCEDURE				
This principle ensures that the Company has a well-established formal and transparent procedure in place for developing an effective remuneration policy to avoid potential conflict of interest.				
B.1.1	Establishment of a Remuneration Committee	Complied	The Company has a Board Human Resources and Remuneration Committee which has the power to evaluate, assess, and decide matters that may affect the Human Resources Management of the Company.	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 Chairman of the Committee is appointed by the Board.	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

Corporate Governance

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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, an attendance fee and an additional fee for either chairing or being a member of a Board or a Committee.	Board of Directors of the Parent Company and the Board of Directors
B.1.5	Ability to consult the Chairman and/or MD and to seek professional advice by the Committee	Complied	The Committee has the authority to seek internal and external independent professional advice on all matters falling within the purview of the Committee at the Company's expense.	Board of Directors and Company Secretary
B.2 LEVEL AND MAKE UP OF REMUNERATION				Not Applicable
The Company ensures that the remuneration of Non-Executive Directors is at a satisfactory level to attract and retain the services of Directors				
B.2.1	Remuneration packages of Executive Directors	Complied	The Managing Director was appointed with effect from 5th April 2016 and his remuneration is based on the Group Remuneration Policy.	Board of Directors of the Parent Company, Board of Directors and the Company Secretary
B.2.2	Competitiveness of 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	Complied	During the year under review, the Company did provide for a performance based remuneration for Executive Directors.	Company Secretary
B.2.5	Executive share options	Not Applicable	No Executive Share Options were granted during the year.	Company Secretary

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
B.2.6	Designing the remuneration of Executive Directors	Complied	The remuneration of the Executive Directors is determined by the Parent Company in line with the Group Remuneration Policy.	Board of Directors of parent Company, Board of Directors and Company Secretary
B.2.7 & B.2.8	Early termination of Executive Directors	Not arisen	This is in line with the contract of appointment.	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 and 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	<p>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</p> <p>Please refer Note 46.2 to the Financial Statements for the aggregate remuneration paid to Non-Executive Directors.</p>	Head of Finance of the Company
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C RELATIONS WITH SHAREHOLDERS

Complied

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

The Code requires the Board to use the AGM to communicate with shareholders and encourage their active participation

Since the Company is a 100% owned subsidiary of the parent Company, all Company information is routed through the Directors representing the parent Company interest.

C.1.1	Use of Proxy Votes	Complied	The Parent Company holds 100% of the shares	Company Secretary
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Corporate Governance

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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/ Debenture holders of the Company, whereas a form of proxy together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving adequate notice is dispatched to shareholders.	Company Secretary
C.2 COMMUNICATION WITH SHAREHOLDERS				Not Applicable
The Code requires effective communication with shareholders.				
This section is not applicable since the Company is a fully own subsidiary of Sampath Bank PLC				
c.2.1	Channel to reach all shareholders of the Company	Complied	By circular to shareholders and Notice of shareholder meetings.	Company Secretary
c.2.2	Policy and methodology for communication	Complied	By circular to shareholders and Notice of shareholder meetings.	Company Secretary
c.2.3	Implementation of the policy and methodology for communication with shareholders	Complied	By circular to shareholders and Notice of Shareholder meetings.	Company Secretary
c.2.4 & c.2.6	Contact person in relation to shareholder matters	Complied	The main contact person is the Group Company Secretary	Company Secretary

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
c.2.5	Process to make all Directors aware of major issues and concerns of shareholders	Complied	Any major issue of concern to shareholders are informed to Board Members by the MD or Company Secretary	Company Secretary
c.2.7	Process responding to shareholder matters	Not Applicable	This section is not applicable since the Company is a fully owned subsidiary of Sampath Bank PLC.	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 acquisition or disposal of assets greater than half of the net asset value of the Company	Board of Directors
D ACCOUNTABILITY AND AUDIT				Complied
D.1 FINANCIAL REPORTING				
This Principle requires the Board of the Company to present a balanced and understandable assessment of the Companies' financial position, performance and prospects.				
D.1.1	Board's Responsibility for Statutory and Regulatory Reporting	Complied	<p>The Board is well aware of its responsibility to present regulatory and statutory reports in a balanced and understandable manner and a statement to this effect is given on page 161 of this Annual Report.</p> <p>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.</p>	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 on pages 160 to 168 contains the declarations as required by the code.	Board of Directors

Corporate Governance

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
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 on page 179 of the Annual Report. Please also refer page 171 for the Independent Auditor's Report.	Board of Directors
D.1.4	Management Discussion and Analysis	Complied	Please refer 'Management Discussion and Analysis' (MD&A) set out on pages 30 to 75 presented as an integrated report covering all aspects referred in the code."	Board of Directors and Executive Management
D.1.5	Declaration by Board on the going concern of the Business	Complied	Please refer "Annual Report of the Board of Directors" and Note 3) significant accounting judgements, estimates and assumptions to the Audited Financial Statements (Page 180).	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 ended 31st December 2017, 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 46 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 and Head of Internal Audit

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
D.2.2	Need for an internal audit function for companies	Complied	This is not applicable as the Company already has its own in-house Internal Audit Department, which is responsible for internal audit function.	Board Audit Committee
D.3 AUDIT COMMITTEE				Complied
The Code requires the Board to have formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's External Auditor				
D.3.1	Composition of the Audit Committee	Complied	All four Directors are independent including the Chairman and all three members are Non-Executive Directors. Details of the members, are found on the 'Board Audit Committee Report' under the heading 'Composition of the Committee'. (Page 134)	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	Terms of reference of the Board Audit Committee is clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised in December 2014. This clearly explains the purpose of the Committee, its duties and responsibilities, together with the scope and functions of the Committee. The Committee mainly deals with the matters pertaining to statutory and regulatory compliance in financial reporting, matters with regard to the External Auditors, internal audit and risk management procedures of the Company	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
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				

Corporate Governance

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
D.4.1	Disclosures on presence of Code of Business Conduct and Ethics	Complied	<p>The Company has an internally developed Code of Conduct for its Directors and this Code covers the following areas of conflict of interest, accurate accounting and record keeping, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behaviour etc.</p> <p>Further the "Code of Business Conduct & Ethics" is available for all employees including the Corporate and Senior Management. This code focuses mainly on the following areas:</p> <p>Fair dealing, protection and proper use of Company assets, record-keeping and reporting, accounting and financial reporting concerns, reporting illegal or unethical behaviour, discrimination and harassment, Health and Safety, Discipline etc.</p>	Board of Directors
D.4.2	Affirmative Statement by the Chairman	Complied	Please refer the Chairman's Message for details. (Pages 18 to 21)	Board of Directors

D.5 CORPORATE GOVERNANCE DISCLOSURES

Complied

Directors of the Company disclose annually the Company's adherence to the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the CBSL Direction No. 03 of 2008 and Amendment Direction No. 06 of 2013 of the Central Bank of Sri Lanka on Corporate Governance for Finance Companies of Sri Lanka and subsequent Amendments thereto, in the 'Corporate Governance Report'.

D.5.1	Annual Corporate Governance Report in the Annual Report	Complied	Corporate Governance reports for Central Bank of Sri Lanka, Securities Exchange Commission and Code of Best Practice are included on pages 94 to 129 in the Annual Report.	Board of Directors and Company Secretary
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SECTION 2: SHAREHOLDERS

Complied

E. INSTITUTIONAL INVESTORS

E.1 SHAREHOLDER VOTING

Due to the Parent Company holding 100% of equity of the Company, the requirement of disclosures to institutional investors have not arisen from an equity point of view. In the event such need arises from the perspective of accountability and transparency all material disclosures would be made to strengthen the positive relationship between management and institutional investors

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
E.1.1	Communication with shareholders	Complied	Parent Company holds 100% of shares and is the only institutional investor. All required information to the Parent Company is provided in a timely manner.	Board of Directors and Company Secretary
E.2 EVALUATION OF GOVERNANCE DISCLOSURES				Complied
The Code requires the Company to encourage institutional investors to give due weight to all relevant factors drawn to their attention.				
E.2.1	Due weight by Institutional Investors on matters relating to Board structure and composition	Complied	Sampath Bank PLC as the only Institutional Investors is at liberty to give due weight on matters relating to the Board structure and composition.	Board of Directors of Parent Company and Board of Directors
F .OTHER INVESTORS				Not Applicable
F.1 INVESTING/DIVESTING DECISION				
F.1.1	Seek independent advice in investing or divesting decisions	Not applicable	Sampath Bank PLC owns 100% of the Company shares.	Board of Directors
F.2 SHAREHOLDER VOTING				
F.2.1	Encourage voting by Individual Investors in General Meetings	Complied	The Parent Company and subscribers use its voting rights at the AGMs.	Board of Directors
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 page 243.	MD and Corporate Management

Corporate Governance

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company	Responsibility
G.1.2	The Environment	Complied	This is covered in the 'Natural Capital Report' section of management discussion contained on pages 69 to 72.	MD and Corporate Management
G.1.3	Labour Practices	Complied	Please refer 'Human Capital Management' section of the Management Discussion and Analysis contained on pages 44 to 57.	MD and Corporate Management
G.1.4	Society	Complied	Please refer 'Social and Relationship Capital Report" contained on pages 58 to 68.	MD and Corporate Management
G.1.5	Product and Service Responsibility	Complied	Please refer 'Social and Relationship Capital Report" contained on pages 58 to 68.	MD and Corporate Management
G.1.6	Stakeholder Identification, Engagement & Effective Communication	Complied	Please see the contents of the 'Stakeholder Engagement' on pages 12 to 15.	MD and Corporate Management
G.1.7	Sustainable Reporting & Disclosure	Complied	Disclosures relating to the Company's compliance with sustainability reporting is disclosed in 'GRI standards Content Index-'In Accordance'-Core' (pages 249 to 251)	MD and Corporate Management

STATEMENT OF COMPLIANCE UNDER SECTION 7:10 OF THE RULES OF THE CSE ON CORPORATE GOVERNANCE

Rule No	Applicable Requirement	Compliance Status	Comment
NON EXECUTIVE DIRECTORS			
7.10.1(a)	2 or 1/3 of the total number of Directors should be Non-Executive Directors	Complied	Out of eight Directors, seven Directors of the Board are Non-Executive Directors as at 31st December 2017.
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 seven Non-Executive Directors, Mr. P M A Sirimane, Mr. P S Cumararatunga, Ms. A Nanayakkara, Dr. H S D Soysa and Mr. W M P L De Alwis are Independent Non-Executive Directors. Thus the Company is in 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 independence of Directors	Complied	Declarations have been obtained from the Directors regarding their independence or non independence against the specified criteria and copies of the same are under the custody of Company Secretary for review.
DISCLOSURE RELATING TO DIRECTORS			
7.10.3(a)	The Board shall annually determine the independence or non independence of Directors	Complied	The Board is well aware of the requirement and the Board evaluates the independence of Directors.
	Names of Independent Directors should be disclosed in the Annual Report	Complied	The names of the Independent Directors are set out on the page 164 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 has been published on pages 80 to 83 of the Annual Report
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 with effect from 5th April 2016, Mr. P S Cumararatunga was appointed to the Board with effect from 30th October 2017 and Ms. Aroshi Nanayakkara was appointed to the Board with effect from 06th November 2017 and a brief resume of said Directors are set out on pages 82 to 83 of the Annual Report.

Corporate Governance

Rule No	Applicable Requirement	Compliance Status	Comment
CRITERIA FOR DEFINING INDEPENDENCE			
7.10.4 (a-h)	Determination of Independence	Complied	The Board has met the criteria of defining independence which is in line with CSE and CBSL Directions on Corporate Governance based on independence of Directors.
BOARD HR AND 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 (Independent Director, Non-Executive Director) Dr. H S D Soysa (Independent, Non-Executive Director) Mr. M Y A Perera (Non-Independent, Non-Executive Director) <p>Composition of the Committee as at 31/12/2017 as follows;</p> <ul style="list-style-type: none"> Mr. P S Cumararatunga - Chairman (Independent Director, Non-Executive Director) Dr. H S D Soysa (Independent, Non-Executive Director) Ms. A Nanayakkara (Independent, Non-Executive Director)
7.10.5 (b)	Recommendation on Remuneration for executive Directors, CEO and /or equivalent position	Complied	Main role of the Committee is to focus on the HR related matters of the Company and determine the remuneration policies (salaries, allowances and other financial payments) relating to, MD and the rest of the staff of the Company
7.10.5 (c)	Names of Directors comprising the Remuneration Committee	Complied	Published in the Annual Report (pages 137-138) 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 page 166 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. W M P L De Alwis and Ms. A Nanayakkara who are Independent Non-Executive Directors

Rule No	Applicable Requirement	Compliance Status	Comment
	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 - 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 (SLRFSS & LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka. This fact is stated in Note 2.1 to the Audited Financial Statements under "Statement of Compliance".
	ii) Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements	Complied	The Company is in compliance with the requirements of the Companies Act No.07 of 2007. This fact is stated in Note 2.1 to the Audited Financial Statements under "Statement of Compliance".
	iii) process to ensure that the Company's internal control and risk management are adequate to meet the requirements of the Sri Lanka Auditing standards	Complied	External Auditors assess the "Directors Report on Internal Control over financial Reporting" and issues an Independent Assurance Report on the same.
	iv) Assessment of the independence and performance of the Company's external auditors	Complied	The Board Audit Committee (BAC) assesses the independence of External Auditors and their performance. The Board Audit Committee regularly reviews the scope of the External Auditors and the effectiveness of the Audit. Furthermore, the Committee ensures that non-audit services provided by the External Auditors do not affect their independence.
	v) Recommendations to the Board pertaining to appointment, re-appointment and to approve the remuneration and terms of engagement of the external auditor	Complied	The Board Audit Committee makes recommendations to the Board for appointment of the External Auditor for Audit services, their service period, Audit scope and Audit fee.
7.10.6(c)	Names of Directors comprising the Audit Committee	Complied	Published in the Annual Report on pages 134 to 136 under Audit Committee Report
	Determination of the independence of the Auditors and the basis for such determination	Complied	The Company entrusts any non-audit services to be performed by the External Auditors and such non audit service assignments requires the prior approval of the Audit Committee. The Board approved policy for non-audit services is available.
	Report of the Audit Committee setting out the manner of compliance by the Company	Complied	Please refer report of the Audit Committee, published on pages 134 to 136 of the Annual Report.

On behalf of the Board Corporate Governance Committee



A Nanayakkara

Chairperson - Board Corporate Governance Committee

05 March 2018

Corporate Governance

Directors' Attendance & Committee Memberships

Directors' Attendance for the year 2017

Director	Board Meetings	Board Audit Committee	Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Related Party Transactions Review Committee	Board Nomination Committee
Mr. Mahawaduge Yasalal Aravinda Perera	11[1]		2[1]	2[1]	6[1]			
Mr. Mohan Asoka Abeynaike	10[2]	5[2]		2[2]			3[2]	
Mr. Sunil Gamini Wijesinha	11[3]	6[3]				4[3]	2[3]	
Mr. Ranjith Samaranyake	7[4]	6[4]					2[4]	
Mr. Channa Prabodha Palansuriya	12		3[7]					0[7]
Dr. Henedige Srinath Dilanjan Soysa	12	6		4	7			2
Mr. Parakrama Maithiri Asoka Sirimane	12	9				5 [11]	3	2[11]
Mr. Watuthanthrige Mahiman Prasantha Lal De Alwis	12	2[9]	4		6[9]	4	1[9]	1
Mr. Kothwala Mudiyansele Saman Priyantha Herath	14		3[10]	4		4	2	
Mr. Lasith Tharaka Ranwala	13		3[8]	3				
Mr. Palavinnege Sumith Cumararatunga	3[5]		1[5]	1[5]	1[5]	1[5]		
Ms. A Nanayakkara	2[6]	2[6]	1[6]		1[6]	1[6]		
Total No. of Meetings	14	9[10]	4	4	7	5	3	2

[1] Mr. M Y A Perera resigned from the Board HR & Remuneration Committee, the Board Integrated Risk Management Committee and the Board Credit Committee w.e.f. 31st October 2017 and from the Board w.e.f. 15th November 2017.

[2] Mr. M A Abeynaike resigned from the Board, the Board Audit Committee, the Board Credit Committee and the Board Related Party Transactions Review Committee w.e.f. 17th October 2017.

[3] Mr. S. G. Wijesinha ceased to be a Director of the Company w.e.f. 22nd October 2017 and from the Board Audit Committee, the Board Corporate Governance Committee and the Board Related Party Transactions Review Committee

[4] Mr. R Samaranyake ceased to be a Director from the Board w.e.f. 8th August 2017 and from the Board Audit Committee and the Board Related Party Transactions Review Committee.

[5] Mr. P S Cumararatunga was appointed to the Board w.e.f. from 30th October 2017 and appointed as a member of the Board Integrated Risk Management Committee, the Board Credit Committee, the Board Corporate Governance and the Chairman of the Board HR & Remuneration Committee and Board Related Party Transactions Review Committee w.e.f. 1st November 2017.

[6] Ms. A Nanayakkara was appointed to the Board w.e.f. 6th November 2017 and she was proposed to be a member of the Board Audit

STEWARDSHIP

- Committee, the Board Integrated Risk Management Committee, the Board HR & Remuneration Committee and the Chairperson of the Board Corporate Governance Committee from the date of her appointment (6th November 2017).
- [7] Mr. C P Palansuriya ceased to be a member of the Board Integrated Risk Management Committee w. e. f. 31st October 2017 and appointed to the Board Nomination Committee w.e.f. 1st November 2017.
- [8] Mr. L T Ranwala ceased to be a member of the Board Integrated Risk Management Committee w.e.f. 31st October 2017.
- [9] Mr. W M P L De Alwis ceased to be a member of the Board HR & Remuneration Committee w.e.f. 31st October 2017 and appointed as a member of the Board Audit Committee and the Chairman of the Board Integrated Risk Management Committee w.e.f. 1st November 2017.
- [10] The Board Audit Committee had 9 meetings during the year 2017 and 2 separate Board Audit Committee Meetings were held without the presence of the Executive Management.
- [11] Mr. P M A Sirimane was appointed to the Board Corporate Governance Committee and the Board Nomination Committee w.e.f. 1st November 2017.

Director	Board Meetings	Board Audit Committee	Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Related Party Transactions Review Committee	Board Nomination Committee
Mr. Mahawaduge Yasalal Aravinda Perera	M[2]		M[2]	M**	M[2]			
Mr. Mohan Asoka Abeynaike	M[3]	M[3]		M[3]			M[3]	
Mr. Sunil Gamini Wijesinha	M[4]	M[4]				M[4]	M[4]	
Mr. Ranjith Samaranayake	M[5]	M[5]					M[5]	
Mr. Channa Prabodha Palansuriya	C[1]		M[1]					M[1]
Dr. Henedige Srinath Dilanjan Soysa	M	M		C	M			C
Mr. Parakrama Maithri Asoka Sirimane	M	C				M[10]	M	M[10]
Mr. Watuthantrige Mahiman Prasantha Lal De Alwis	M	M	C		M[8]	M	M	M
Mr. Kothwala Mudiyansele Saman Priyantha Herath	M		M	M		M	M	
Mr. Lasith Tharaka Ranwala	M		M[9]	M				
Mr. Palavinnege Sumith Cumaranatunga	M[6]		M[6]	M[6]	C[6]	M[6]	C[6]	
Ms. A Nanayakkara	M[7]	M[7]	M[7]		M[7]	C[7]	M[7]	

Corporate Governance

- [1] Mr. C P Palansuriya was appointed as the Chairman of the Company w.e.f. 15th November 2017 and a member of the Board Nomination Committee w.e.f. 1st November 2017. He ceased to be a member of the Board Integrated Risk Management Committee w.e.f. 31st October 2017.
- [2] Mr. M Y A Perera stepped down as the Chairman and from the Board w.e.f. 15th November 2017 and also from the Board HR & Remuneration Committee, the Board Integrated Risk Management Committee and the Board Credit Committee w.e.f. 31st October 2017.
- [3] Mr. M A Abeynaike resigned from the Board and Sub Committees; Board Audit Committee, the Board Credit Committee and the Board Related Party Transactions Review Committee w.e.f. 17th October 2017.
- [4] Mr. S G Wijesinha ceased to be a Director from the Board w.e.f. 22nd October 2017 and from the Board Audit Committee, the Board Corporate Governance Committee and the Board Related Party Transactions Review Committee.
- [5] Mr. R Samaranayake ceased to be a Director from the Board w.e.f. 8th August 2017 and from the Board Audit Committee and the Board Related Party Transactions Review Committee.
- [6] Mr. P S Cumaranatunga was appointed to the Board w.e.f. from 30th October 2017 and appointed as a member of the Board Integrated Risk Management Committee, the Board Credit Committee, the Board Corporate Governance and appointed as the Chairman of the Board HR & Remuneration Committee and the Board Related Party Transactions Review Committee w.e.f. 1st November 2017.
- [7] Ms. A Nanayakkara was appointed to the Board w.e.f. 6th November 2017 and she was proposed to be a member of the Board Audit Committee, the Board Integrated Risk Management Committee, the Board HR & Remuneration Committee and the Chairperson of the Board Corporate Governance Committee from the date of her appointment (6th November 2017).
- [8] Mr. W M P L De Alwis ceased to be a member of the Board HR & Remuneration Committee w.e.f. 31st October 2017 and appointed as a member of the Board Audit Committee and the Chairman of the Board Integrated Risk Management Committee w.e.f. 1st November 2017.
- [9] Mr. L T Ranwala ceased to be a member of the Board Integrated Risk Management Committee w.e.f. 31st October 2017.
- [10] Mr. P M A Sirimane was appointed to the Board Corporate Governance Committee and the Board Nomination Committee w.e.f. 1st November 2017.

Committee Reports

Committee Reports

Report of the Board Audit Committee

The Board Audit Committee (The Committee) is appointed by and responsible to the Board of Directors (The Board). The Committee comprised of four Non Executive Directors who conducted Committee proceedings in accordance with the Terms of Reference approved by the Board of Directors of the Company.

Composition of the Committee

The composition of the Committee as at 31st December 2017 is given below:

Mr. P M A Sirimane - Chairman,
Independent, Non-Executive Director

Dr. H S D Soysa - Member,
Independent, Non-Executive Director

Mr. W M P L De Alwis - Member,
Independent, Non-Executive Director
(appointed to the Committee w.e.f. 1st
November 2017)

Ms. A Nanayakkara - Member,
Independent, Non-Executive Director
(appointed to the Committee w.e.f. 6th
November 2017)

Brief profiles of the members are
given on pages 80 to 83 of the Annual
Report.

The Chairman of the Committee, Mr.
P M A Sirimane is a Fellow Member of
the Institute of Chartered Accountants
of Sri Lanka.

Meetings

The Committee met on 7 occasions
during the year. Details of attendance
of the Committee members at these
meetings are given in the table on
page 130 of the Annual Report. Head
of Internal Audit of Sampath Bank
PLC also attended these meetings by
invitation, in addition to the Managing

Director, Chief Operating Officer, Head
of Finance, Head of Internal Audit,
Head of Risk & Compliance, Manager
– Internal Audit and Messrs. Ernst &
Young (EY), External Auditors of the
Company.

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

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

The Company Secretary functions as
the Secretary to the Committee.

The Terms of Reference

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

Functions of the Committee

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

systems, assess compliance with
regulatory requirements, review
adequacy of scope and functions of
the Internal Audit Department, assess
the internal audit program and results
of the internal audit process and
recommend the appointment and
remuneration of the External Auditors.

Regulatory Compliance

The roles and functions of the
Committee are regulated by
the Finance 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 and sub-rule 7.10.7 (SEC
Directive dated 13th October 2017) of
Listing Rules issued by the Colombo
Stock Exchange and the Code of Best
Practice on Corporate Governance
issued jointly by the Securities and
Exchange Commission (SEC) and the
Institute of Chartered Accountants of
Sri Lanka (ICASL).

Roles and Responsibilities

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

Financial Reporting

- a) To review the quarterly, half-year
and annual financial statements
before submission to the Board,
focusing particularly on:
 - (i) Any changes in accounting
policies and practices
 - (ii) Major judgmental areas and
significant estimates
 - (iii) Significant adjustments resulting
from the audit

- (iv) The going concern assumption
- (v) Compliance with accounting standards
- (vi) Compliance with legal requirements applicable for financial statements
- (vii) Approve and recommend the financials to the main board.

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

- 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 (without members of the management being present, where necessary);

Internal Audit

- a) To take the following steps with regard to internal audit function of the finance company.
 - i. Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work.
 - ii. Review the internal audit programs and results of the internal audit process.
 - iii. Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department
 - iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function

- v. Ensure that the Committee is apprised of the resignation of senior staff members of the Internal Audit Department including the Head of Internal Audit and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning
- vi. Ensure that the internal audit function is independent of the activities it audits and 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.

Committee Reports

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

Representation by External Auditors

As per the CBSL Guidelines, the previous Audit Partner of Company's External Auditors, EY, at the completion of five years of handling Siyapatha Audit, handed over his functions to another Audit Partner of the firm during the financial year 2016 and the latter attended meetings of during financial year 2016 in his capacity as the incoming Audit Partner of EY for the Company.

Whistle Blowing

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

Reporting to the Board

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

Professional Advice

The Committee has the authority to seek external professional advice on matters within its purview and from time

to time during the year consultations were held with various parties.

Evaluation of the Committee

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

Appreciation

The Committee wishes to thank the following former members, who served on the Committee till the dates mentioned against their names, for their valuable contributions over the years.

	Name	Served till
a)	Mr. S G Wijesinha	22nd October 2017
b)	Mr. M A Abeynaike	17th October 2017
c)	Mr. R Samaranayake	08th August 2017

On behalf of the Board Audit Committee



P M A Sirimane
Chairman
Board Audit Committee

20 February 2018

Report of the Board Human Resource and Remuneration Committee

The Board Human Resource and Remuneration Committee (BHRRRC) plays a vital role in an organization. BHRRRC focuses on improving standards of employees through due recognition, promotions, rewards, training and development and other HR related matters. BHRRRC concentrates on developing and implementing of HR strategies in alignment of Organizational strategies, in order to ensure the long term achievement of the organization vision and mission for HR functions.

Composition of the Board HR & Remuneration Committee

The HR and Remuneration Committee consisted of the following Non-Executive Directors as of 1st January 2017.

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

With the appointment of two new members to the Board namely, Mr. P S Cumararatunga and Ms. A Nanayakkara towards the end of the year, the BHRRRC Committee was reconstituted on 1st November 2017 and the new Committee consists of the following Independent, Non-Executive Directors.

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

A brief profile of the Committee members are given on page 80 to 83 of the Annual Report. The Group Company Secretary functions as the Secretary to the Committee.

Meetings for the Year 2017

During the Financial Year ended 31st December 2017, seven meetings were held and the attendance of members at the meetings is set out on page 130 of the Annual Report. The Managing Director (MD) of the Company attends meetings by invitation and members of the corporate management would attend meetings as and when required.

Minutes of Meetings

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

Terms of Reference

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

SCOPE OF BHRRRC

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

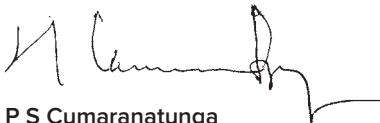
Committee Reports

Remuneration Policy

Sampath Bank PLC recommends the remuneration for Non-Executive Directors, in accordance with the Group policy on remuneration. Hence, Non-Executive Directors of the Company do not decide their own remuneration packages.

The aggregate remuneration paid to the Directors for the year which ended on 31st of December 2017, is set out on page 238 of the Annual Report. The Board of Directors of the Company, with the recommendations of the Board HR & Remuneration Committee, decides the remuneration of Key Management Personnel.

On behalf of the Board HR & Remuneration Committee



P S Cumaranatunga

Chairman

Board HR & Remuneration Committee

05 March 2018

Board Integrated Risk Management Committee Report

The Board is ultimately responsible for setting the risk appetite and for the effective risk management in the Company. 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 2017 the committee consisted of the members shown below.

Name	Position
Members of the Board	
Mr. C P Palansuriya – Chairman	Non Independent Non-Executive Director
Mr. M Y A Perera	Non Independent Non-Executive Director
Mr. W M P L De Alwis	Independent Non-Executive Director
Mr. K M S P. Herath	Executive Director
Mr. L T Ranwala	Non Independent Non-Executive Director
Members of the Management	
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. 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

With effect from 1st November 2017, the Board Integrated Risk Management Committee was reconstituted and the new composition of the Board members as follows:

Members of the Board

Mr. W M P L De Alwis - Chairman
Independent Non-Executive Director

Mr. P S Cumaranatunga
Independent Non-Executive Director

Ms. A Nanayakkara
Independent Non-Executive Director

Mr. K M S P Herath
Executive Director

Meetings

The Committee held 04 meetings during the year under review. The attendance of members is listed on page 130 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

Committee Reports

the Company's policies, regulatory and supervisory requirements.

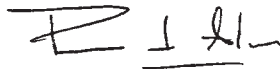
- Meeting at least quarterly to assess all aspects of risk management including the updated Business Continuity Plan.
- Taking appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective measures as recommended by the Committee and/or as directed 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



W M P L De Alwis

Chairman

Board Integrated Risk Management Committee

05 March 2018

Board Related Party Transactions Review Committee Report

The Board Related Party Transactions Review Committee (BRPTRC) was established by the Board 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:

Name	Position
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	Independent Non-Executive Director
Mr. K M S P Herath	Executive Director

With effect from 1st November 2017, the Board Related Party Transactions Review Committee was reconstituted with five members as follows:

Name	Position
Mr. P S Cumaranatunga – Chairman	Independent Non-Executive Director
Mr. P M A Sirimane	Independent Non-Executive Director
Mr. W M P L De Alwis	Independent Non-Executive Director
Ms. A Nanayakkara	Independent Non-Executive Director
Mr. K M S P Herath	Executive Director

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 80-83 of the Annual Report. The Company Secretary functions as the Secretary to the Board Related Party Transactions Review Committee.

Meetings

During 2017, the Committee had three meetings. Attendance of each Committee member at each of the said meetings is given in page 130 of the Annual Report.

Terms of Reference

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

Role and Responsibilities

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

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

Review Function of the Committee

Review of the relevant RPTs by the Committee takes place quarterly. The Committee has communicated its observations to the Board. RPTs published in Note 46 to the Financial Statements. An inhouse developed software is available for identification of RPTs and the relevant information to capture RPTs is fed into the Company's data collection system. The system is updated based on information

Committee Reports

obtained from the Secretarial Department, HR Department of the Company and the Finance Department of the Company and that of Sampath Bank, on a quarterly basis.

Reporting to the Board

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

Professional Advice

The Committee has the authority to seek external professional advice on matters under its purview. The Committee consulted and sought advice with regard to identification of RPTs and Reporting Requirements, from Head of Listings and Corporate Affairs of the Colombo Stock Exchange and the Company's External Auditors, Messers Ernst & Young.

On behalf of the Board Related Party Transactions Review Committee



P S Cumaranatunga

Chairman

*Board Related Party Transactions
Review Committee*

05 March 2018

Board Nomination Committee Report

The Board Nomination Committee (the Committee) was formed on 10th October 2017 which comprises Four Non-Executive Directors. The composition of the Committee as at 31st December 2017 as follows;

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

Brief profiles of the members are given on pages 80 to 83 of the Annual Report. The Group Company Secretary functions as the Secretary to the Committee.

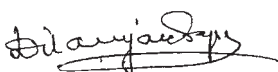
Meetings

During the year 2017, the Committee has met twice. The attendance of members is listed on page 130 of the Annual Report.

Scope & Responsibility

- (i) To select/appoint new Directors, and Chief Executive Officer (CEO).
- (ii) To consider and recommend (or not recommend) the re-election of current directors, taking into account the performance and contribution made by the director concerned towards the overall discharge of the board's responsibilities.
- (iii) To ensure that directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria specified under Statutory and Regulatory requirements
- (iv) To plan succession retiring Directors and key management personnel, considering additional new expertise

On behalf of the Board Nomination Committee



Dr. H S D Soysa
Chairman
Board Nomination Committee

05 March 2018

Committee Reports

Report of the Board Credit Committee

Composition

The Board Credit Committee (“the Committee”) is appointed by and responsible to the Board of Directors (“the Board”). This Committee comprises of three Non Executive Directors and one Executive Director. The Committees’ composition may determine by the Board from time to time. The Company Executives may be invited to attend the Committee meeting if desired by the members.

The Committee’s composition during the period ended 31st December 2017 is as follows:

Name	Position
Dr H S D Soysa	Chairman- (IND/NED)
Mr. L T Ranwala	Member- (NID/NED) (Appointed to the Committee w.e.f. 01st January 2017)
Mr. P S Cumaranatunga	Member - (ID, NED) (Appointed to the Committee w.e.f. 01st November 2017)
Mr. K M S P Herath	Member -(ED)
Mr. M A Abeynaïke	Member -(IND/NED) (Served on the Committee until 17th October 2017)
Mr. M Y A Perera	Member- (NID/ NED) (Served on the Committee until 31st October 2017)

NID – Non Independent Director, IND – Independent Director, NED – Non Executive Director, ED – Executive Director)

Meetings

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

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

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

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

Reporting to the Board

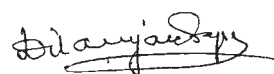
The Minutes of the Committee meeting are tabled at Board meetings enabling all Board members to have access to them.

Evaluation of the Committee

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

Appreciation

The Committee wishes to thank Mr. M Y A Perera (who served on the Committee until 31st October 2017) and Mr. M A Abeynaïke (who served on the Committee until 17th October 2017) who served the Committee for their valuable contributions over the years.



Dr. H S D Soysa

Chairman

Board Credit Committee

05 March 2018

Corporate Governance Committee

Corporate Governance is the system by which a company is directed and controlled. The Board of directors of a company is responsible for setting this Governance structure as well as setting the company's strategic aims, providing the leadership to put them into effect, supervising the management and reporting to shareholders on their stewardship.

The Board of Directors of Siyapatha Finance PLC strongly believes that sound Corporate Governance practices are essential to ensuring the long-term growth of the Company whilst protecting the interests of its shareholders. The Corporate Governance Committee, among others, is entrusted with the task of setting and monitoring Corporate Governance Systems within the Company in order to deliver the high standards expected by the Board. By maintaining an appropriate system of Corporate Governance, the Board seeks to ensure fair reporting (both financial and non-financial), transparency, ethical and legal corporate conduct, enterprise risk management as well as value creation for the benefit of all stakeholders.

The Corporate Governance Committee will review periodically, the Corporate Governance structures and guidelines in place to recommend to the Board such changes it deems necessary in light of legal, regulatory and market developments that take place from time to time.

Board Meetings

The Board of Directors held 14 Board meetings during the period 1st January 2017 to 31st December 2017, with Retail Growth, Digitalization and performance Optimization being some of the key topics of discussion. Meanwhile, the Board Sub Committees held a total of 34 meetings during the same period.

Board Sub Committees

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

Sub Committee members are selected from a mix of Board members except in the instance of the Board Integrated Risk Management Committee.

Members of each Sub Committee are held collectively responsible for their designated area of activity. Currently the Board has established a total of 7 Board Sub Committees to carry out specific functions, with each Sub Committee being headed by a Non Executive Director. The following changes took place in the membership of the Board and its sub committees during the year

Board

Mr. M Y A Perera
Served until 15th November 2017

Mr. R Samaranayake
Served until 8th August 2017

Mr. M A Abeynaike
Served until 17th October 2017

Mr. S G Wijesinha
Served until 22nd October 2017

Mr. P M A Sirimane- Alternate Director to
Mr. S G Wijesinha
Served until 22nd October 2017

Mr. C P Palansuriya
Appointed Chairman on 15th November
2017

Mr. P S Cumararatunga
Appointed on 30th October 2017

Ms. A. Nanayakkara
Appointed on 6th November 2017

Board Audit Committee

Mr. R Samaranayake
Served until 8th August 2017

Mr. M A Abeynaike
Served until 17th October 2017

Mr. S G Wijesinha
Served until 22nd October 2017

Ms. A. Nanayakkara
Appointed on 6th November 2017

Mr. W M P L De Alwis
Appointed on 1st November 2017

Board HR and Remuneration Committee

Mr. W M P L De Alwis
Served until 31st October 2017

Mr. M Y A Perera
Served until 31st October 2017

Mr. P S Cumararatunga
Appointed on 1st November 2017

Ms. A. Nanayakkara
Appointed on 6th November 2017

Board Nomination Committee

Appointed w.e.f. 1st November 2017;
Dr. H S D Soysa

Mr. P M A Sirimane

Mr. W M P L De Alwis

Mr. C P Palansuriya

Board Integrated Risk Management Committee

Mr. M A Abeynaike
Served until 17th October 2017

Dr. H S D Soysa
Served until 31st October 2017

Mr. P M A Sirimane
Served until 31st October 2017

Committee Reports

Mr. P S Cumaranatunga
Appointed on 1st November 2017
Ms. A. Nanayakkara
Appointed on 6th November 2017

Board Credit Committee

Mr. M A Abeynaike
Served until 17th October 2017
Mr. M Y A Perera
Served until 31st October 2017
Mr. P S Cumaranatunga
Appointed on 1st November 2017

Board Corporate Governance Committee

Mr. M Y A Perera
Served until 31st October 2017
Dr. H S D Soysa
Served until 31st October 2017
Mr. K M P S Herath
Appointed on 1st November 2017
Mr. P S Cumaranatunga
Appointed on 1st November 2017
Mr. P M A Sirimane
Appointed on 1st November 2017
Ms. A. Nanayakkara
Appointed on 6th November 2017

Board Related Party Transaction Review Committee

Mr. R Samaranayake
Served until 8th August 2017
Mr. M A Abeynaike
Served until 17th October 2017
Mr. S G Wijesinha
Served until 22nd October 2017
Mr. P S Cumaranatunga
Appointed on 1st November 2017
Ms. A. Nanayakkara
Appointed on 6th November 2017

The above Sub Committees come under the purview of the Board. Most Board Sub Committees function in a supervisory capacity, overseeing the key management personnel in charge of the day to day operational and functional aspects of the business. In this context, the Board Audit Committee oversees the functions of the Head of Internal Audit, whilst the Board

Integrated risk Management Committee supervises the functions of the Head of Risk and Compliance.

Strategic Planning Process

The Strategic Planning Process aims to sharpen the strategic alignment with the Company's overall mission. Conducted annually, the process is driven by an interactive bottom-up approach that encourages the active participation of employees at all level.

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

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

Integrated Risk Management Framework

The Integrated Risk Management Framework advocates a structured and disciplined approach to risk management by aligning strategy, processes, people, technology and knowledge vis-à-vis the achievement of organizational strategies and objectives.

Code of Conduct for Employees

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

Whistle Blowing Policy

The Policy serves as an early warning mechanism to identify corporate fraud or risk by encouraging employees to report their genuine concerns in relation to activities which they feel are wrongful or illegal or otherwise harmful to the

interests of the Company, its employees, customers or any other stakeholder.

Communication Policy

The Company strives at all times to maintain its corporate credibility and instill investor confidence in the Group by maintaining a structured approach in its communications. The Communication Policy spells out the process through which timely, transparent, consistent and credible information on corporate strategies, operational performance and other financial and non-financial information is disseminated.

Company Secretary

The Company Secretary is an independent party who acts as a conduit between the Board and the Company. The Company Secretary is responsible for Board Administration, liaising with the Registrar of Companies and other relevant regulators and facilitating Board members with access to legal and other expertise, as and when required.

The Group Company Secretary, Mr. S Sudarshan, also acts as the Secretary to all the Board Sub Committees and the minutes of Meetings are retained in his custody. Written Terms of Reference that comply with the Corporate Governance Requirements are available for the sub Committees with the Group Company Secretary.

On behalf of the Board Corporate Governance Committee



A Nanayakkara

Chairperson

Board Corporate Governance Committee

05 March 2018

Risk Management

Risk Environment

The risk landscape of the Company is defined by global and domestic events. The outcomes of these events have a direct and indirect impact on Siyapatha Finance PLC, which have been recognized by the Company and appropriate risk mitigation strategies adopted.

Global Outlook

2017 was a year characterized by global events that created uncertainty in the geo-political arena. Political changes in USA and uncertainty in UK with triggering of article 50 are all geopolitical risks. Rising income and economic disparity ranked first among experts as the most critical risk which could shape global developments over the next decade.

Drastic changes in technology have accelerated problems in geopolitical stability, job security and even social relationships. Furthermore, cyber-attacks and ransom ware attacks disrupted computer systems and affected many industries globally in 2017.

Extreme weather events, climatic changes and water crises have consistently featured among the top-ranked global risks over the past decade. The so-called Fourth Industrial Revolution (FIR) has created an unprecedented amount of new global risks.

Impact on Siyapatha Finance PLC

- Commodity price – Due to uncertainty in US market inter alia the world gold price increased during 2017. The year began with the gold prices at \$ 1150 per sovereign and ended at \$ 1302

per sovereign approximately. The risk of default in gold financing increases with declining prices since it would discourage the redemption by the borrower. Thus in 2017 risk of default in gold financing was low. Nevertheless the Company monitors LTV ratio closely and routinely to ensure sufficient coverage in case of default.

- Cyber-attacks – The IT system of Siyapatha Finance PLC is a closed system where access is given for authorized personnel only. Further the Company has installed a latest, state of the art firewall system to prevent any unauthorized access and possible attacks. Hence the risk arising from cyber attacks is considered low.

Domestic Outlook

GDP grew by 3.8% in the first quarter of 2017 and 4.0% in the second quarter to hold growth in the first half of 2017 to 3.9% year on year, unchanged from the 2016 outcome.

On the upside, exports greatly benefited from the restoration of the GSP+ facility by the European Union.

A more flexible exchange rate, strong export growth, along with a healthy tourism sector, prompted international reserves to increase by the end of 2017.

Sri Lanka's agricultural sector was badly affected in 2017 by the worst drought in four decades and severe flooding in May. The sector was affected in the first quarter by continued drought and rice production declining along with significant

declines in tea and rubber, major exports crops. Floods in the second quarter shrank agriculture sector growth with further rice loses, even as tea and rubber rebounded. As a result, imports of staple foods, especially rice, soared last year, adding pressure to the external accounts. Moreover, worker remittances likely declined in 2017 on the back of adverse economic and geopolitical conditions in the Middle East.

Recent fiscal and monetary policy measures helped ensure a successful second review of the IMF- supported program in July 2017 and the disbursement of the third tranche from the program. The revenue-led fiscal consolidation was strengthened with changes to the VAT Law and improved revenue administration. Monetary policy was further tightened to dampen continued monetary growth and support external sector stability.

Impact on key risk drivers on Siyapatha Finance PLC and risk mitigating strategies adopted:

- Inflation –NCPI was at 7.3% in December 2017 (YOY) (source: Census and Statistics Department). This is contributed mainly by food inflation. Given the market segment to which the Company caters the direct impact of inflation on disposable income could have adverse repercussions on portfolio quality. Therefore, stringent credit screening and concerted recovery efforts ensured that the portfolio quality is maintained. Therefore a low risk outlook was envisaged.

Risk Management

- **Moderate Credit growth** – The credit growth of the Finance sector slowed down and the cumulative expansion in credit during 2017 was LKR 617.4 Bn in comparison to LKR 754.9 Bn in 2016. Especially credit growth of Licensed Finance companies slowed down to 11% in 2017. (Source CBSL) – Moderate risk was envisaged.

Risk Management at Siyapatha Finance PLC

As a financial services provider, Siyapatha Finance PLC recognizes that risk is an inherent feature of all its business activities. Sound risk management practices ensure that depositors and investors are protected and shareholders receive an adequate risk adjusted return. The Company firmly believes that sound risk management practices are critical for long term growth. The Company’s objective is to add maximum sustainable value to all activities taking into account the potential upside and downside of all those factors that can adversely affect the operations as a going concern.

The risk strategy of the Company is closely aligned with the business strategy of the Company.

Our risk management system ensures that risks are identified, evaluated and corrective action is taken well in time to mitigate any adverse effects based on the following factors:

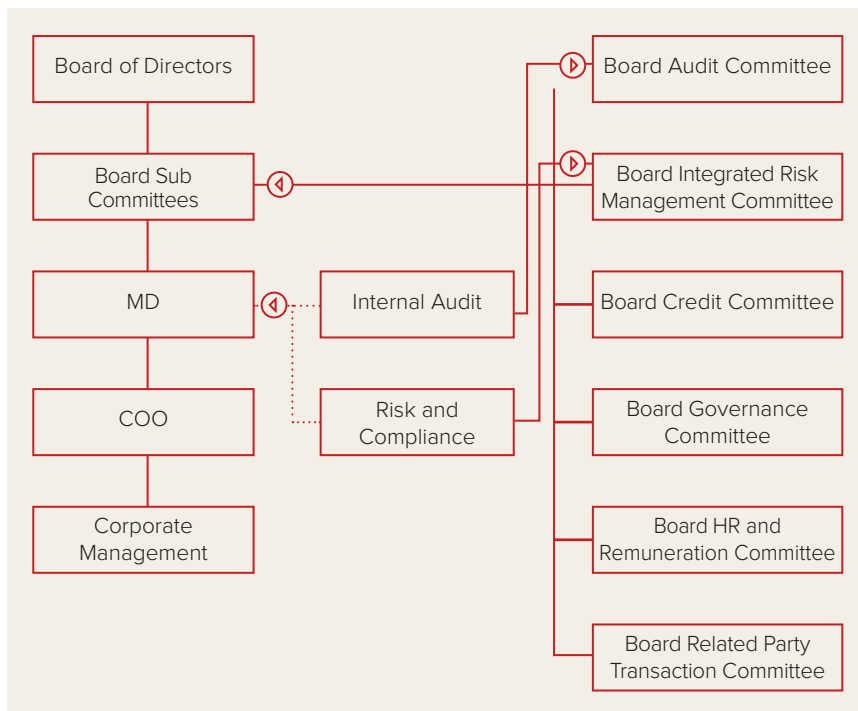
- **The risk management strategy and policies,**
The Company has established a risk management framework that is robust and pervasive risk culture and clear policies that ensures risk management as inculcated within the management system of the Company.
- **Effective and efficient risk management process integrated into decision making process**
At Siyapatha Finance PLC the main objective of risk management process is to preserve the value created through all business activities while contributing to the prevention of negative events that might not have been considered properly in the business scenario.

- **Adequate internal controls system**
The Company’s internal control encompasses the policies and procedures aimed to provide management with assurance that the Company achieves its objectives and goals including
 - Efficiency and smooth functioning of operations
 - Reliable financial reporting
 - Compliance with all applicable regulations framework

- **Appropriate and efficient information system;**
The Company has implemented a comprehensive information system to cater to the expansion taking place.

Risk Management Framework

Risk Governance Structure of Siyapatha Finance PLC



• **Board of Directors**

The Board of Directors, in principle is responsible for upholding of prudent risk management mechanisms and systematic implementation of the risk framework in the Company. The Board approves the policies, strategies and systems and operational approach for risk management. The efficient implementation of the risk management function is carried out through the Board Integrated Risk Management Committee and the corporate management of the Company.

• **Board Integrated Risk Management Committee (BIRMC)**

The BIRMC is a Board subcommittee, which is

responsible for the Board for overseeing the risk management function in line with the Board approved policies and strategies. BIRMC ensures that required and relevant policies are developed for Company-wide risk management. The Committee interacts with the Managing Director, Board Audit Committee and Board Credit Committee on Risk Management related activities. In addition to the Board’s representatives, the BIRMC consist of the Managing Director, COO and other key managerial personnel covering the key risk areas of the Company covering credit, marketing, operations, recoveries, finance and deposits etc.

• **Risk Management Department (RMD)**

The Company’s Risk Management function is independent from the risk assuming business functions i.e. risk owners.

The RMD is accountable for carrying out the overall risk management function of the Company at operational levels. The process at RMD covers key areas from assessment to monitoring of risk.

Further, the RMD is involved with product or business strategy development, or entering into new business lines from the initial design stage, through inputs to the task/process from a risk management perspective.

Key initiatives in 2017

- Implementation of a rating model to monitor anti-money laundering activities
- Formulation of a credit risk rating model especially for loans
- Weekly economic updates to keep abreast of the rapidly changing dynamics of the business environment
- Monthly trigger lists for all product categories to assist recovery and follow up and take speedy remedial action.
- Policy formulation for certain key areas of the Company

Plans for 2018

In line with the Company’s commitment to continuously enhance the risk management capabilities the following initiatives have been planned:

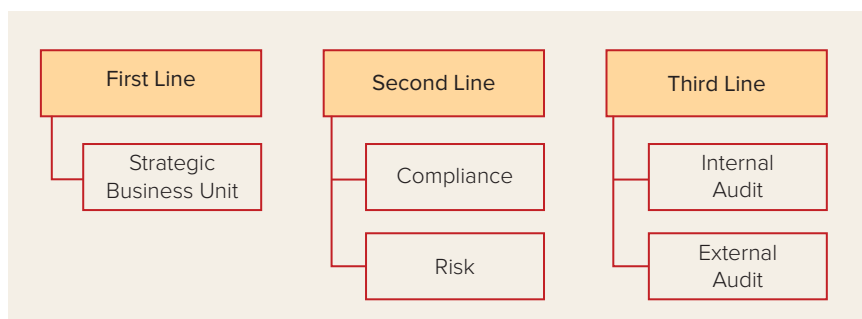
- Risk and Control Self Assessment (RCSA) for all processes in the Company
- Comprehensive testing on Business Continuity Planning (BCP).
- Further improvements on the credit rating models done for leasing and factoring to be upgraded in line with developments and trends.
- Improvement to customer complaints handling processes to ensure effective resolution

Risk Management

Approach to Risk Management

In the three lines of defense model, the segregated lines depict the duties of different parties in the organization in risk management. Accordingly management control is the first line of defense in risk management that represents the risk assuming functions. The second line is covered by the oversight functions and policies. Independent assurance is the third. Thus each of these three “lines” plays a distinct role within the organization’s wider governance framework.

Three Lines of Defense at Siyapatha Finance PLC



i. The first line of defense

As the first line of defense, operational managers own and manage risks. They are responsible for implementing corrective actions to address process and control deficiencies. Further at the Operational level is responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis. Operational management identifies, assesses, controls, and mitigates risks, guiding the development and implementation of internal policies and procedures and ensuring that activities are consistent with goals and objectives. Through a cascading responsibility structure, mid-level managers design and implement detailed procedures that serve as controls and supervise execution of those procedures by their employees.

ii. The second line of defense

This provides the oversight function by risk and compliance

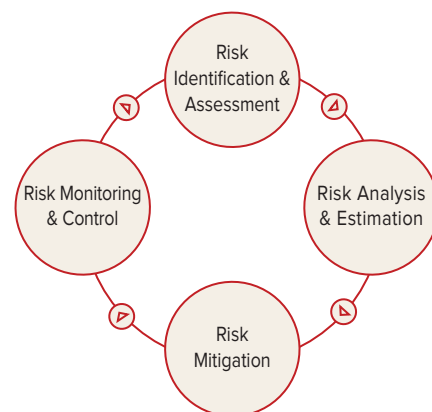
The risk management function facilitates and monitors the implementation of effective risk management practices by operational management

The compliance function monitor various specific risks such as noncompliance with applicable laws and regulations

iii. The third line of defense

This is for independent assurance. Internal audit provides assurance on the effectiveness of governance, risk management and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives. The scope of this assurance, which is reported to senior management and to the governing body, usually covers efficiency and effectiveness of operations; safeguarding of assets, reliability and integrity of reporting processes and internal control environment etc.

Risk Management Principles



Risk Identification and Assessment

The objective of risk identification is the early and continuous identification of events which will have negative impacts on the Company’s ability to achieve the expected level of performance by all stake holders. Especially securing share holder value whilst balancing risk-reward tradeoffs is a key consideration.

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

Risk Analysis & Estimation

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

a) Risk appetite

The risk appetite of the Company is measured in both qualitative and quantitative parameters. These parameters are periodically reviewed and amended to capture

the dynamics of the market and the economic environment in which the Company perform.

b) Stress testing

Stress testing is the process of determining the ability of the Company to maintain a certain expected level of performance under unfavorable conditions. Certain key factors are considered under stress testing scenarios in order to determine the impact on the overall performance.

Risk Mitigation

The four key strategies of risk mitigation are acceptance, avoidance, limitation and transfer, ideally focused to reduce the adverse effects. The Company follows all four strategies based on the circumstances.

Risk acceptance does not reduce any effects. However it is still considered a strategy. The key consideration under this is the risk-rewards tradeoffs and the cost of other risk management options such as avoidance or limitation.

Risk avoidance is the opposite of risk acceptance. It is the action that avoids any exposure to the risk whatsoever.

Risk limitation option limits a company's risky exposure by taking some action. It is a strategy employing a bit of risk acceptance along with a bit of risk avoidance or an average of both.

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

Control and Monitoring

Under this the following mechanisms are adopted.

Key Risk Indicators (KRIs)

Key Risk Indicators (KRIs) are critical reflectors of adverse events that can have an impact on an organization. The Company monitors changes in the levels of risk exposure through KRIs and identify the early warning signs that enable it to take steps in case the KRIs are reaching undesirable levels. The key risk indicators for all the key risks are compiled on an either periodical basis or ad hoc basis which are reviewed and analyzed frequently.

Tolerance limits

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

Managing Key Risks Faced by the Company

Credit Risk

Identification and assessment

Credit risk is simply the likelihood that a borrower or counterparty will fail to meet its obligations as agreed. It could instigate from either the counter party's unwillingness or inability to fulfill their contractual obligations. Apart from

risk of default, credit risk stems from concentration risk that arises from either uneven distribution of exposures to its borrowers or from uneven distribution of exposures to particular sectors, regions, industries or products.

In credit risk management the rigorous credit screening process adopted has been a core competency of the Company. The multiple layers of approving lines ensure that credit risk is mitigated in all aspects.

At the initial level the credit facilities are preliminary screened at the branch level and a credit evaluation is done. Then based on the exposure the facility is escalated upwards for approval along with a credit risk assessment and a credit risk rating. In allocating a credit risk rating the credit proposal is assessed on two accounts i.e the borrower and the facility. In determining the borrower's credit risk the industry in which he performs, succession, integrity, past payment records inter alia are considered. In assessing the facility the equity contribution, security cover and guarantors are taken in to consideration.

Post approval pre-disbursement stage is covered by the Credit Administration department under which security documentation and disbursement is done. Post disbursement monitoring is efficiently carried out by both the branch network and the recoveries department based on the repayment pattern.

Early warnings signals captured through trigger lists done by credit risk management is also shared with respective departments to aid the post disbursement monitoring. Further timely reviews of facilities also ensure that any early warning signs are

Risk Management

captured and required corrective steps are taken to arrest any unexpected default.

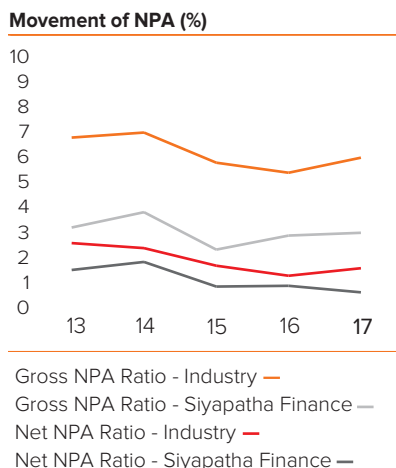
Control and Monitoring

At Siyapatha Finance PLC based on the KRIs tolerance limits are set to monitor credit risk in terms of asset quality and concentration.

a) Asset quality

The Company's product portfolio has been expanding over the years and accordingly the credit risk exposure stems from finance leases, hire purchase facilities, loans, gold financing and factoring. The Company's target market consists of individuals and small and medium sized enterprises at large. In order to manage the credit risk the approving levels are segregated and authority is granted based on each level.

The standard of the Company's credit screening and timely recovery action is reflected in the NPA ratios which have been below the Industry averages for the past five years which can be shown as follows.



KRI for Asset quality - Tolerance limit

- 06 months NPA 2.5%
- 03 months NPA 4.0%

Stress testing on NPA

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

b) Concentration

Over dependency in one segment of a portfolio due to uneven distribution of exposures gives rise to concentration risk. The concentration risk may arise from product range, industry sectors, asset categories and geographical areas. Therefore maintaining a satisfactory diversity in the said segments is essential for the Company as any resultant danger of contagion effects in the event of default needs to be mitigated.

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

KRI for Concentration

Portfolio concentration

Limits are reviewed based on market trends and strategic direction

Asset concentration

Limits are reviewed based on market trends and macro environment

Branch concentration

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

Interest Rate Risk

Identification and assessment

Interest rate risk is the potential for changes in interest rates to reduce the Company's earnings. Changes in interest rates affect earnings, value of assets/ liability, off-balance sheet items and cash flow. Hence, at Siyapatha, the objective of interest rate risk management is to uphold earnings while securing the ability to absorb unexpected negative impact and to ensure that sufficient returns are reaped for risks taken.

When assessing the interest rate risk the key consideration is the net interest position along with the re-pricing cycles of interest sensitive assets and liabilities. Stress testing is carried out on various interest rate scenarios to decide on the risk exposure. Simulations to the interest rates are done to assess potential impact on the Company's profitability resulting from alternative interest rate scenarios.

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

gains from volatility in the market rates, while ensuring a prudent liquidity level.

Control and Monitoring

Volatile Liability Dependency Ratio

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

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

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

KRI for Interest Rate Risk

Tolerance limit

Net Interest Yield (NIY) above the budgeted level.

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

Liquidity and Funding Risk

Identification and assessment

Liquidity is an institution's ability to meet its cash and collateral obligations without sustaining unacceptable losses. Liquidity risk refers to an institution's inability to meet its obligations (whether real or apparent) threatens its financial stability or survival. In response to this risk, financial institutions are expected

to establish and maintain liquidity management systems to assess their prospective funding needs and ensure the funds are available at appropriate times. A main element of liquidity risk management at Siyapatha is observing and evaluating the firm's present and potential fund requirement including debt obligations and planning for contingencies stemming from all possible scenarios.

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

Control and Monitoring

Volatile Liability Dependency Ratio (maturity)

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

KRI for Liquidity Risk

Tolerance Limit Liquidity Ratio 8.5%

Statutory Liquidity Ratio 7.5%

Volatile Liability Dependency Ratio (on maturity basis) 20%

Stress testing is carried out on the liquidity gaps, cash flows and deposit base to assess the impact arising from

any adverse scenarios. Results of such are discussed at ALCO and escalated to the BIRMC as well.

Operational Risk

Identification and assessment

Operational risk can be defined as risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk incidents include internal frauds, external frauds, employment practices and workplace safety, clients, -products and business practices, damage to physical assets, business disruptions and system failures etc. Routine process audits and reviews highlights the weak links in the process and such enable the Company to assess its vulnerability and establish controls as well as safeguards while providing for unexpected worst-case scenarios. Further in order to recognize the risk events arising from external and internal environment, operational loss event reporting is carried out based on the broad categories mentioned above.

Operational risk is mainly observed through the following areas.

Losses due to frauds, misconduct and negligence

Losses due to poor quality of credit documentation and legal documentation

Number of customer complaints and law suits

Frequency of systems break downs and costs

Control and monitoring

Operational risk assessment is a continual cyclic process assessment, decision making, and implementation

Risk Management

of risk controls which results in acceptance, mitigation or prevention of risk.

Insurance is the main mitigation tool available in the market along with outsourcing. Company monitors the adequacy of the insurance coverage routinely and makes adjustment based on requirements. Certain non-core functions are being outsourced in line with the guidelines set by Central Bank of Sri Lanka.

All key processors are being documented by way of Board approved manuals. Under each adequate internal control are established in order to stream line and standardize the respective process. Further segregation of duties, dual control, demarcated responsibilities have also been covered in the procedure manuals.

Separate IT audits are being done periodically to identify any cyber security threats. Based on the finding necessary upgrades and improvements are done to the IT system.

A Board approved BCP is in place covering the Disaster Recovery planning as well. Disaster Recovery site testing have been carried out to assess the adequacy of the same.

People Risk

Human capital is the main strength of a company to drive the company towards achieving its corporate strategies. The quality of the people is a vital factor being a service organization providing financial solutions. The severity of impact will vary widely and often includes financial impact on the employee as well as on the business.

Absence of proper recruitment process to employ the right person with adequate skills & knowledge to

perform the required task, inadequate performance recognition and evaluation mechanisms, misconduct, unplanned absenteeism and negligence of employees create people risk.

Identification and assessment

The Company carries out assessment of the new recruitment requirements & planning manpower requirements proactively, conducting comprehensive employee screening process, close monitoring of performance during probation periods inter alia to mitigate people risk. Further exit interviews, visits by the HR team to all branches and open door policy for grievance handling ensure early identification of any issues.

Control and monitoring

HR department carry out an all inclusive induction programs for new recruits thereby communicating the expected level of performance and integrity at the point of on boarding.

Further, the Company has implemented a comprehensive performance appraisal and a reward scheme as well. A strict disciplinary policy is established to ensure dutiful good conduct of all employees.

Technology Risk

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

Identification and assessment

The Company perceives that with the expansion of the business a comprehensive sophisticated IT system is vital. As a resultant the potential threats to the IT system is carefully

assessed and addressed to minimize the risk of losses.

Disruptions to an IT system can range from cyber attacks to short term system failures that can be caused through willful act, malpractices and technical reasons. Thus the Company carried out a special IT audit to assess the vulnerabilities of the IT system with assistance of an IT expert, a process which would be done continuously.

Control and monitoring

The following steps are taken by the Company to mitigate risks arising from technological framework.

- Secure computers, servers networks
- Use anti-virus and anti-spyware protection and firewalls
- Regularly update software to the latest versions
- Use data backups that include off-site storage

Company's online presence is currently through the website, emails and social media profiles. Thus required protective steps are taken to minimize the risks arising from these.

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

To gain competitive advantage investment in latest technology is done after evaluating the feasibility of such investments.

Further comprehensive IT security policy is in place and a Business Continuity Plan (BCP) is formulated

to mitigate and recover business functions and processes during disruptive situations.

Compliance and Legal Risk

Identification and Assessment

Compliance risk is observed as the possible losses arising from violations or infringement of laws, regulations applicable to the Company. The impact of compliance risk can be rather far-reaching. It could even lead to loss of earnings and business opportunities, tarnished the Company's image and imminent lawsuits.

A Legal department is established to overlook into the legal aspects separately.

Control and Monitoring

The Compliance Officer oversees the compliance of the Company with relevant regulations and laws including directions and regulations issued by the Central Bank of Sri Lanka and Colombo Stock Exchange. In order to maintain the independence of the Compliance function the Compliance Officer functionally reports to the BIRMC and administratively to MD. Any significant non-compliance is reported to the Committee and the Board accordingly. Further all the new products and procedures prior to the implementation are signed off by Compliance Officer. Compliance department disseminate regulatory directives through internal circulars based on the requirements.

Based on the requirement and the complexity external expert advice is obtained by the Company on legal issues.

Strategic Risk

Strategic risk management can be defined as the process of identifying, assessing and managing the risk in

the organization's business strategy including taking swift action when risks are realized. Strategic risk arises from inability to manage medium / long term strategic goals of the business entity.

Identification and Assessment

The Company's three year strategic plan incorporating all business units has been approved by the Board. In formulating the strategic plan a comprehensive approach was taken to include views of all departments at different levels. Along with the vision and mission the broad level strategies were formulated through a combination of top-bottom and bottom-up approach. Operational level strategies were basically formulated by the business heads themselves thereby ensuring their ability and commitment to deliver results.

Control and Monitoring

Routine monitoring is carried out by the respective business leaders and at the Board level of the strategic plan. Performance against the budget is monitored monthly, quarterly and reports are escalated upwards. Accordingly review actions/ plans are done depending on the outcome, any external, economic environment changes etc.

Further assessments of key performance indicators and analysing the trend in movements are done to monitor the achievement and possible issues in implementation of the strategic plan.

Reputational Risk

Reputational risk is the risk of loss to an Institution's image and public standing that arise due to some actions taken by that institute. Sometimes reputational risk can be due to perception or negative publicity along.

Identification and Assessment

In the finance sector reputation of a Company is a critical success factor. Any event that can cause losses to the Company by ruination of goodwill or standing of a business can give rise to reputational risk. Such events can stem from internal events such as acts of employees or from external events such as acts of joint venture partners, suppliers or service providers.

Company's good governance practices and transparent approach in the conduct ensures that the reputational risk is mitigated. Further timely and efficient communications among all stakeholders are always maintained.

Control and Monitoring

All external communications are monitored by several layers of authority. Further the Company has established a set of internal controls to ensure monitoring of the conduct of employees. On the other hand the Company has established a Board approved complaint handling policy to have a smooth procedure for receiving customer complaints and a resolution mechanism.

Future Ready

Driven by the proven stability and strength we offer security and stability to our depositors.



Financial Information

Financial Calendar 2017

07 February 2017

Audited Financial Statements for the year ended 31 December 2016 signed on 07 February 2017

27 February 2017

Publication of half yearly Financial Statements (2nd half of year 2016) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil & English Language

28 March 2017

Annual General Meeting (AGM)

28 March 2017

Declaration of scrip dividend - LKR 1.21 per share

30 August 2017

Publication of half yearly Financial Statements (1st half of year 2017) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil & English Language

Interim Financial Statements published in terms of Rules 7.4 of the Colombo Stock Exchange

-1 Quarter ended 31 March 2017	09 May 2017
-2 Quarter ended 30 June 2017	01 August 2017
-3 Quarter ended 30 September 2017	09 November 2017
-4 Quarter ended 31 December 2017	26 February 2018

Financial Calendar 2018

20 February 2018

Audited Financial Statements for the year ended 31 December 2017 signed on 20 February 2018

27 February 2018

Publication of half yearly Financial Statements (2nd half of year 2017) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil & English Language

27 March 2018

Annual General Meeting (AGM)

27 March 2018

Scrip dividend - LKR 1.25 per share to be declared*

On or before 31 August 2018

Publication of half yearly Financial Statements (1st half of year 2018) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil & English Language

Publication of Interim Financial Statements in terms of Rules 7.4 of the Colombo Stock Exchange

-1 Quarter ended 31 March 2018	On or before 15 May 2018
-2 Quarter ended 30 June 2018	On or before 15 August 2018
-3 Quarter ended 30 September 2018	On or before 15 November 2018
-4 Quarter ended 31 December 2018	On or before 28 February 2019

*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 to present its Annual Report on the State of Affairs of the Company for the financial year ended 31st December 2017, 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 20 February 2018.

This report details 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 05 March 2018.

Siyapatha Finance PLC ("the Company"), bearing the registration No. PB 917 PQ was incorporated on 03rd March 2005, under the Companies Act No 17 of 1982, as a Specialized Leasing Company under the name 'Sampath Leasing and Factoring Limited' and re-registration was made under the provisions of the Companies Act No 07 of 2007. Renaming the Company as 'Siyapatha Finance Limited' was made on 02 September 2013 in parallel to the obtaining of 'Registered Finance Company' status from Central Bank of Sri Lanka which was received on 25 September 2013. Upon the listing of the unsecured subordinated redeemable debentures on the Colombo Stock Exchange on 31 December 2014, the status of the Company was changed and Siyapatha Finance Limited has changed its name to Siyapatha Finance PLC with effect from 02nd January 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 Rating 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's vision and values are enumerated in page 03 of the Annual Report. Business activities of the Company are conducted in an environment of high level of compliance and in conformity with ethical practices.

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.

Acceptance of deposits and granting of accommodations such as finance lease, hire purchase, vehicle loan facilities, mortgage loans, gold loan, debt factoring, revolving loans and business/ personal Loans are amongst the principal activities of the Company.

4. Review of operations

A review of the financial and operational performance of the Company together with significant events took place during the year 2017 are stated in the Chairman's Message (pages 18 to 21), Managing Director's Review (pages 22 to 27) and Management Discussion and Analysis 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

Core business operations will be mainly focused in achieving its profitability and increase in market share. Two new branches, namely; Galle & Panadura were added to the branch network during the year 2017.

As required under Section 168 (a) of the Companies Act, an overview of the future development of the Company is given in Chairman's Message (pages 18 to 21) and the Managing Director's Review (pages 22 to 27).

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 172 to 242 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 31 December 2017 are duly signed by the Managing Director, Head of Finance 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 172 to 242 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 Directors' Responsibility for Financial Reporting is given in Note 1.4 to the financial statements (page 179) 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 ended 31 December 2017 and their report on those Financial Statements, as required by Section 168(1) (c) of the Companies Act is given on page 171.

9. Significant Accounting Policies

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 179 to 199 and comply with Section 168 (1) (d) of the Companies Act No.7 of 2007.

10. Financial Results and Appropriations

10.1 Interest income

Total interest income of the Company for the year ended 31 December 2017 is LKR. 4,599.47 Million (LKR.2, 838.99 Million in 2016). Components of interest income are given in note 5 to the Financial Statements.

10.2 Profit and Appropriations

The Company has achieved a profit before tax and profit after tax of LKR 785.24 Million (LKR 515.18 Million – Year 2016) & LKR 498.86 Million (LKR 327.28 Million – 2016) respectively for the year 2017 while recording a growth in profits of 52%. The Company's total Comprehensive Income (net of tax) for the year is LKR 554 Million (2016 -LKR 325 Million). A detailed breakup of the profits and appropriations of the

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

Company is given below.

Detailed breakup of the profits & appropriations	2017 LKR 000	2016 LKR 000
Profit for the year after payment of all operating expenses and provisions for depreciation and contingencies	785,240	515,186
Less: Taxation	(286,378)	(187,904)
Net profit after taxation	498,862	327,282
Other comprehensive income		
Actuarial losses on defined benefit plans (Net of deferred tax effects on losses on defined benefit plans)	(1,212)	(2,279)
	497,650	325,003
Unappropriated balance brought forward from previous year	1,266,963	1,016,073
Balance available before appropriation/adjustments	1,764,613	1,341,076
Appropriations		
Transfer to Statutory Reserve Fund	(26,578)	(16,363)
Dividend		
Final scrip dividend paid-2015 (LKR 1.10 per share)	-	(57,750)
Final scrip dividend paid-2016 (LKR 1.21 per share)	(65,491)	
Unappropriated balance carried forward	1,672,544	1,266,963
Proposed dividend		
Final scrip dividend-2016(LKR 1.21 per share)	-	65,491
Final scrip dividend-2017(LKR 1.25 per share)	69,721	-

11. Taxation

The income tax rate applicable on the Company's operations is 28%. (2016: 28%).

Further the Company is liable for both VAT and NBT on financial services at 15%, (2016:15%) and 2% (2016: 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 1.25 per ordinary share to be paid for the financial year ended 31 December 2017. This will be approved by the shareholders at the Annual General Meeting to be held on 27 March 2017 in compliance with the

Company's Articles of Association.

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.

Details pertaining to dividend payments are stated in Note 14 to the Financial Statements.

13. Reserves

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

	2017	2016
	LKR 000	LKR 000
Statutory Reserve Fund	113,000	86,422
Revaluation Reserve	56,823	-
Retained Profit	1,672,545	1,266,964
Total	1,785,545	1,353,386
Total	1,785,545	1,353,386

14. Capital Expenditure

The total capital expenditure made on acquiring property, plant and equipment and intangible assets of the Company amounted to LKR 74.44 Million (2016 – LKR 279 Million) and details are given in Notes 28 and 29 to the Financial Statements.

15. Capital Commitments

The capital expenditure approved and contracted for, as at the reporting date is given in Note 43 to the Financial Statements.

16. Property, Plant and Equipment (PPE)

Details of Property, plant & equipment are given on Note 28 to the Financial Statements.

17. Market value of freehold properties

Freehold land of the Company was revalued in January 2018 by 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 28 to the Financial Statements.

18. Stated Capital and Debentures

18.1 Stated Capital

The Stated Capital of the Company as at 31 December 2017 amounted to LKR 635.91 Million consisting of 55,777,146 ordinary shares (2016 - LKR 576.97 Million consisting of 54,124,726 ordinary shares). The number of shares in issue of the Company increased from 54,124,726 ordinary shares to 55,777,146 ordinary shares as a result of the payment of final Scrip Dividend for 2016.

The details of the shares issued are given on Note 36 to the Financial Statements.

18.2 Debt Capital

The Company had issued rated, unsecured, subordinated redeemable debentures to the value of LKR 1.0 Billion which are eligible for Tier II capital of the Company during the year ended 31st December 2017 which are listed in the Colombo Stock Exchange.

The details of debentures outstanding as at 31 December 2017 are given in Note 31 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 pages 73 to 75.

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 2017

Name	No of Shares	% of Issued Share Capital
Mr. C P Palansuriya	1	>0.001%
Mr. M A Abeynaike*	1	>0.001%
Mr. S G Wijesinha**	1	>0.001%
Dr. H S D Soysa	1	>0.001%
Mr. W M P L De Alwis	1	>0.001%
Mr. Ranjith Samaranayake***	1	>0.001%
Mr. S Sudarshan	1	>0.001%
Sampath Bank PLC	55,777,139	99.99%
Total	55,777,146	100.00%

*Resigned from the Company w.e.f 17.10.2017

**Retired w.e.f 22.10.2017

***Retired w.e.f 08.08.2017

21 Board of Directors

The Board of Directors of Siyapatha Finance PLC comprises of eight (2016-ten) Directors with wide financial and commercial knowledge and experience. The names of the Directors during the period 1st

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

1st January 2017 to 31st December 2017 are given below as per Section 168(1)(h) of the Companies Act. The brief profiles are given on pages 80 to 83 of the Annual Report. The classification of Directors into 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(NED/NID/ED)	Remarks(Appointed date, change of directorate to chairman etc)
Mr. M Y A Perera	NID/NED	28/03/2012 (Resigned w.e.f.15.11.2017)
Mr. M A Abeynaika	IND/NED	28/03/2012 (Resigned w.e.f.17.10.2017)
Mr. K M S P Herath	ED	05/04/2016
Mr. C P Palansuriya	NID/NED	02/05/2014 (Appointed as the Chairman w.e.f.15/11/2017)
Mr. S G Wijesinha	NID/NED	22/10/2008 (Resigned w.e.f. 22/10/2017)
Mr. R Samaranayake	NID/NED	28/12/2012 (Retired w.e.f. 08/08/2017)
Mr. P M A Sirimane	IND/NED	03/08/2010
Dr. H S D Soysa	IND/NED	01/01/2011
Mr. W M P L De Alwis	IND/NED	25/02/2011
Mr. L T Ranwala	NID/NED	28/07/2015

All Directors have submitted affidavits and declarations for the year 2017 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 Directororate

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.

23 Retirements and Re-Election/Re-appointment of Directors

In terms of Articles 24 (7) & 24 (8) of the Articles of Association of the Company, Mr. P M A Sirimane and Mr. L T Ranwala retire by rotation being eligible, offered themselves for re-election on the unanimous recommendation of the Board of Directors.

Mr. P S Cumaranatunga and Ms. A Nananyakkara having being appointed to the Board with effect from 30th October 2017 and 6th November 2017

respectively offered themselves for election by the shareholders in terms of Article 24 (2) of the Articles of Association of the Company.

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

25. Board Subcommittees

The Board, while assuming the overall responsibility for the and accountability for the management oversight of the Company, has also appointed Board Sub Committees to ensure that the activities of the Company at all times are conducted with 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 seven sub-committees as of the 31st of December

2017 is detailed below. 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)
 Mr. S G Wijesinha (served until 22.10.2017)
 Mr. M A Abeynaike (served until 17.10.2017)
 Mr. R Samaranayake (served until 08.08.2017)
 Dr. H S D Soysa
 Mr. W M P L De Alwis (w.e.f. 01.11.2017)
 Ms. A Nanayakkara (w.e.f. 06.11.2017)

The Report of the Board Audit Committee is given on pages 134 to 136 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, served until 31.10.2017)
 Mr. M Y A Perera (served until 31.10.2017)
 Mr. P S Cumararatunga (Chairman w.e.f 01.11.2017)
 Dr. H S D Soysa
 Ms. A Nanayakkara (w.e.f. 06.11.2017)

The Report of the Board Human Resources and Remuneration Committee is given on pages 137 - 138 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, served until w.e.f.31.10.2017)
 Mr. M Y A Perera (served until 31.10.2017)
 Mr. L T Ranwala (served until 31.10.2017)
 Mr. W M P L De Alwis (Chairman w.e.f. 01.11.2017)
 Mr. K M S P Herath
 Mr. P S Cumararatunga (w.e.f 01.11.2017)
 Ms. A Nanayakkara (w.e.f. 06.11.2017)

The Report of the Board Integrated Risk Management Committee is given on pages 139 to 140 which form an integral part of the Annual Report of the Board of Directors.

25.4 Board Related Party Transactions Review Committee

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.

Mr. M A Abeynaike (Chairman, served until 17.10.2017)
 Mr. S G. Wijesinha (served until 22.10.2017)
 Mr. R Samaranayake (served until 08.08.2017)
 Mr. P M A Sirimane
 Mr. W M P L De Alwis
 Mr. K M S P Herath
 Mr. P S Cumararatunga (Chairman w.e.f 01.11.2017)
 Ms. A Nanayakkara (w.e.f. 06.11.2017)

The Report of the Board Related Party Transactions Review Committee is given on pages 141 to 142 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 (served until 17.10.2017)
 Mr. M Y A Perera (served until 31.10.2017)
 Mr. L T Ranwala
 Mr. K M S P Herath
 Mr. P S Cumararatunga (w.e.f 01.11.2017)

The Report of the Board Credit Committee is given on page 144 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 served until 22.10.2017))
 Mr. P M A Sirimane (w.e.f. 01.11.2017)
 Mr. W M P L De Alwis
 Mr. K M S P Herath
 Mr. P S Cumararatunga (w.e.f 01.11.2017)
 Ms. A Nanayakkara (Chairperson w.e.f. 06.11.2017)

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

The Report of the Board Corporate Governance Committee is given on pages 145 to 146 which forms an integral part of the Annual Report of the Board of Directors.

25.7 Board Nomination Committee

The Committee was formed w.e.f. 01.11.2017

Dr. H S D Soysa (Chairman)

Mr. W M P L De Alwis

Mr. P M A Sirimane

Mr. C P Palansuriya

26 Directors' Meetings

The details of 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 page 130 of the Annual Report.

Name	Position	No: of Shares as at 31 December 2017	No: of Shares as at 31 December 2016
Mr. M Y A Perera*	Chairman	-	01
Mr. C P Palansuriya	Chairman	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. Ranjith Samaranyake****	Director	01	01

*One share held by Mr. M Y A Perera was transferred to Mr. C P Palansuriya w.e.f. 01.11.2017. Mr. M Y A. Perera resigned w.e.f. 15.11.2017

**Resigned w.e.f 17.10.2017

***Retired w.e.f. 22.11.2017

****Retired w.e.f. 08.08.2017

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 46 to the Financial Statements.

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. Directors of the Company have made necessary declarations of their interest in contracts or proposed contracts, in terms of the Section 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 31 December 2017 was as follows:

29 Staff Strength

The staff strength of the Company as at 31st December 2017 was 540 (2016 – 390).

30 Environmental Protection

To the best knowledge of the Board of Directors, the Company has not engaged in any activity which 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 future operations, of the Company. Details of litigation pending against the Company are given in note 43 to 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. 44 to the Financial Statements.

34 Going Concern

The Directors after making necessary inquiries and reviews including reviews of the budget for 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 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 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 it is being regularly reviewed by the Board of Directors.

35.2 Corporate Governance

The Directors of the Company are committed towards maintaining an effective Corporate Governance Framework and implementing processes required to ensure to ensure that the Company is compliant with the Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Direction on Corporate Governance issued by the CBSL. Details are given on Corporate Governance Report on pages 94 to 129 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 ended 31st December 2017 by the Company amounted to LKR 1,541,000/- (2016: 1,409,000/-). Further, the Company paid LKR 2,646,000/- (2016: LKR 2,530,000/-) 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, as Auditors is being proposed at the Annual General Meeting.

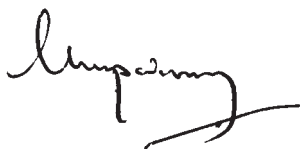
Annual Report of the Board of Directors on the State of Affairs of the Company

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 27 March 2018. The Notice of Meeting is given on page 264 of this Annual Report.

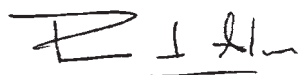
As required by Section 168(1)(k) of the Companies Act the Board of Directors hereby acknowledge the contents of this report.

For and on behalf of the Board of Directors



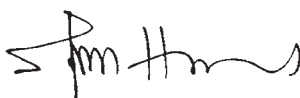
C P Palansuriya

Chairman



W M P L De Alwis

Deputy Chairman



Saman Herath

Managing Director



S. Sudarshan

Group Company Secretary

Siyapatha Finance PLC

05 March 2018

Directors' Statement on Internal Control Over Financial Reporting

Responsibility

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

The Board is responsible for ensuring the adequacy and effectiveness of the internal control mechanism of the Company. This mechanism is designed to provide 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.

Reviews of this process are conducted by the Board on a regular basis. On the basis of such reviews the Board expresses the view that the 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.

Board's policies and procedures pertaining to internal control over financial reporting, have been documented. The implementation of such policies and procedures is carried out with the assistance of the management. In order to assess the internal control system over financial reporting, identified Officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. The Internal Audit Department of the Company observe and check them annually for suitability of design and effectiveness.

Key Internal Control Processes

Given below are 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 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 submits the Annual Audit Plan for review and approval of the Audit Committee. Independent and objective reports prepared by the Department are also tabled for review by the Audit Committee, at their periodic meetings.
- The Committee also reviews the internal audit functions, with particular reference to the scope and quality of the audits. Minutes of all Audit Committee meetings are submitted to the Board for review. In addition, periodical summaries submitted by the Internal Audit Department indicating the functions carried out are reviewed by the Committee.
- Evaluation of the adequacy and effectiveness of the internal control systems is carried out 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 at their work locations, a procedure has been introduced to obtain a quarterly certification from the respective Officers.
- 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 Internal Audit Department verifies the suitability of design and effectiveness of such procedures and controls, on an ongoing basis.

Company will be adopting the new Sri Lanka Financial Reporting Standards, which will be effective from the year 2018. Processes applied to adopt the said accounting standards were identified during the year 2017 and are in

Directors' Statement on Internal Control Over Financial Reporting

place in order to comply with recognition, classification, measurement and disclosure requirements of the new accounting standards. Continuous monitoring is in progress and steps are being taken to make improvements to the processes where required, to enhance effectiveness and efficiency. In addition, required enhancements in control process are being carried out in respect of Management Information System and its reports.

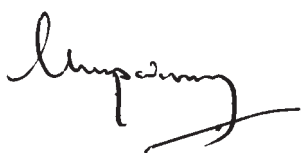
Confirmation

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



C P Palansuriya
Chairman



P M A Sirimane
Chairman
Board Audit Committee

Siyapatha Finance PLC

20 February 2018

Independent Auditors' Report



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

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

TO THE SHAREHOLDERS OF 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 2017, 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 auditor's 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 auditor considers 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 2017, 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.

20 February 2018

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 Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Income Statement

<i>For the year ended 31 December</i>			
		2017	2016
	Note	Rs.'000	Rs.'000
Interest income		4,599,470	2,838,995
Less: Interest expenses		(2,764,290)	(1,620,783)
Net interest income	5	1,835,180	1,218,212
Fee & commission income		243,899	139,442
Less: Fee and commission expenses		(680)	(2,139)
Net fee and commission income	6	243,219	137,303
Other operating income	7	222,685	175,471
Total operating income		2,301,084	1,530,986
Less: Impairment (charges)/ reversal for loans and other losses	8	(236,744)	(79,189)
Net operating income		2,064,340	1,451,797
Less: Operating expenses			
Personnel costs	9	(611,373)	(439,718)
Other operating expenses	10	(436,917)	(368,393)
Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services		1,016,050	643,686
Less: VAT and NBT on financial services	11	(230,810)	(128,500)
Profit before taxation from operations		785,240	515,186
Less: Taxation	12	(286,378)	(187,904)
Profit for the year		498,862	327,282
Basic earnings per share (Rs.)	13	8.94	5.87
Dividend per share (Rs.)	14	1.21	1.10

The Accounting policies and Notes to the Financial Statements from pages 179 to 242 form an integral part of these Financial Statements.

Statement of Comprehensive Income

<i>For the year ended 31 December</i>		2017	2016
	Note	Rs.'000	Rs.'000
Profit for the year		498,862	327,282
Other comprehensive income/ (expenses)			
Other comprehensive income not to be reclassified to profit or loss:			
Actuarial losses on defined benefit plan	35.3	(1,683)	(3,165)
Deferred tax effect on actuarial losses	34	471	886
		(1,212)	(2,279)
Surplus from revaluation of property,plant & equipment		78,921	-
Deferred tax effect on surplus from revaluation of property,plant & equipment		(22,098)	-
	38	56,823	-
Other comprehensive income for the year,net of tax		55,611	(2,279)
Total comprehensive income for the year,net of tax		554,473	325,003
Attributable to :			
Equity holders of the parent company		554,473	325,003
		554,473	325,003

The Accounting policies and Notes to the Financial Statements from pages 179 to 242 form an integral part of these Financial Statements.

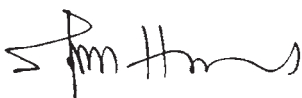
Statement of Financial Position

<i>As at 31 December</i>		2017	2016
	Note	Rs. '000	Rs. '000
Assets			
Cash and bank balances	16	297,858	169,333
Placements with banks	17	65,699	-
Securities purchased under repurchase agreements	18	1,200,981	777,438
Factoring receivables	19	1,899,702	1,979,243
Gold loan receivables	20	2,563,352	1,768,922
Pawning receivables	21	-	-
Loan receivables	22	2,724,776	743,740
Lease receivables	23	19,873,470	13,851,890
Hire purchase receivables	24	252,000	837,560
Other assets	25	464,986	291,648
Financial instruments- available for sale	26	56	56
Financial investments held to maturity	27	4,303	4,288
Property, plant & equipment	28	455,140	358,131
Intangible assets	29	8,257	8,489
Total Assets		29,810,580	20,790,738
Liabilities			
Bank overdraft		456,018	460,494
Due to other customers	30	9,333,622	3,362,662
Debt issued and other borrowed funds	31	16,310,778	14,187,266
Other payables	32	775,445	595,597
Income taxation payable	33	91,800	61,257
Deferred taxation liability	34	331,469	170,088
Retirement benefit obligations	35	33,163	23,013
Total Liabilities		27,332,295	18,860,377

FINANCIAL INFORMATION

As at 31 December	2017		2016
	Note	Rs. '000	Rs. '000
Shareholders' Funds			
Stated capital	36	635,917	576,975
Statutory reserve fund	37	113,000	86,422
Revaluation reserve	38	56,823	-
Retained earnings	39	1,672,545	1,266,964
Total Shareholders' Funds		2,478,285	1,930,361
Total Liabilities and Shareholders' Funds		29,810,580	20,790,738
Net asset value per share (Rs.)			
		44.43	34.61
Commitments and contingencies	43	772,657	1,045,384

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

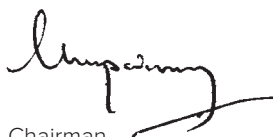


Managing Director

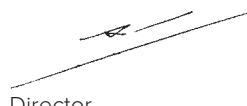


Head of Finance

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



Chairman



Director

The Accounting policies and Notes to the Financial Statements from pages 179 to 242 form an integral part of these Financial Statements.

20 February 2018
Colombo

Statement of Changes in Equity

	Note	Stated Capital	Statutory Reserve Fund	Revaluation Reserve	Retained Earnings	Total
Balance as at 31 December 2015		525,000	70,059	-	1,016,073	1,611,132
Profit for the year		-	-	-	327,282	327,282
Other comprehensive income		-	-	-	(2,279)	(2,279)
Transfer to Statutory Reserve Fund	37	-	16,363	-	(16,363)	-
Scrip 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
Profit for the year		-	-	-	498,862	498,862
Other comprehensive income		-	-	56,823	(1,212)	55,611
Transfer to Statutory Reserve Fund	37	-	26,578	-	(26,578)	-
Scrip Dividend paid	14	58,942	-	-	(65,491)	(6,549)
Balance as at 31 December 2017		635,917	113,000	56,823	1,672,544	2,478,284

The Accounting policies and Notes to the Financial Statements from pages 179 to 242 form an integral part of these Financial Statements.

Statement of Cash Flows

<i>For the year ended 31 December</i>			
		2017	2016
	Note	Rs. '000	Rs. '000
Cash flows from operating activities			
Profit before taxation from operations		785,240	515,186
Interest expenses	5.2	2,764,290	1,620,783
Fee & commission expenses	6	680	2,139
Provision for impairment	8	236,744	79,189
Provision for staff gratuity	35.2	9,175	6,784
Provision for depreciation	28	49,839	42,173
Amortisation of software	29	6,224	7,753
(Profit)/Loss on sale of motor vehicles		(1,723)	39
Write off of provisions		-	(14,775)
		3,065,229	1,744,085
Operating profit before working capital changes		3,850,469	2,259,271
(Increase)/Decrease in Lease receivables		(6,143,152)	(4,675,805)
(Increase)/Decrease in Hire purchase receivables		586,489	1,255,436
(Increase)/Decrease in Factoring receivables		10,685	(840,364)
(Increase)/Decrease in Pawning receivables		-	14,775
(Increase)/Decrease in Gold loan receivables		(801,728)	(1,006,021)
(Increase)/Decrease in Loan receivables		(2,014,570)	(456,797)
(Increase)/Decrease in Other assets		(179,752)	(64,978)
Increase/(Decrease) in Other payables		122,516	133,763
		(8,419,512)	(5,639,992)
Cash generated from operations		(4,569,043)	(3,380,721)
Interest paid		(2,514,237)	(1,502,565)
Gratuity paid	35	(708)	(6,195)
Income tax paid	33	(58,749)	(105,409)
Dividend tax paid		(6,549)	(5,775)
Net cash outflow from operating activities		(7,149,286)	(5,000,665)
Cash flow from investing activities			
Investments in government bonds & government securities		(1,192,896)	(8,114)
Purchase of property, plant and equipment and intangible assets		(74,444)	(279,002)
Proceeds from sale of property, plant and equipment		2,248	2,003
Net cash outflow from investing activities		(1,265,092)	(285,113)

Statement of Cash Flows

<i>For the year ended 31 December</i>	2017		2016
	Note	Rs. '000	Rs. '000
Net cash outflow before financing activities		(8,414,378)	(5,285,778)
Cash flow from financing activities			
Proceeds from long term loans/ Securitizations		5,075,000	3,346,350
Repayments of long long term loans/ Securitizations		(3,757,504)	(3,204,655)
Net proceeds from deposits		5,751,243	2,054,301
Proceeds from debentures		1,000,000	2,500,000
Net proceeds from short term borrowings		(225,000)	499,794
Net cash inflow from financing activities		7,843,739	5,195,790
Net decrease in cash and cash equivalents		(570,639)	(89,988)
Cash & cash equivalents at the beginning of the year		478,178	568,166
Cash and cash equivalents at end of the period		(92,461)	478,178
Analysis of the cash and cash equivalents at the end of the period			
Cash and bank balances (Note 16)		297,858	169,333
Placements with banks less than three months (Note 17)		65,699	-
Securities purchased under repurchase agreements (Note 18)		-	769,339
Bank overdraft		(456,018)	(460,494)
		(92,461)	478,178

The Accounting policies and Notes to the Financial Statements from pages 179 to 242 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 Liability Company incorporated in Sri Lanka on 03 March 2005 under the Companies Act No. 17 of 1982. 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 2017 was 540 (390 as at 31 December 2016).

1.2 Principal Activities and Nature of Operations

The Company provides a comprehensive range of financial services encompassing accepting deposits and issue of debt instruments, 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 is responsible for 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 2017 were authorized for issue by the Board of Directors in accordance with the resolution dated 20 February 2018.

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 2017 are prepared in accordance with Sri Lanka Accounting Standards (SLFRSs & LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007.

2.2 Basis of Measurement

The Financial Statements of the Company have been prepared in Sri Lanka Rupees on a historical cost basis, except for the following 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.
- Freehold land which is measured at cost at the time of acquisition subsequently measured at revalued amounts, which are the fair values at the date of revaluation.

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 42.

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

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Year ended 31 December 2017

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the 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 the Reporting Date

All material events after the reporting date have been considered where appropriate adjustments or disclosures are made in respective Note 44 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 recognized 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 recognized 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 (Finance 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 an type, asset type and past due status etc., and

judgements on the effect of concentrations of risks and economic data including levels of unemployment, consumer prices indices, interest rates, exchange rates). Impairment of loans and advances is discussed in detail under Note 19 to 24 to the Financial Statements.

iv Taxation

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

Further, 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 Commitments and Contingencies

All discernible risks are accounted for in

determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 43 to the Financial Statements.

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 40 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in Note 40 to the Financial Statements.

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 free hold land of the Company is reflected at fair value at the date of revaluation less any accumulated depreciation and impairment losses. The Company engages independent valuation specialists to determine fair value of free hold land in terms of Sri Lanka Accounting Standard – SLFRS 13, (Fair Value Measurement). The details of freehold land including methods of valuation are given in Note 28 to the Financial Statements.

Notes to the Financial Statements

Year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to all periods presented in these Financial Statements, unless otherwise indicated.

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 recognized on the settlement date.

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 that are directly attributable acquisition or issue of such financial instruments except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as 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 the Income Statement over the tenor of the financial instrument using the effective interest rate method.

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 assets at Fair value through profit or loss (FVTPL);
 - *Financial assets held for trading*
 - *Financial assets– Designated at fair value through profit or loss*
- b) Loans & Receivables (L&R)
- c) Held to Maturity (HTM) Financial assets
- d) Financial assets available for sale

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

Subsequent measurement of financial assets depends on their classification.

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

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

The Company does not have financial assets under this category.

b) Financial Assets Available for Sale

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

The Company has not 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 recognized 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 26 to the Financial Statements.

c) Held to Maturity Financial Assets

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

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

If the Company were to sell or reclassify more than an insignificant amount of Held to Maturity investments before maturity (other than in certain specific circumstances) the entire category would be tainted and would be reclassified as available for sale. Furthermore, the Company would be prohibited from classifying any financial assets as held to maturity during the following two years. The details of HTM financial investments are given in Note 27 to Financial Statements.

d) Loans and Receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are

not quoted in an active market, other than:

- Those that the Company intends to sell immediately in the near term and those that, upon initial recognition, designates as fair value through profit or loss
- Those that the Company, upon initial recognition, designates as available for sale
- Those for which the Company may not recover substantially all of its initial investments, other than because of credit deterioration

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

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

Cash and Bank balances

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

Notes to the Financial Statements

Year ended 31 December 2017

(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 recognized in Income Statement.

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

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

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

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categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The disclosure of fair value of financial instruments is disclosed in Note 40 to the Financial Statements.

4.1.8 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 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.

Incurring 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

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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' 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 23 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 capitalized borrowing costs. Purchase of software that is integral to the functionality of the related equipment is capitalized 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 except for freehold land and buildings and records at cost of purchase or

construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Changes in the expected useful life are accounted by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Revaluation Model

The Company applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Company are revalued every three years or more frequently if the fair values are substantially different from carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date. The Company has revalued its freehold land and buildings during the year 2017 and details of the revaluation are given in Note 28 to the Financial Statements.

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

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

ii. Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within

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that part will flow to the Company and its cost can be reliably measured. The costs of the day to day servicing of property, plant and equipment are charged to the Income Statement.

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.

vii. Depreciation

Depreciation is recognized 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	
	2017	2016
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.	20.00% 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.

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

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

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

Notes to the Financial Statements

Year ended 31 December 2017

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.

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 in to two categories.

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

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

- b) Fee Income from providing transaction services

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

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 recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay 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 recognized 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 at the end of the reporting period.

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

Notes to the Financial Statements

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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 financial reporting 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 financial reporting 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.

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 recognized. 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 recognized 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 recognized less cumulative amortization recognized 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 recognized 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 in hand, non-restricted current account balances with Company's on demand (net of unfavourable balances) or with an original maturity of three months or less and placements with banks (less than three months).

4.16 Sri Lanka Accounting Standards not yet effective as at 31 December 2017

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 2017. 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 2017. 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

SLFRS 9 Financial Instruments will replace LKAS 39 for annual periods on or after 1 January 2018 with early adoption permitted.

The initial assessment and analysis stage was completed for impairment in 2017, and the

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classification and measurement phase is being finalized.

The Company performed the diagnostic phase (Preliminary Impact Assessment exercise) and implementation phase (solution development) on SLFRS 9 Financial Instruments.

The Company has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

Classification & Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business Model Assessment

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

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

The business model assessment is based on reasonably expected scenarios without taking 'Worst case' or 'Stress Case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectation, the Company does not change the classification of

the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

Contractual Cash flow Characteristic Test

As the second test of the classification process, the Company assesses the contractual terms of the financial assets to identify whether they meet solely the Payment of Principle & Interest (SPPI).

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

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

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

Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 will principally change the Company's loan loss provision method by replacing LKAS 39 Financial Instrument Recognition & Measurement's incurred loss approach with a forward looking ECL Approach.

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

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12months after the reporting date.

Stage 1: When loans are first recognized, the Company recognizes an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans have been reclassified from Stage 2. Assessment of Stage 1 will be performed collectively.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 2. Assessment of stage 2 will be performed.

Stage 3: Loan considered to be credit Impaired/ contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed Individually/Collectively.

Significant Increase in Credit Risk

The Company continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assess whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the either of the following criteria are met:

- Facilities exceeding 30days past due.
- Counterparties/facilities reflected coded any elevated risk industries as per the assessment performed by the Credit Risk Management Team.
- Re-structured facilities.
- Secondary qualitative indicators triggering a significant increase in credit risk for an asset, such as moving a customer/facility to watch list.

Individually Significant Assessment and Not Impaired Individually

Company will individually assess all customer exposures exceeding Rs. 10 Million. Individual assessment will be performed for all the customers with Objective evidence of incurred losses (under Stage 3). Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there have been significant credit deterioration since origination.

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

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

Grouping financial assets measured on a collective basis

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

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Company groups these exposures for smaller homogeneous exposures, based on a combination of internal and external characteristics of the loan as described below:

- Product Type
- Type of Collateral
- Days Past Due
- Industry

The Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio
- EAD: Exposure At Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract to otherwise, expected draw downs on committed facilities.
- LGD: Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realization of any collateral. It is usually expressed as a % of the EAD.

When estimating the ECL, Company considers 3 scenarios (Base Case, Best Case & Worst Case). Each of these scenarios associated with different loss rates. For all products Company considers the maximum period of which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

In its ECL model Company relies on broad range qualitative/quantitative forward looking information as economic input such as:

Quantitative	Qualitative
GDP Growth	Government Policies
Inflation	Status of the Industry Business
Unemployment	Regulatory Impact
Interest Rates	
Exchange Rates	

Transition process of the Company

The Company is in the process of finalising the quantification of impairment performed as of 31st December 2016 based on the requirements of SLFRS 09.

SLFRS 16- Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. 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 did not have any impact on the Financial Statements of the Company other than those disclosed below.

LKAS 7 - Statement of Cash Flows

The amendment requires an entity to disclose information that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Accordingly an entity shall disclose the following changes in liabilities arising from financing activities:

- Changes from financing cash flows
- Changes arising from obtaining or losing control of subsidiaries or other businesses
- The effect of changes in foreign exchange rates
- Changes in fair values and
- Other changes

Necessary disclosures have been given under Note 31 to the Financial Statements.

LKAS 12 - Income Taxes

When an entity assesses whether taxable profits will be available against which it can utilize a deductible temporary difference, the entity shall consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. If tax law imposes no such restrictions, entity may assess the deductible temporary difference in combination with all of its other deductible temporary differences.

However, if tax law restricts the utilization of losses to deduction against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

Further the amendment requires an entity to compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences, when evaluating whether the entity will have sufficient taxable profit in future periods. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

According to the amendment introduced through Inland Revenue Act, the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The Company did not have a material impact from the above amendment during the year ended 31st December 2017.

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	2017	2016
	Rs. '000	Rs. '000
5. NET INTEREST INCOME		
5.1 Interest income		
Interest income on lease receivables	2,879,685	1,742,245
Interest income on hire purchase receivables	86,018	251,810
Interest income on factoring receivables	420,241	303,848
Interest income accrued on impaired financial assets	1,418	13
Interest income on loan receivables	373,244	59,537
Interest income on gold loan receivables	497,168	263,644
Interest income on government securities	128,380	75,380
Interest income on overdue rentals	200,953	131,022
Interest income on staff loans	10,627	8,446
Interest income on placements with banks	1,736	3,050
Total interest income	4,599,470	2,838,995
5.2 Interest expenses		
Bank overdraft	6,316	6,017
Short term borrowings	374,846	230,643
Customer deposits	708,135	250,269
Long term borrowings	1,221,121	942,455
Commercial papers	-	1,066
Securitisation loans	-	4,742
Debentures	453,872	185,591
Total interest expenses	2,764,290	1,620,783
Net interest income	1,835,180	1,218,212
6. NET FEE AND COMMISSION INCOME		
Documentation charges	50,842	35,450
Insurance commission	66,589	41,006
Service charges-Gold loan	112,227	60,862
Processing fees	13,461	2,027
Other fee & commission income	780	97
Total fee and commission income	243,899	139,442
Fee and commission expenses		
Guarantee fee	680	2,139
Total fee and commission expenses	680	2,139
Net fee and commission income	243,219	137,303

FINANCIAL INFORMATION

	2017	2016
	Rs. '000	Rs. '000
7. OTHER OPERATING INCOME		
Profit on early terminations	177,806	139,828
Profit on disposal of motor vehicles	1,723	340
Recovery of bad debts written off	1,609	2,625
Recovery of charges	27,621	17,654
Sundry income	13,926	15,024
Total other operating income	222,685	175,471
8. IMPAIRMENT CHARGES/ (REVERSAL) FOR LOANS AND OTHER LOSSES		
Lease receivables	121,571	54,645
Hire purchase receivables	(930)	(9,424)
Factoring receivables	68,856	18,257
Loan receivables	33,534	25
Gold loan receivables	7,298	7,939
Repossessed stock	5,411	8,043
Other loans	1,004	(296)
	236,744	79,189
9. PERSONNEL COSTS		
Salary & bonus	513,623	358,169
Contribution to defined contribution plan	45,577	34,904
Gratuity charge for the year	9,175	6,784
Others	42,998	39,861
	611,373	439,718
10. OTHER OPERATING EXPENSES		
Directors' emoluments	18,106	15,345
Auditors' remuneration	1,541	1,409
Non- audit fees to auditors	2,646	2,530
Professional & legal expenses	10,894	9,543
Depreciation on property, plant & equipment	49,839	42,173
Amortization of intangible assets	6,224	7,753
Deposit insurance premium	8,035	3,457
Operating lease expenses	83,853	66,876
Office administration & establishment expenses	149,776	126,673
Advertising expenses	54,981	60,000
Loss on sale of fixed assets	-	379
Others	51,022	32,255
	436,917	368,393

Notes to the Financial Statements

Year ended 31 December 2017

	2017	2016
	Rs. '000	Rs. '000
11. VAT & NBT ON FINANCIAL SERVICES		
VAT on financial services	201,414	109,033
NBT on financial services	29,396	19,467
	230,810	128,500

12. TAXATION

12.1 The major components of income tax expense for the year ended 31 December are as follows.

	2017	2016
	Rs. '000	Rs. '000
Income statement		
Current income tax		
Income tax for the year	148,566	123,595
Under/ (Over) provision of current taxes in respect of previous year	(1,942)	(4,359)
	146,624	119,236
Deferred tax		
Deferred taxation charge/ (reversal) (refer note 34)	139,754	68,668
	286,378	187,904

12.2 A reconciliation between tax expenses and the product of accounting profit multiplied by the statutory tax rate is as follows.

	2017	2016
	Rs. '000	Rs. '000
Accounting profit before income taxation	785,240	515,186
At the statutory income tax rate of 28%	219,867	144,253
Tax effect of non deductible expenses	27,426	18,024
Tax effect of other allowable credits	(98,727)	(38,682)
Tax effect of exempt income	-	-
Tax effect of losses claimed	-	-
Under/ (Over) provision of current taxes in respect of previous years	(1,942)	(4,359)
Deferred tax effect	139,754	68,668
At the effective income tax rate of 36.47% (36.47% - 2016)	286,378	187,904

The Company's income is taxed at the rate of 28% during the years 2017 and 2016.

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).

	2017	2016
Profit attributable to ordinary shareholders (Rs. 000)	498,862	327,282
Weighted average number of ordinary shares during the year	55,777,146	55,777,146
Basic earnings per ordinary share- (Rs.)	8.94	5.87

14. DIVIDEND PAID

Scrip dividends paid (Rs. 000)	65,491	57,750
Number of ordinary shares	54,124,726	52,500,000
Dividends per ordinary share (Rs.)	1.21	1.10

A scrip dividend of Rs. 1.21 per share for the year 2016 was paid in March 2017. (a scrip dividend of Rs. 1.10 per share for the year 2015 was paid in June 2016)

Notes to the Financial Statements

Year ended 31 December 2017

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

<i>As at 31 December 2017</i>	Amortised Cost Rs'000	Held to Maturity Rs'000	Available for Sale Rs'000	Total Rs'000
Financial Assets				
Cash and bank balances	297,858	-	-	297,858
Placements with banks	65,699	-	-	65,699
Securities purchased under repurchase agreements	1,200,981	-	-	1,200,981
Factoring receivables	1,899,702	-	-	1,899,702
Gold loan receivables	2,563,352	-	-	2,563,352
Loan Receivables	2,724,776	-	-	2,724,776
Lease receivables	19,873,470	-	-	19,873,470
Hire purchase receivables	252,000	-	-	252,000
Other assets	268,737	-	-	268,737
Financial instruments- Available for sale	-	-	56	56
Financial investments- Held to maturity	-	4,303	-	4,303
Total Financial Assets	29,146,575	4,303	56	29,150,934
Financial Liabilities				
Bank overdraft	456,018	-	-	456,018
Due to other customers	9,333,622	-	-	9,333,622
Debt issued and other borrowed funds	16,310,778	-	-	16,310,778
Other payables	555,630	-	-	555,630
Total Financial Liabilities	26,656,048	-	-	26,656,048

FINANCIAL INFORMATION

<i>As at 31 December 2016</i>	Amortised Cost	Held to Maturity	Available for Sale	Total
	Rs'000	Rs'000	Rs'000	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
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

Notes to the Financial Statements

Year ended 31 December 2017

	2017	2016
	Rs. '000	Rs. '000
16. CASH AND BANK BALANCES		
Balances with local banks	25,092	20,248
Cash in hand	272,766	149,085
	297,858	169,333
17. PLACEMENTS WITH BANKS		
Placements with banks	65,699	-
	65,699	-
18. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS		
Securities purchased under repurchase agreements	1,200,981	777,438
	1,200,981	777,438
19. FACTORING RECEIVABLES		
Factoring receivables	2,057,746	2,069,849
Less : Provision for individual impairment(Note 19.1)	(151,166)	(88,475)
Provision for collective impairment(Note 19.1.2)	(6,878)	(2,131)
	1,899,702	1,979,243
19.1 Movement in impairment losses		
19.1.1 Movement in provision for individual impairment losses		
Opening balance as at 01st January	88,475	76,116
Charge/ (reversal) to income statement	64,109	19,710
Unwinding impact	(1,418)	(13)
Other movements	-	(7,338)
Closing balance as at 31 December	151,166	88,475
19.1.2 Movement in provision for collective impairment losses		
Opening balance as at 01st January	2,131	3,584
Charge/ (reversal) to income statement	4,747	(1,453)
Closing balance as at 31 December	6,878	2,131
20. GOLD LOAN RECEIVABLES		
Gold loan receivables	2,583,059	1,781,331
Less : Provision for collective impairment(Note 20.1)	(19,707)	(12,409)
	2,563,352	1,768,922

FINANCIAL INFORMATION

	2017	2016
	Rs. '000	Rs. '000
20.1 Movement in provision for collective impairment losses		
Opening balance as at 01st January	12,409	4,470
Charge/ (reversal) to income statement	7,298	7,939
Closing balance as at 31 December	19,707	12,409
21. PAWNING RECEIVABLES		
Pawning receivables	-	-
Less : Provision for collective impairment	-	-
Less : Auction losses(Note 21.1)	-	-
	-	-
21.1 Movement in provision for collective impairment losses & auction losses		
Opening balance as at 01st January	-	14,775
Written off during the year	-	(14,775)
Closing balance as at 31 December	-	-
22. LOAN RECEIVABLES		
Revolving loan receivables	287,394	244,485
Vehicle loan receivables	76,114	159,705
Personal/Business loan receivables	2,395,655	340,403
Gross loan receivables	2,759,163	744,593
Less : Provision for individual impairment (Note 22.1)	(5,296)	-
Less : Provision for collective impairment (Note 22.2)	(29,091)	(853)
	2,724,776	743,740
22.1 Movement in provision for individual impairment losses		
Opening balance as at 01st January	-	-
Charge/ (reversal) to income statement	5,296	-
Closing balance as at 31 December	5,296	-
22.2 Movement in provision for collective impairment losses		
Opening balance as at 01st January	853	828
Charge/ (reversal) to income statement	28,238	25
Closing balance as at 31 December	29,091	853

Notes to the Financial Statements

Year ended 31 December 2017

	2017	2016
	Rs. '000	Rs. '000
23. LEASE RECEIVABLES		
At Amortized cost		
Gross Lease receivables	27,038,685	18,434,605
Less: Unearned income	(6,887,798)	(4,427,228)
Less: VAT suspense	(5,679)	(5,164)
Less: Prepaid rentals	(184)	(340)
Less: Provision for collective impairment (Note 23.3)	(271,554)	(149,983)
Total Lease receivables (Note 23.1 & 23.2)	19,873,470	13,851,890

Lease receivables include receivables amounting to Rs.15,972,916,787/- (2016- Rs.9,104,307,271/-) that have been assigned under securitization & term loan funding arrangement.

23.1 As at 31 December 2017	1 Year	1- 5 Year	More than	Total
	Rs. '000	Rs. '000	5 Year	Rs. '000
			Rs. '000	Rs. '000
Lease receivables (Net of VAT suspense and prepaid rentals)	9,455,211	17,522,892	54,719	27,032,822
Less: Unearned income	(3,096,781)	(3,787,154)	(3,863)	(6,887,798)
	6,358,430	13,735,738	50,856	20,145,024
Less: Provision for collective impairment	(86,409)	(184,449)	(696)	(271,554)
	6,272,021	13,551,289	50,160	19,873,470

23.2 As at 31 December 2016	1 Year	1- 5 Year	More than	Total
	Rs. '000	Rs. '000	5 Year	Rs. '000
			Rs. '000	Rs. '000
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

	2017	2016
	Rs. '000	Rs. '000
23.3 Movement in provision for collective impairment losses		
Opening balance as at 01st January	149,983	92,158
Charge/ (reversal) to income statement	121,571	54,645
Written off during the year	-	-
Other movements	-	3,180
Closing balance as at 31 December	271,554	149,983

24. HIRE PURCHASE RECEIVABLES

Gross Hire purchase receivables	318,938	1,017,828
Less: Unearned income	(27,565)	(139,965)
Less: Prepaid rentals	-	-
Less: Provision for collective impairment (Note 24.3)	(39,373)	(40,303)
Total Hire purchase receivables (Note 24.1 & 24.2)	252,000	837,560

Hire purchase receivables include receivables amounting to Rs.245,390,695/-(2016-Rs.219,801/-) that have been assigned under a securitization funding arrangement.

24.1 As at 31 December 2017	1 Year	1- 5 Year	More than	Total
	Rs. '000	Rs. '000	5 Year	Rs. '000
Gross Hire purchase receivables	253,540	65,398	-	318,938
Less: Unearned income	(24,062)	(3,503)	-	(27,565)
	229,478	61,895	-	291,373
Less: Provision for collective impairment	(31,308)	(8,065)	-	(39,373)
	198,170	53,830	-	252,000

24.2 As at 31 December 2016	1 Year	1- 5 Year	More than	Total
	Rs. '000	Rs. '000	5 Year	Rs. '000
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

Notes to the Financial Statements

Year ended 31 December 2017

	2017	2016
	Rs. '000	Rs. '000
24.3 Movement in provision for collective impairment losses		
Opening balance as at 01st January	40,303	53,845
Charge/ (reversal) to income statement	(930)	(9,424)
Other movements	-	(4,118)
Closing balance as at 31 December	39,373	40,303
25. OTHER ASSETS		
Financial Assets		
Reposessed stock	143,301	137,890
Less: Provision for Reposessed stock (Note 25.1)	(143,301)	(137,890)
Insurance premium receivable	146,088	100,163
Less: Provision for insurance premium receivable	(3,930)	(2,926)
Staff loan	107,803	81,899
Less: Staff loan fair value adjustment	(13,237)	(6,466)
Insurance commission receivable	21,086	11,541
Other financial assets	10,927	12,928
	268,737	197,139
Non Financial Assets		
Pre paid expenses	54,896	34,980
Pre-paid staff cost	13,237	6,466
Advance payments	68,329	5,553
Inventories	2,901	3,035
Taxes receivable	48,171	29,906
Other non financial assets	8,715	14,569
	196,249	94,509
	464,986	291,648

25.1 Movement in provision for repossessed stock

<i>As at 31 December 2017</i>	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	100,531	-	5,088	105,619
Hire Purchase	31,183	-	(100)	31,083
Loan	4,920	-	21	4,941
Factoring	1,256	-	402	1,658
	137,890	-	5,411	143,301
<i>As at 31 December 2016</i>	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
			2017	2016
			Rs. '000	Rs. '000

26. 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.

	2017	2016
	Rs. '000	Rs. '000

27. FINANCIAL INVESTMENTS- HELD TO MATURITY

Government debt securities-Treasury bonds	4,303	4,288
	4,303	4,288

Notes to the Financial Statements

Year ended 31 December 2017

	Balance	Additions	Revaluation	Disposals	Balance
	as at		surplus		as at
	31.12.2016				31.12.2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Cost/Valuation

Freehold Land	204,079	-	78,921	-	283,000
Fixtures	109,403	19,010	-	-	128,413
Office furniture	25,068	5,112	-	-	30,180
Office equipment	56,490	7,966	-	(28)	64,428
Motor vehicles	17,440	-	-	(5,969)	11,471
Computer equipment	67,925	20,236	-	-	88,161
Capital work-in progress	-	16,128	-	-	16,128
Total Cost/ Valuation	480,405	68,452	78,921	(5,997)	621,781

	Balance	Charge for	Disposals	Balance
	as At	the year		as at
	31.12.2016			31.12.2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

28.2 Accumulated Depreciation

Freehold Land	-	-	-	-
Fixtures	41,781	23,362	-	65,143
Office furniture	12,248	3,596	-	15,844
Office equipment	22,726	8,523	(16)	31,233
Motor vehicles	12,687	2,965	(5,456)	10,196
Computer equipment	32,832	11,393	-	44,225
Capital work-in progress	-	-	-	-
	122,274	49,839	(5,472)	166,641

	2017	2016
	Rs. '000	Rs. '000

28.3 Net book values

Freehold Land	283,000	204,079
Fixtures	63,270	67,622
Office furniture	14,336	12,820
Office equipment	33,195	33,764
Motor vehicles	1,275	4,753
Computer equipment	43,936	35,093
Capital work-in progress	16,128	-
	455,140	358,131
Total carrying amount of Property, Plant & Equipment	455,140	358,131

28.4 During the financial year, the Company acquired Property, plant & equipment to the aggregate value of Rs.68.45 Million (2016 Rs.277.65 Million).

Cost of fully depreciated assets of the Company which are still in use as at 31 December 2017 is Rs.44.16 Million (2016 - Rs.32.14 Million).

28.5 The useful lives of the assets is estimated as follows;

	2017	2016
Fixtures	05 Years	05 Years
Furniture & fittings	6.67 Years	6.67 Years
Office equipments	6.67 Years	6.67 Years
Motor bicycles	08 Years	08 Years
Motor vehicles	05 Years	05 Years
Computer equipments	06 Years	06 Years

28.6 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 or more frequently if the fair values are substantially different from carrying amounts according to the Company policy. Therefore the fair value exist in the recent valuation (31 December 2017) 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 2017).

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 2017	204,079
Acquisition	-
Changes in fair value	78,921
Balance at 31 December 2017	283,000

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

Year ended 31 December 2017

Valuation technique	Significant unobservable inputs	Range (weighted average)	
		2017	
Market Comparable Method	Estimated price per perch	Rs.7 Million-Rs.18 Million	

	2017	2016
	Rs. '000	Rs. '000

29. INTANGIBLE ASSETS

Cost as at 01 January	46,434	45,081
Additions and improvements	5,992	1,353
Cost as at 31 December	52,426	46,434
Amortisation as at 01 January	37,945	30,192
Amortisation for the year	6,224	7,753
Accumulated amortisation as at 31 December	44,169	37,945
Net book value as at 31 December	8,257	8,489

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs.5.99 Million (2016 - Rs.1.35 million). Cost of fully depreciated assets of the Company as at 31 December 2017 is Rs. 34.13 Million (2016 - Rs. 17.20 Million). Useful life of the above is estimated as 4 years.

	2017	2016
	Rs. '000	Rs. '000

30. DUE TO OTHER CUSTOMERS

Fixed deposits	9,323,604	3,362,662
Saving deposits	10,018	-
	9,333,622	3,362,662

31. DEBT ISSUED AND OTHER BORROWED FUNDS

Loans (31.2)	11,651,511	10,572,006
Debentures (31.3)	4,659,267	3,615,260
	16,310,778	14,187,266

The Company has not had any default of principal, interest or other breaches with regard to any liability during 2016 & 2017.

FINANCIAL INFORMATION

	2016	Grantings/ Accrual	Repayments	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
31.1 Movement in Debt issued and other borrowed funds				
Long-term borrowings	8,722,135	5,075,000	(3,757,504)	10,039,631
Short-term borrowings	1,800,000	-	(225,000)	1,575,000
Debentures	3,500,000	1,000,000	-	4,500,000
Capital outstanding of debt issued and other borrowed funds	14,022,135	6,075,000	(3,982,504)	16,114,631
Interest on debt issued and other borrowed funds	165,131	2,056,155	(2,025,139)	196,147
	14,187,266	8,131,155	(6,007,643)	16,310,778
			Amortised cost	
	Period		2017	2016
			Rs'000	Rs'000
31.2 Loans - on terms				
Short term loans				
Hatton National Bank PLC	03 Months		-	653,124
Muslim Commercial Bank	03 Months		200,200	203,212
Nations Trust Bank PLC	03 Months		1,381,676	704,332
Union Bank PLC	03 Months		-	254,050
			1,581,876	1,814,718
Long term loans				
Sampath Bank PLC	60 Months		1,487,204	2,128,239
Commercial Bank PLC	36-60 Months		3,181,336	1,759,822
Hatton National Bank PLC	60 Months		2,267,796	976,702
Nations Trust Bank PLC	60 Months		114,828	240,210
Seylan Bank PLC	60 Months		2,141,920	2,471,005
Union Bank PLC	60 Months		675,369	928,314
Muslim Commercial Bank	60 Months		201,182	252,996
			10,069,635	8,757,288
			11,651,511	10,572,006

The above short term loans and long term loans were institution wise aggregated values as at 31 December 2017 & 31 December 2016.

Notes to the Financial Statements

Year ended 31 December 2017

	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
31. DEBT ISSUED AND OTHER BORROWED FUNDS (Contd..)			
31.2.1 Loans - on maturity			
Short term loans and long term loans payable	5,731,308	5,920,203	11,651,511
	5,731,308	5,920,203	11,651,511
		2017	2016
		Rs. '000	Rs. '000
31.3 Redeemable debentures - movement			
Balance as at 01st January		3,500,000	1,000,000
Debentures issued		1,000,000	2,500,000
Debentures redeemed		-	-
		4,500,000	3,500,000
Interest payable		565,656	206,193
Interest paid		(406,389)	(90,933)
Balance as at 31st December		4,659,267	3,615,260
	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
31.3.1 Redeemable debentures - maturity			
Debentures payable	159,267	4,500,000	4,659,267
	159,267	4,500,000	4,659,267

FINANCIAL INFORMATION

	No of Debentures	Issue Date	Maturity Date	Rate of interest	Amortized Cost	
					2017 Rs'000	2016 Rs'000
31.3.2 Details of debentures issued						
Rated unsecured subordinated redeemable debentures	10,000,000	24-Dec-14	24-Dec-19	8.90%	1,035,555	1,022,027
Rated unsecured senior redeemable debentures						
Type A	14,219,900	20-Sep-16	20-Sep-19	13.00%	1,474,156	1,474,156
Type B	10,780,100	20-Sep-16	20-Sep-21	13.50%	1,119,077	1,119,077
Rated unsecured subordinated redeemable debentures	10,000,000	4-Oct-17	4-Oct-22	12.50%	1,030,479	-
					4,659,267	3,615,260

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

	2017 Rs. '000	2016 Rs. '000
32. OTHER PAYABLES		
Financial Liabilities		
Vendor payable	346,901	356,462
Insurance premium payable	107,429	80,017
Other financial liabilities	101,300	54,423
	555,630	490,902
Non Financial Liabilities		
VAT payable	2,744	2,016
Other taxes payable	106,880	55,377
Accrued expenses	30,444	18,968
Deposit insurance premium	1,061	381
Deferred guarantee income	3	47
Other non financial liabilities	78,683	27,906
	219,815	104,695
	775,445	595,597

Notes to the Financial Statements

Year ended 31 December 2017

	2017	2016
	Rs. '000	Rs. '000
33. INCOME TAXATION PAYABLE		
As at beginning of the year	61,257	75,663
Less: Tax paid	(58,749)	(105,409)
Adjustment (ESC/WHT/Notional Tax etc.)	(57,332)	(28,233)
Provision for the year (Note 12)	146,624	119,236
As at the end of the year	91,800	61,257

33.1 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 2017 and the notional tax credit amounts to Rs.12.84 Million (2016-Rs.7.54 Million).

34. DEFERRED TAX LIABILITIES/(ASSETS)

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

	Temporary Differences		Income Statement		OCI	
	2017	2016	2017	2016	2017	2016
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Deferred Tax Liability						
Leased assets	974,543	587,323	387,220	288,273	-	-
Property, plant & equipment	69,296	74,953	(5,657)	(8,674)		
Revaluation surplus on freehold land-OCI	22,098	-	-	-	(22,098)	-
	1,065,937	662,276				
Deferred Tax Assets						
Defined benefit plans-Income Statement	6,350	3,979	(2,371)	(165)	-	-
Defined benefit plans-OCI	2,935	2,464	-	-	471	886
Tax losses	693,912	447,024	(246,888)	(220,271)	-	-
Unclaimed provisions	31,271	38,721	7,450	9,505	-	-
	734,468	492,188				
Deferred income tax charge/(reversal)			139,754	68,668	(21,627)	886
Net Deferred Tax Liability	331,469	170,088				

35. RETIREMENT BENEFIT OBLIGATIONS

An actuarial valuation of the gratuity fund of the Company was carried out as at 31 December 2017 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).

	2017	2016
	Rs. '000	Rs. '000
35.1 Defined benefit obligation reconciliation		
Balance as at 01st January	23,013	19,259
Amount recognised in the income statement (35.2)	9,175	6,784
Amounts recognised in other comprehensive income (35.3)	1,683	3,165
Benefits paid by the plan	(708)	(6,195)
Balance as at 31st December	33,163	23,013
35.2 Amount recognised in the Income Statement		
Current service cost for the year	6,413	4,897
Interest on the defined benefit liability	2,762	1,887
Total amount recognised in income statement	9,175	6,784
35.3 Amounts recognised in Other Comprehensive Income (OCI)		
Liability (gains)/losses due to changes in assumptions	48	(42)
Liability experience (gains)/losses arising during the year	1,635	3,207
Total amount recognized in OCI	1,683	3,165
	2017	2016
35.4 Assumptions		
Discount rate	10.44%	12.00%
Future salary increment rate	9.44%	11.00%
Mortality	GA 1983	GA 1983
	Mortality Table	Mortality Table
Retirement age	Normal retirement age, or age on valuation date, if greater	Normal retirement age, or age on valuation date, if greater

Expected average future working life of the active participants is 11.1 years. (2016: 11.2 years)

Notes to the Financial Statements

Year ended 31 December 2017

35. RETIREMENT BENEFIT OBLIGATIONS (Contd..)

35.5 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	2017		2016	
		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%	(3.62 Million)	3.62 Million	(2.60 Million)	2.60 Million
Discount rate	-1.00%	4.26 Million	(4.26 Million)	3.06 Million	(3.06 Million)
Salary Increment rate	1.00%	4.18 Million	(4.18 Million)	3.01 Million	(3.01 Million)
Salary Increment rate	-1.00%	(3.63 Million)	3.63 Million	(2.60 Million)	2.60 Million

	2017		2016	
	No. of shares	Rs.000	No. of shares	Rs.000
36. STATED CAPITAL				
Issued and Fully Paid-Ordinary shares				
Ordinary shares as at 01st January	54,124,726	576,975	52,500,000	525,000
Issued during the year	-	-	-	-
Scrip dividend	1,652,420	58,942	1,624,726	51,975
Ordinary shares as at 31st December	55,777,146	635,917	54,124,726	576,975

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.

37. 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.

FINANCIAL INFORMATION

	2017	2016
	Rs. '000	Rs. '000
Balance as at 01st January	86,422	70,059
Transfer during the year	26,578	16,363
Balance as at 31st December	113,000	86,422

38. REVALUATION RESERVE

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

	2017	2016
	Rs. '000	Rs. '000
Balance as at 01st January	-	-
Revaluation surplus(net of tax)	56,823	-
Balance as at 31st December	56,823	-

39. RETAINED EARNINGS

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

40. FAIR VALUE OF ASSET AND LIABILITIES

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

Notes to the Financial Statements

Year ended 31 December 2017

As at 31 December	2017		2016							
	Rs. '000		Rs. '000							
	Fair value measurement using		Fair value measurement using							
	Carrying value	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Carrying value	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
FINANCIAL ASSETS										
Factoring receivables	1,899,702	-	1,987,232	-	1,987,232	1,979,243	-	1,972,828	-	1,972,828
Gold loan receivables	2,563,352	-	2,552,178	-	2,552,178	1,768,922	-	1,760,925	-	1,760,925
Loan receivables	2,724,776	-	2,676,808	-	2,676,808	743,740	-	697,999	-	697,999
Lease receivables	19,873,470	-	19,989,593	-	19,989,593	13,851,890	-	13,662,826	-	13,662,826
Financial investments- Held to Maturity	4,303	-	4,210	-	4,210	4,288	-	3,857	-	3,857
Financial instruments- Available for Sale	56	-	-	56	56	56	-	-	56	56
Hire purchase receivables	252,000	-	292,085	-	292,085	837,560	-	864,967	-	864,967
TOTAL FINANCIAL ASSETS	27,317,659	-	27,502,106	56	27,502,161	19,185,699	-	18,963,402	56	18,963,458
FINANCIAL LIABILITIES										
Due to other customers	9,333,622	-	9,714,323	-	9,714,323	3,362,662	-	3,456,936	-	3,456,936
Debt instruments issued and other borrowed funds	16,310,778	-	16,281,390	-	16,281,390	14,187,266	-	14,094,259	-	14,094,259
TOTAL FINANCIAL LIABILITIES	25,644,400	-	25,995,713	-	25,995,713	17,549,928	-	17,551,195	-	17,551,195

There were no transfers between levels of fair value hierarchy during 2017 & 2016.

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
Placements with banks
Other assets

Liabilities

Bank overdraft
Other payables

41. RISK MANAGEMENT

41.1 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.

41.2 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.

41.3 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

Notes to the Financial Statements

Year ended 31 December 2017

component of risk. Tabulated below is the Risk Console that is used in identification of Key Risks and Risk Measures taken by the Company together with mitigates suggested.

Financial Risks		Risk Measures	Mitigates
Credit Risk	<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 <ol 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 • Balance sheet ratios
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 	

41.4 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.

41. RISK MANAGEMENT (Contd...)

41.4 Credit Risk

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.

41.4.1 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.

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41.4.2 Credit Quality by Class of Financial Assets

Assets	Note	2017					2016						
		NEITHER PAST DUE NOR IMPAIRED		PAST DUE NOT IMPAIRED		INDIVIDUALLY IMPAIRED		NEITHER PAST DUE NOR IMPAIRED		PAST DUE NOT IMPAIRED		INDIVIDUALLY IMPAIRED	
		Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	PERCENTAGE	Rs'000	Rs'000	Rs'000	Rs'000	PERCENTAGE
Cash and bank balances	16	297,858	-	-	297,858	100%	169,333	-	-	-	-	169,333	0.82%
Placements with banks	17	65,699	-	-	65,699	0.22%	-	-	-	-	-	-	-
Securities purchased under repurchase agreements	18	1,200,981	-	-	1,200,981	4.05%	777,438	-	-	-	-	777,438	3.77%
Financial investments held to maturity	27	4,303	-	-	4,303	0.01%	4,288	-	-	-	-	4,288	0.02%
Factoring receivables	19	1,759,209	70,142	228,394	2,057,745	6.93%	1,649,482	3,326	417,041	3,326	417,041	2,069,849	10.04%
Gold loan receivables	20	1,837,753	745,307	-	2,583,060	8.70%	1,246,457	534,874	-	534,874	-	1,781,331	8.64%
Loan receivables	22	1,453,139	1,204,888	10,1135	2,759,162	9.30%	550,616	193,978	-	193,978	-	744,593	3.61%
Lease receivables	23	10,011,822	10,133,842	-	20,145,024	67.89%	7,706,755	6,295,038	-	6,295,038	-	14,001,793	67.89%
Hire purchase receivables	24	122,296	169,077	-	291,373	0.98%	354,451	523,412	-	523,412	-	877,863	4.26%
Other assets	25	268,737	-	-	268,737	0.91%	197,139	-	-	-	-	197,139	0.96%
Financial instruments- available for sale	26	56	-	-	56	0.00%	56	-	-	-	-	56	0.00%
Total		17,021,213	12,323,256	329,529	29,673,998	100.00%	12,656,015	7,550,628	417,041	7,550,628	417,041	20,623,684	100.00%

41.4.2.1 Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

Assets	Past due not impaired					Past due not impaired				
	Less than 30 days		31 to 60 days		61 to 90 days		More than 91 days		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Factoring receivables	15,028	-	4,798	50,316	70,142	3,186	-	141	3,327	3,327
Lease receivables	5,121,697	3,079,831	1,345,034	587,280	10,133,842	3,662,614	1,678,975	666,210	287,239	6,295,038
Hire purchase receivable	57,398	38,120	277,58	45,801	169,077	210,591	182,609	64,841	65,371	523,412
Loan receivables	619,538	265,437	159,262	160,651	1,204,888	105,317	57,895	24,395	6,371	193,978
Gold loan receivables	361,250	354,464	17,069	12,524	745,307	329,660	197,503	2,703	5,008	534,873
Total	6,174,911	3,737,852	1,553,921	856,572	12,323,256	4,311,368	2,116,982	758,149	364,130	7,550,628

41. RISK MANAGEMENT (Contd...)

41.4.3 Maximum Exposure to Credit Risk

	2017		2016	
	MAXIMUM EXPOSURE TO CREDIT RISK	NET EXPOSURE	MAXIMUM EXPOSURE TO CREDIT RISK	NET EXPOSURE
<i>As at 31 December</i>	Rs.'000	Rs. '000	Rs'000	Rs. '000
Financial Assets				
Cash and bank balances	297,858	25,092	169,333	20,248
Securities purchased under repurchase agreements	1,200,981	-	777,438	-
Placements with banks	65,699	65,699	-	-
Factoring receivables	1,899,702	1,647,213	1,979,243	1,828,151
Gold loan receivables	2,563,352	-	1,768,922	-
Loan receivables	2,724,776	1,734,861	743,740	-
Lease receivables	19,873,470	-	13,851,890	-
Hire purchase receivables	252,000	-	837,560	-
Other assets	268,737	174,171	197,139	121,705
Financial instruments available for sale	56	56	56	56
Financial investments held to maturity	4,303	-	4,288	-
Total Financial Assets	29,150,934	3,647,092	20,329,608	1,970,160

41.4.4 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.

	2017			2016		
	Gross amount	Amount subject to netting but do not qualify for offsetting	Net amount	Gross amount	Amount subject to netting but do not qualify for offsetting	Net amount
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets						
Loan receivables	1,491,473	775,254	716,219	906,705	223,824	682,881

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41.4.5 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 2017	Financial										Total Rs' 000		
	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Institutions	Consumers		Others	
Cash and bank balances	-	-	-	-	-	-	-	-	297,858	-	-	-	297,858
Placements with banks	-	-	-	-	-	-	-	-	65,699	-	-	-	65,699
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	1,200,981	-	-	-	-	1,200,981
Factoring receivables	1,198,118	6,709	82,817	371,994	192,809	8,144	39,111	-	-	-	-	-	1,899,702
Gold loan receivables	-	-	-	-	-	-	-	-	-	2,563,352	-	-	2,563,352
Loan receivables	471,805	54,688	81,645	417,915	153,746	89,075	387,857	-	360,200	-	707,845	-	2,724,776
Lease receivables	422,300	518,185	1,461,724	4,567,313	765,855	-	5,760,458	-	-	-	6,377,635	-	19,873,470
Hire purchase receivables	2,161	7,370	12,550	47,474	510	-	-	-	-	-	181,935	-	252,000
Other assets	-	-	-	-	-	-	-	-	-	-	268,737	-	268,737
Financial instruments available for sale	-	-	-	-	-	-	-	-	56	-	-	-	56
Financial investments held to maturity	-	-	-	-	-	-	-	4,303	-	-	-	-	4,303
	2,094,384	586,952	1,638,736	5,404,696	1,112,920	97,219	6,187,426	1,205,284	723,813	2,563,352	7,536,152	-	29,150,934

As at 31 December 2016	Financial										Total Rs' 000		
	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Institutions	Consumers		Others	
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	215,513	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	81,586	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	21,942	1,246,226	781,726	207,037	1,768,922	8,555,961	-	20,329,609

41. RISK MANAGEMENT (Contd...)

41.5 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

41.5.1 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.

Currency of Borrowings/ Advance	Increase (Decrease) in basis points	Sensitivity of Profit or Loss	Rs. Million
			Sensitivity of Equity
	2017	2017	2017
Long Term Loans linked to AWPLR	+1/ (-1)	(70.53)/70.53	2.90%
	+0.5 / (0.5)	(35.27)/35.27	1.45%
	+0.25 / (0.25)	(17.63)/17.63	0.73%
	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%

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The base ratio considered in the Interest Rate Sensitivity Analysis is the AWPLR. Since 43.77% (2016-57.33%) 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.

41.5.2 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 categorized by the earlier of contractual reprising or maturity dates.

<i>As at 31 December 2017</i>	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest bearing	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Financial Assets							
Cash and bank balances	297,858	-	-	-	-	-	297,858
Placements with banks	65,699	-	-	-	-	-	65,699
Securities purchased under repurchase agreements	608,872	592,109	-	-	-	-	1,200,981
Factoring receivables	485,214	1,379,466	35,022	-	-	-	1,899,702
Lease receivables	1,670,185	4,601,836	9,403,521	4,147,767	50,161	-	19,873,470
Hire purchase receivables	98,153	100,017	51,521	2,309	-	-	252,000
Gold loan receivables	2,074,498	488,671	183	-	-	-	2,563,352
Loan receivables	549,513	1,183,262	852,090	133,323	6,588	-	2,724,776
Other assets	-	-	-	-	-	268,737	268,737
Financial instruments available for sale	-	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,303	-	-	4,303
Total Financial Assets	5,849,992	8,345,361	10,342,337	4,287,702	56,749	268,793	29,150,934
Financial Liabilities							
Bank overdraft	456,018	-	-	-	-	-	456,018
Due to other customers	4,239,650	3,293,060	834,352	966,546	14	-	9,333,622
Debt instruments issued and other borrowed funds	9,048,306	1,309,152	3,875,310	2,078,010	-	-	16,310,778
Other payables	-	-	-	-	-	555,630	555,630
Total Financial Liabilities	13,743,974	4,602,212	4,709,662	3,044,556	14	555,630	26,656,048
Interest Sensitivity Gap	(7,893,982)	3,743,149	5,632,675	1,243,146	56,735	(286,837)	2,494,886

41. RISK MANAGEMENT (Contd...)

41.5.2 Interest Rate Risk (Contd...)

Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

<i>As at 31 December 2016</i>	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest bearing	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	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	62,506	197,195	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	62,506	(293,707)	1,828,285

Notes to the Financial Statements

Year ended 31 December 2017

41.6 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.

41.6.1 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.

41. RISK MANAGEMENT (Contd...)**41.6.2 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 2017.

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.

<i>As at 31 December 2017</i>	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Financial Assets						
Cash and bank balances	297,858	-	-	-	-	297,858
Securities purchased under repurchase agreements	618,334	607,200	-	-	-	1,225,534
Placements with banks	66,013	-	-	-	-	66,013
Factoring receivables	747,250	1,384,508	35,037	-	-	2,166,795
Lease receivables	2,652,285	6,831,924	12,699,281	4,823,611	54,719	27,061,820
Hire purchase receivables	135,841	127,002	62,435	2,963	-	328,241
Gold loan receivables	2,122,964	547,661	186	-	-	2,670,811
Loan receivables	656,633	1,443,885	1,044,101	156,621	7,521	3,308,761
Other assets	292,331	59,941	83,936	55,665	2,966	494,839
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,300	-	4,300
Total Financial Assets	7,589,509	11,002,121	13,924,976	5,043,160	65,262	37,625,028
Financial Liabilities						
Bank overdraft	456,018	-	-	-	-	456,018
Due to other customers	4,528,703	3,754,435	1,231,419	1,219,719	14	10,734,290
Debt instruments issued and other borrowed funds	2,951,174	4,277,932	6,539,109	3,853,490	-	17,621,705
Other payables	555,630	-	-	-	-	555,630
Total Financial Liabilities	8,491,525	8,032,367	7,770,528	5,073,209	14	29,367,643
Net Financial Asset/Liabilities	(902,016)	2,969,754	6,154,448	(30,049)	65,248	8,257,385

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<i>As at 31 December 2016</i>	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	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

42. MATURITY ANALYSIS

<i>As at 31 December 2017</i>	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Assets						
Cash and bank balances	297,858	-	-	-	-	297,858
Securities purchased under repurchase agreements	608,872	592,109	-	-	-	1,200,981
Placements with banks	65,699	-	-	-	-	65,699
Factoring receivables	485,214	1,379,466	35,022	-	-	1,899,702
Lease receivables	1,670,185	4,601,836	9,403,521	4,147,767	50,161	19,873,470
Hire purchase receivables	98,153	100,017	51,521	2,309	-	252,000
Gold loan receivables	2,074,498	488,671	183	-	-	2,563,352
Loan receivables	549,513	1,183,262	852,090	133,323	6,588	2,724,776
Other assets	289,248	52,015	70,212	50,545	2,966	464,986
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,303	-	4,303
Intangible assets	-	-	-	-	8,257	8,257
Property, plant & equipment	-	-	-	-	455,140	455,140
Total Assets	6,139,240	8,397,376	10,412,549	4,338,247	523,168	29,810,580
Liabilities						
Bank overdraft	456,018	-	-	-	-	456,018
Due to other customers	4,239,650	3,293,060	834,352	966,546	14	9,333,622
Debt instruments issued and other borrowed funds	2,629,286	3,102,022	7,246,370	3,333,100	-	16,310,778
Other payables	758,171	693	722	2,896	12,963	775,445
Deferred taxation liability	-	-	-	-	331,469	331,469
Income taxation payable	-	91,800	-	-	-	91,800
Retirement benefit obligations	-	-	-	-	33,163	33,163
Total Liabilities	8,083,125	6,487,575	8,081,444	4,302,542	377,609	27,332,295

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<i>As at 31 December 2016</i>	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
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
Total 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

43. COMMITMENTS AND CONTINGENCIES

	2017				2016					
	On Demand	With in 01 year	1-5 years	More than 5 years	Total Demand	On Demand	With in 01 year	1-5 years	More than 5 years	Total
	Rs. '000				Rs. '000					
Commitments										
Commitment for unutilised facilities-Direct credit facilities										
- Factoring	411,742	-	-	-	411,742	794,203	-	-	-	794,203
-Revolving Loans	21,238	-	-	-	21,238	8,270	-	-	-	8,270
Operating lease commitments-Company as lessee	-	75,769	152,546	97,593	325,908	-	31,808	123,542	48,881	204,231
Capital commitments (Note 43:1)	-	13,169	-	-	13,169	-	4,780	-	-	4,780
	432,980	88,938	152,546	97,593	772,057	802,473	36,588	123,542	48,881	1,011,484
Contingent Liabilities										
Guarantees	-	600	-	-	600	-	33,900	-	-	33,900
	-	600	-	-	600	-	33,900	-	-	33,900
Total commitments & contingencies	432,980	89,538	152,546	97,593	772,657	802,473	70,488	123,542	48,881	1,045,384

43.1**Capital commitments**

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below.

	2017	2016
	Rs. '000	Rs. '000
Approved and contracted for	13,169	2,280
Approved but not contracted for	-	2,500
	13,169	4,780

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43.2 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 2017 which would have a material impact on the Financial Statements.

44. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors of the Company, at its meeting held on 20th February 2018 approved the pilling contract for the construction of proposed Head Office complex at No: 534, Baudhaloka Mawatha, Colombo 08 at a total cost of Rs. 119.21 Million (inclusive of 10% contingencies) excluding taxes.

45. COMPARATIVE INFORMATION

The comparative information is reclassified wherever necessary to conform to the current year's presentation.

46. 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.

46.1 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.

46.2 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.

	2017	2016
	Rs. '000	Rs. '000
Short term employee benefits	12,474	12,575
Post- employment benefits	-	1,698
Directors' fees and expenses	18,106	15,345
Total	30,580	29,618

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.

46.3 Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFMs)**46. RELATED PARTY TRANSACTIONS (Contd...)****46.3.1 Loans and advances granted**

No loans or advances were given to Key Managerial Personnel and their close family members during the year.(2016- Nil).

46.3.2 Deposits and Borrowings from KMPs are detailed below.

	2017	2016
	Rs. '000	Rs. '000
Term deposits	46,203	23,000
Interest on term deposits	3,256	1,205

No borrowing through debt instruments were made or no investments were made by key management personnel during the year 2017. (2016- Nil)

46.4 Transactions, Arrangements and Agreements involving with Related Entities of KMPs

	2017	2016
	Rs. '000	Rs. '000
46.4.1 Operating Lease		
Rent Paid	35,265	31,609

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.

	2017	2016
	Rs. '000	Rs. '000
Lease facilities	-	-
Interest income earned	-	58
Above lease facility had been granted to a related company of a KMP of the Company.		
Revolving credit facilities	-	95
Interest income earned	1,152	2,361
Service charges earned	2,331	1,186

46.5 Transactions with Group Companies**46.5.1 Sampath Bank PLC - Parent Company**

The Company has obtained short term loans, term loans, overdraft and bank guarantee facilities from the bank. All the transactions with the bank were on terms and conditions similar to facilities obtained through other banks.

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Year ended 31 December 2017

	2017	2016
	Rs. '000	Rs. '000
46.5 Transactions with Group Companies (Contd.)		
46.5.1 Sampath Bank PLC		
Balance outstanding as at 31 December		
Investment in government securities		
Opening Balance	8,100	601,679
Matured during the year	-	(593,579)
Investment during the year	792	-
Closing Balance	8,892	8,100
Other receivables	497	725
	2017	2016
	Rs. '000	Rs. '000
Term Loan (Only capital)		
Opening Balance	2,124,780	2,767,920
Granted during the year	-	-
Less : Repayment during the year	(640,170)	(643,140)
Closing Balance	1,484,610	2,124,780
Bank Overdraft	398,214	413,230
Total Accommodation obtained	1,882,824	2,538,010
Less : Favourable balances in current accounts with bank	19,517	11,577
Net Accommodation	1,863,307	2,526,433
Net Accommodation as a percentage of Capital Funds	75.19%	130.88%

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	2017	2016
	Rs. '000	Rs. '000
46.5 Transactions with Group Companies (Contd.)		
46.5.1 Sampath Bank PLC		
Transaction during the year		
Expenses		
Interest paid	230,307	278,646
Bank Guarantee fee paid	680	2,139
Staff training paid (for facilitating staff training)	-	32
Rent paid (for the branch located within Sampath Bank premises)	1,225	1,338
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.	205	255
Income		
Fee for locating ATM machines at Company's branch premises operations	324	383
Interest on fixed deposits	-	3,050
Interest Income on short term government securities	1,973	54,518
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		
Scrip Dividend(Gross)-number of shares-1,652,420 (2016-1,624,726)	65,491	57,750

Notes to the Financial Statements

Year ended 31 December 2017

46.5.2 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.

	2017	2016
	Rs. '000	Rs. '000
Balance outstanding as at 31 December		
Other receivables	146	400
Transaction during the year		
Hardware/Software maintenance paid	3,908	1,557
Operating lease expenses(Computer hire charges)	105	17
Interest income and other fees for the leasing facilities granted	-	269
	2017	2016
	Rs. '000	Rs. '000
The Company had the following receivable balances with other Group companies		
SC Securities Pvt Ltd	62	173
Sampath Centre Ltd	219	202

47. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

Regulatory Capital

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka(CBSL) sets and monitors capital requirements for licensed finance companies. Accordingly finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 10% and a minimum core capital adequacy ratio (Tier I) of 5%.The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.

Supplementary Information

DIRECT ECONOMIC VALUE GENERATED & DISTRIBUTED

Information on the creation and distribution of economic value provides a basic indication of how the Company has created wealth for stakeholders.

<i>For the year ended 31 December</i>	2017	2016
	Rs. '000	Rs. '000
Direct Economic Value Generated		
Interest income	4,599,470	2,838,995
Fee & Commission income	243,899	139,442
Other income	222,685	175,471
	5,066,054	3,153,908
Economic Value Distributed		
To Depositors and Lenders		
Interest expense	2,644,284	1,531,782
	2,644,284	1,531,782
Operating Costs		
Depreciation & amortisation	56,063	49,926
Fee & commission expense	680	2,139
Other operating expense	375,622	315,184
	432,364	367,249
To Employees		
Salary & bonus	513,623	358,169
Other benefits	97,750	81,548
	611,373	439,717
Payments to Government		
Income tax expense	146,624	119,236
VAT & NBT on Financial Services	230,810	128,500
Crop insurance levy	5,232	3,284
	382,666	251,020
Payments to Providers of Capital		
Interest to debenture holders	120,007	89,000
Dividend to shareholders	65,491	57,750
	185,497	146,570
Economic Value Distributed	4,256,185	2,736,519
Economic Value Retained (after payment of dividend to shareholders)	809,869	417,389
	5,066,054	3,153,908

Supplementary Information

ECONOMIC VALUE ADDITION

	2017	2016
	Rs. '000	Rs. '000
Invested Equity		
Average shareholders' funds	2,204,323	1,771,509
Provision for impairment losses	523,064	294,154
Total	2,727,387	2,065,663
Earnings		
Profit attributable to share holders	554,473	325,003
Net impairment charge for loans & other losses	236,743	79,189
Total	791,216	404,192
Economic cost (12 months average Treasury Bill rate plus 2% risk premium)	11.89%	11.90%
Economic cost	324,256	245,814
Economic value addition	466,960	158,378

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		
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Interest income	4,599,470	2,838,995	1,973,921	1,837,546	1,620,272	1,033,557	555,329	383,463	434,037	628,611
Interest expenses	(2,764,290)	(1,620,783)	(824,699)	(778,661)	(899,069)	(600,406)	(210,207)	(133,875)	(370,446)	(583,208)
Net interest income	1,835,180	1,218,212	1,149,223	1,058,885	721,202	433,151	345,122	249,588	63,591	45,403
Other income	465,904	312,774	232,315	139,354	114,085	61,610	44,410	39,608	75,380	86,926
Operating income	2,301,083	1,530,986	1,381,537	1,198,239	835,287	494,761	389,532	289,196	138,971	132,329
Operating expenses	(1,048,290)	(808,111)	(679,804)	(547,930)	(431,028)	(224,412)	(178,366)	(108,517)	(108,609)	(117,477)
Operating profit	1,252,794	722,875	701,733	650,309	404,259	270,349	211,166	180,679	30,362	14,852
Impairment (charges)/reversals/provision for doubtful debts	(236,744)	(79,189)	(49,275)	(183,217)	(67,237)	(262)	49,324	1,682	(96,055)	(45,192)
VAT & NBT on financial services	(230,810)	(128,500)	(93,305)	(61,536)	(35,740)	(18,100)	(16,207)	(28,574)	(1,852)	(1,142)
Profit before taxation	785,240	515,186	559,153	405,556	301,281	251,987	244,283	153,787	(67,545)	(31,482)
Tax expenses	(286,378)	(187,904)	(174,629)	(145,379)	(80,301)	(51,752)	(46,268)	(26,477)	(3,738)	(2,313)
Profit for the year	498,862	327,282	384,524	260,177	220,980	200,235	198,015	127,311	(71,283)	(33,795)
As at 31 December	SLFRS/LKAS							SLAS		
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Cash and bank balances	297,858	169,333	130,070	88,655	65,378	32,586	29,520	5,322	18,104	18,802
Securities purchased under repurchase agreements	1,200,981	777,438	601,679	489,685	323,792	5,341	4,045	-	-	-
Investments in fixed deposits	65,699	-	-	-	-	87,246	-	-	-	-
Factoring receivables	1,899,702	1,979,243	1,157,136	996,440	1,052,411	566,584	532,458	210,444	135,392	141,749
Gold loan receivables	2,563,352	1,768,922	770,839	-	-	-	-	-	-	-
Pawning receivables	-	-	-	456,193	412,753	-	-	-	-	-
Loan receivables	2,724,776	743,740	286,968	506,526	568,573	-	-	-	-	-
Lease receivables	19,873,470	13,851,890	9,230,730	3,383,597	2,833,933	2,678,159	2,027,939	479,427	570,483	1,004,809
HP receivable	252,000	837,560	2,083,571	4,250,553	3,393,593	2,155,384	1,253,322	731,548	917,349	1,308,745
Other assets	932,742	662,612	378,334	246,141	335,131	285,219	276,531	373,179	213,140	252,552
Total Assets	29,810,580	20,790,738	14,639,326	10,417,790	8,985,564	5,810,520	4,123,815	1,799,920	1,854,469	2,726,655

Supplementary Information

TEN YEAR SUMMARY

As at 31 December	SLFRS/ILKAS						SLAS			
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Bank overdraft	456,018	460,494	163,583	83,921	63,982	62,124	-	32,340	24,128	170,596
Customer deposits	9,333,622	3,362,662	1,233,041	-	-	-	-	-	-	-
Debt issued and other borrowed funds	16,310,778	14,187,266	10,925,421	8,528,922	7,487,912	4,655,317	3,211,375	939,992	1,169,107	2,135,708
Other payables	1,231,877	849,956	706,150	493,303	359,769	216,553	216,198	329,361	275,598	263,433
Total Liabilities	27,332,295	18,860,377	13,028,194	9,106,146	7,911,662	4,933,994	3,427,573	1,301,693	1,468,833	2,569,737
Shareholders' Funds										
Stated capital	635,917	576,975	525,000	525,000	525,000	525,000	525,000	525,000	525,000	225,000
Statutory reserve fund	113,000	86,422	70,059	50,831	37,787	26,738	16,726	7,107	288	288
Investment fund reserve	-	-	-	-	58,488	29,988	12,841	-	-	-
Revaluation Reserve	56,823	-	-	-	-	-	-	-	-	-
Accumulated profit/ (loss)	1,672,545	1,266,964	1,016,073	735,813	452,627	294,800	141,675	(33,880)	(139,653)	(68,370)
Shareholders' Funds	2,478,285	1,930,361	1,611,132	1,311,644	1,073,902	876,526	696,242	498,227	385,635	156,918
Total Liabilities and Shareholders' Funds	29,810,580	20,790,738	14,639,326	10,417,790	8,985,564	5,810,520	4,123,815	1,799,920	1,854,468	2,726,655
Year ended 31 December	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Growth in Interest Income	62%	44%	7%	13%	57%	86%	45%	-12%	-31%	32%
Growth Interest Expenses	71%	97%	6%	-13%	50%	186%	57%	-64%	-36%	42%
Interest Cover ratio	1.28	1.32	1.84	1.73	1.59	1.42	2.16	2.15	0.82	0.95
Growth in Operating Profit	73%	3%	8%	61%	50%	28%	17%	495%	104%	-427%
Growth in Profit After Tax(PAT)	52%	-15%	48%	18%	10%	1%	56%	-279%	11%	-14%
Earning/(Loss) Per Share-Rs.	8.94	6.14	7.32	4.96	4.21	3.81	3.77	2.42	(1.36)	(1.50)
Growth in Advances	42%	42%	41%	16%	53%	42%	168%	-12%	-34%	-6%
Growth in Deposits and Borrowings	45%	46%	43%	14%	60%	47%	230%	-19%	-48%	-7%
Growth in Shareholder's Funds	28%	20%	23%	22%	23%	26%	40%	29%	146%	-18%
Debt/Equity Ratio	10.53	9.33	7.65	6.57	7.03	5.38	4.61	1.95	3.09	14.70
Net Assets per Share-Rs.	44.43	35.67	30.69	24.98	20.46	16.70	13.26	9.49	7.35	6.97
Return on Average Total Assets	1.91%	2%	3%	3%	3%	4%	7%	7%	-3%	-1%
Return on Average Equity	23%	18%	26%	22%	22%	25%	33%	29%	-26%	-19%

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,

$$01. \text{ Core Capital Ratio (Tier I) : } \frac{\text{Core Capital}}{\text{Risk Weighted Assets}}$$

$$02. \text{ Total Risk Weighted Capital Ratio (Tier I+Tier II) : } \frac{\text{Capital Base}}{\text{Risk Weighted Assets}}$$

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 2017 (Rs.000)
Total tier I core capital	2,421,462
Total Capital Base	3,632,193
Total Risk Weighted Assets	25,652,666
Core Capital Ratio (Mandatory ratio-Minimum 5%) (%)	9.44%
Total Risk Weighted Capital Ratio (Mandatory ratio-Minimum 10%) (%)	14.16%

As at 31 December 2017, the Company reported a core capital ratio (Tier I) of 9.44% and a total risk weighted capital adequacy ratio (Tier II) of 14.16%. 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).

Supplementary Information

CONSTITUENTS OF CAPITAL

Capital	LKR.000
Issued and paid-up ordinary Shares	635,917
Statutory reserve fund	113,000
Published retained profits	1,672,545
Tier I : Core Capital	2,421,462
Tier II : Supplementary Capital	
Eligible Tier II Capital	1,210,731
Total Capital	3,632,193
Deductions:	
Equity investments in unconsolidated banking and financial subsidiaries	-
Investments in capital of other banks/financial associates	-
CAPITAL BASE	3,632,193

COMPUTATION OF RISK WEIGHTED ASSETS

Assets	Total	Risk Weight %	Risk weighted Assets
Cash & current accounts with banks	297,859	0%	-
Deposits with Banks	65,000	20%	13,000
Sri Lanka Government/Central Bank Securities	1,205,220	0%	-
Loans and Advances :	27,421,435		24,793,418
Against deposits with the Company	142,895	0%	-
Loans against gold and gold jewellery	2,485,122	0%	-
Other loans and advances	24,793,418	100%	24,793,418
Other investments (excluding items deducted from the total capital)	56	100%	56
Fixed assets	384,475	100%	384,475
Other assets	461,717	100%	461,717
Total Assets	29,835,762		25,652,666

*Computation as per CBSL Direction

GRI CONTEXT INDEX

GRI Standard	Disclosure	Page number	Remarks
GRI 101: Foundation 2016 (does not include any disclosures)			
General Disclosures			
GRI 102: General Disclosures 2016	102-1 Name of Organisation	Inner Back Cover	
	102-2 Activities, brands, products and services	page 60 - 61	
	102-3 Location of headquarters	Inner Back Cover	
	102-4 Location of operations	Inner Back Cover	
	102-5 Ownership and legal form	Inner Back Cover	
	102-6 Markets served	Inner Back Cover page 41	
	102-7 Scale of the organisation	page 08, 09	
	102-8 Information on employees and other workers	page 46	
	102-9 Supply chain	page 66	
	102-10 Significant changes to the organisation and supply chain	Inner back cover	
	102-11 Precautionary principle	page 72	
	102-12 External initiatives	page 04	
	102-13 Membership of associations	page 68	
	102-14 Statement from senior decision maker	page 22 - 27	
	102-16 Values, principles, norms and standards of behaviour	page 39, 44 - 45	
	102-18 Governance Structure	page 22 - 27, 92-93	
	102-40 List of stakeholder groups	page 12	
	102-41 Collective bargaining agreements		The Company does not have collective bargaining agreements in place
	102-42 Identifying and selecting stakeholders	page 12	
	102-43 Approach to stakeholder engagement	page 13 - 15	
	102-44 Key topics and concerns raised	page 13 - 15	
	102-45 Entities included in the consolidated financial statements	Inner back cover	
	102-46 Defining report content and topic boundary	page 04	
102-47 Material topics	page 16 - 17		
102-48 Restatement of information	page 04		
102-49 Changes in reporting	page 16		
102-50 Reporting period	page 04		
102-51 Date of most recent report	page 04		
102-52 Reporting cycle	page 04		
102-53 Contact point for questions regarding Report	page 05		

Supplementary Information

GRI Context Index

GRI Standard	Disclosure	Page number	Remarks
	102-54 Claims of reporting in accordance with GRI Standards	page 04	
	102-55 GRI content index	page 249 - 251	
	102-56 External assurance	page 04 - 05, 254	
Management Approach			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	page 252 - 253	
	103-2 The Management Approach and its components	page 252 - 253	
	103-2 Evaluation of the Management Approach	page 252 - 253	
Material topics			
Economic Performance			
GRI 201: Economic Performance	201- 01 Direct economic value generated and distributed	page 243	
	201-3 Defined benefit plan obligations and other retirement plans	page 219	
Market Presence			
GRI 202: Market Presence	202- 01 Ratios of standard entry level wage by gender compared to local minimum wage		No entry level wage rate imposed on finance sector
	202-2 Proportion of senior management hired from the local community		All senior managers of the Company are local hires (Sri Lankan).
Anti - Corruption			
GRI 205: Anti - Corruption	205-3 Confirmed incidents of corruption and actions		No incidents were reported in 2017.
Energy			
GRI 302: Energy	302-1 Energy consumption within the organization		Energy consumption detection process and efficiency improvements are in progress
Employment			
GRI 401: Employment	401-1 New employee hires and employee turnover	page 47, 49	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part time employees	page 48	
	401-3 Parental leave	page 49	
Labour / Management Relations			
GRI 402: Labour / Management Relations	402-1 Minimum notice periods regarding operational changes	page 49 - 50	

SUPPLEMENTARY INFORMATION

GRI Standard	Disclosure	Page number	Remarks
Occupational Health and Safety			
GRI 403: Occupational Health and Safety	403-1 Workers representation in formal joint management-worker health and safety committees	page 55	
	403-2 Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	page 55	
	403-3 Workers with high incidence or high risk of diseases related to their occupation	page 55	
	403-4 Health and safety topics covered in formal agreements with trade unions		Company does not have any trade unions.
Training and Education			
GRI 404: Training and Education	404-3 Percentage of employees receiving regular performance and career development reviews	page 52	
Diversity and Equal Opportunity			
GRI 405: Diversity and Equal Opportunity	405-2 Ratio of basic salary and remuneration of women to men	page 48	
Local Communities			
GRI 413: Local Communities	413-2 Operations with significant actual and potential negative impacts on local communities		No incidents were reported in 2017.
Marketing and labelling			
GRI 417: Marketing and labelling	417-2 Incidents of non-compliance concerning product and service information and labelling		No incidents were reported in 2017.
	417-3 Incidents of non-compliance concerning marketing communications		No incidents were reported in 2017.
Customer Privacy			
418-1 Customer Privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	page 62	No complaints were received in 2017

Supplementary Information

Materiality Assessment – Supplement

	Material Topic	Our Approach	Management Strategy
1	Profitability & Financial Performance	Ensure long term profitability and financial stability in an intensely competitive sector.	The Company places a significant emphasis on the long term sustainable growth and performance of the Company in qualitative and quantitative aspects. Regular performance reviews ensures that Company's performance level is maintained as per the budgeted levels and objectives are achieved.
2	Anti-Corruption Practices	Promulgating ethical business practices and a culture of honesty and integrity.	Company ensures that it conducts its business in an ethical manner. It ensures that the employees of the organization abide by the corporate ethics and Code of Conduct.
3	Business Continuity Planning	Building our capabilities to ensure that an uninterrupted service is maintained in the event of any eventuality.	The Business Continuity Plan has been comprehensively tested to ensure that the operations of the Company are maintained in an uninterrupted and seamless manner.
4	Brand/Equity	Proving the trust, stability and assurance.	As a subsidiary of the Sampath Bank the Company ensures advertising and promotional strategy of the Company ensures that the brand equity is built and maintained.
5	Customer Access	Enhance visibility and customer reach with a presence in the key locations of Sri Lanka	Geographical penetration is a critical element and the Company has a branch expansion strategy in place. This ensures that the Company is present in the key cities and towns to serve its customers.
6	Speedy and efficient service levels	Expand IT capabilities and putting in place right processes	Placing the right IT platform is a crucial element in the business strategy of the Company. The Company has taken steps to upgrade to a core banking software to support the business strategy.
7	Employee Relationships	Fostering a good work place with an engaging staff cadre aligned towards the business objectives	The HR Department has a comprehensive strategy to ensure that a conducive work environment.
8	Staff Recruitment & Retention	Attract and retain the best staff by applying right assessment techniques	The Company has put in place sound recruitment strategies to ensure that the right candidates with the skills, qualifications are chosen for the vacancies. Furthermore, with the performance management systems in place the Company ensures that employees compensated and rewarded as per the industry standards.
9	Training and Development	Enable employees to acquire knowledge and skills essential for innovation and to be change agents	The scope of the training and development activities are reviewed on an annual basis to ensure that it is aligned with the business needs.

SUPPLEMENTARY INFORMATION

	Material Topic	Our Approach	Management Strategy
10	Employee Engagement	Provide recognition for talents and value commitments to the strategic vision of the Company	Through intensive employee engagement activities the Company is able to engage with its employees. Annual events organized by the HR Department ensure that Company recognizes the talents of the staff whilst fostering a team spirit across its members.
11	Customer Convenience	To address the changing financial needs of customers through our product offerings with innovation	The Company's strategy of a wide expansive product range along with geographical reach ensures convenience to its customers. Cross selling and up selling strategies of the Company ensures that customer convenience is delivered through its marketing strategy.
12	Marketing and Labeling	Rendering fair, equitable, honest service to customers while protecting their interests & the relationship with the Company	The Company values the customers' right to information and takes steps to create awareness on its product conditions and other details.
13	Customer Privacy	Enhancing security of IT systems	The necessary steps have been taken to enhance the security features of the IT systems.
14	Managing Complaints	Address and rectify any areas which would lead to issues.	A well-managed complaint handling process is in place which ensures that customer complaints are handled effectively.
15	Promoting Financial Inclusivity	Supporting the un-banked segment of the community through our products and services along with geographical reach	The Company through its branch network and wide product portfolio ensures that a wide segment of the community is served. The Company hopes to promote financial inclusivity.
16	Community Development	Engage with communities to uplift and contribute to the wellbeing of society at large.	The Company engages with the community with a wide range of CSR activities. The branches of the Company also take an active stance in the community activities.
17	Promoting environmentally friendly lending & business practices	Conscious lending practices.	The Company is conscious of the environmental impact on the lending activities. By encouraging green environmentally friendly lending activities it hopes to promote green practices to their customers as well.

Independent Assurance Report



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Independent Assurance Report Siyapatha Finance PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2017

Introduction and scope of the engagement

The management of Siyapatha Finance PLC (“the Company”) engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2017 (“the Report”).

- Reasonable assurance on the information on financial performance as specified on page 243 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: ‘In accordance’ - Core guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): ‘Assurance Engagements Other than Audits or Reviews of Historical Financial Information’, issued by the Institute of Chartered Accountants of Sri Lanka (“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 Standards ‘In accordance’ - Core guideline publication, publicly available at GRI’s global website at “www.globalreporting.org”.

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that

might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Company’s responsibility for the Report

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the 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, GRI Standards: ‘In accordance’ - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated 28 January 2018. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the 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:

- Interviewing relevant the company’s personnel to understand the process for collection, analysis, aggregation and presentation of data.

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 Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal: T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

- 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 2017.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' - Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

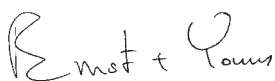
Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 234 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 December 2017.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.



Ernst & Young

Chartered Accountants

20 February 2018

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.

Corporate Sustainability

Business approach that creates long-term consumer and employee value by creating a 'green' strategy aimed toward the natural environment and taking into consideration every dimension of how a business operates in the social, cultural and economic environment.

Cost to Income Ratio

Operating expenses excluding loan/ lease loss provision as a percentage of total operating income.

Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk

Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

Credit Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

D**Deferred Tax**

Sum set aside for tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful asset.

Derecognition

Removal of a previously 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 pay-out ratio

Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

Dividend per share (DPS)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

Dividend Yield

Dividend earned per share as a percentage of its market value.

E**Earnings per Share**

Profit attributable to ordinary shareholders divided by the number of ordinary shares in use.

Glossary of Financial Terms

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate

Provision for taxation expressed as a percentage of Profit Before Tax.

Employee Retention Ratio

Represents the number of employees retained out of the employees attrition during the year as a percentage of average number of employees for the year end.

Equity Method

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Events after the Reporting Period

Events after the reporting period are those events, 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 (EI)

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.

Glossary of Financial Terms

Integrated Reporting

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long-term in its economic, social and environmental context.

Interest Rate Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Investment Properties

A property (land or a building – or part of a building – or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Investment Securities

Securities acquired and held for yield and capital growth purposes and are usually held to maturity.

K

Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

L

Lending portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

Lifetime Expected Credit Losses

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan/Credit Losses and Provisions

Amount set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollected.

Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

Loan to value ratio (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loss Given Default ('LGD')

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

M

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.

Net Interest Margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

Non Performing Advances

A lease, hire purchase or other advance placed on cash basis (i.e. interest income is only recognised when cash is received), because in the opinion of management, there is a reasonable doubt regarding the collect ability of principal and/ or interest. Rentals receivable in arrears for more than six rentals have been categorised as non-performing. Non-performing advances are reclassified as performing when all arrears rentals are settled in full.

NPA Ratio

The total non-performing leases, hire purchases and other advances expressed as a percentage of total loans and advances portfolio.

O**Off- Balance Sheet Items**

Items that are not recognised as assets or liabilities in the statement of financial position, which give rise to the commitment and contingencies in future.

Offsetting of financial statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

Operational Risk

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P**Parent Company**

A parent is an entity that has one or more subsidiaries.

Past Due

A financial asset is past due when a counter party has failed to make a payment when contractually due.

Power

The Power is the existing rights that give the current ability to direct the relevant activities.

Probability of Default ('PD')

The probability that an obligor will default within a one-year time horizon.

Projected Unit Credit Method (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro-rated on service or as the benefit/ years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Provision Cover

Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on non-performing loans, leases and advances.

Prudence

Inclusion of degree of caution in the exercise of judgment needed in making the estimates required under the conditions of uncertainty, such that asset or income are not overstated and liabilities or expenses are not understated.

R**Related Parties**

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Residual Value

The estimated amount that is currently realizable from disposal of the asset, after deducting estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Glossary of Financial Terms

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).

Staff turnover ratio

Represents the number of employees attrition during the year as a percentage of average number of employees for the year end.

Stated Capital

All amounts received by the Company or due and payable to the Company – (a) in respect of the issue of shares, (b) in respect of calls on shares.

Statutory Reserve Fund

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003.

Substance over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary Company

An entity, including an unincorporated entity which is controlled by another entity called parent.

T

Tier I Capital (Core Capital)

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital (Supplementary capital)

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital (Capital Base)

Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

U

Useful Life

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

Value Added

Wealth created by providing financial and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Volatile Liability Dependency Ratio

Short Term borrowings (of maturity less than 12 months) expressed as a percentage of the Total Advances (Lending) Portfolio.

Y

Yield

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

Yield to Maturity

Discount rate at which the present value of future payments would equal the security's current price.

Notice of Annual General Meeting

NOTICE IS HEREBY given that the 13th Annual General Meeting of Siyapatha Finance PLC will be held on **27th March 2018 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 2017 with the Report of the Auditors thereon.
- (2) To re-elect Mr. P M A Sirimane, a Director of the Company who retires by rotation in terms of Article 24(8) of the Articles of Association of the Company.
- (3) To re-elect Mr. L T Ranwala, a Director of the Company who retires by rotation in terms of Article 24(8) of the Articles of Association of the Company.
- (4) To elect Mr. P S Cumararatunga, a Director of the Company, who was appointed during the financial year to fill a casual vacancy in terms of Article 24(2) of the Articles of Association of the Company.
- (5) To elect Ms. A Nanayakkara, a Director of the Company, who was appointed during the financial year to fill a casual vacancy in terms of Article 24(2) of the Articles of Association of the Company.
- (6) To declare a Scrip dividend of LKR 1.25 per share for the financial year 2017 and if thought fit, to pass the following resolution by way of an Ordinary Resolution.

“It is hereby resolved that a Scrip Dividend of LKR 1.25 be distributed in the form of a scrip dividend amounting to a total sum of Rupees Sixty Nine Million Seven Hundred and Twenty One Thousand Four Hundred and Thirty Two and Cents Fifty (LKR 69,721,432.50) 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 LKR 39.99 per share which results in one (01) Share being issued for each existing 35.54 Shares. Consequently the total number of shares to be issued through the scrip dividend shall be 1,569,242 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
Group Company Secretary

05 March 2018

Proxy Form

I/We.....

of.....

Being a member/s of Siyapatha Finance PLC hereby appoint

- | | |
|---|----------------|
| Mr. C P Palansuriya of 118/1, Dr. N. M. Perera Mawatha, Colombo 08 | failing him |
| Mr. W M P L De Alwis of 40/4, Park Road, Colombo 05 | failing him |
| Mr. K M S P Herath of 428/56, Eden Gardens, Samagi Mawatha, Hokandara-South | failing him |
| Dr. H S D Soysa of 19,7/3, Lauries Lane, Colombo 04 | failing him |
| Mr. P M A Sirimane of 159/7, Rampart Road, Etul Kotte | failing him |
| Mr. L T Ranwala of Flat No.18,Rosmead Towers,No.102- 2/1,Rosmead Place,Colombo 07 | failing him |
| Mr. P S Cumararatunga of 325, Park Road, Colombo 5 | failing him |
| Ms. A Nanayakkara of 122/12, Arnolda Place, Colombo 5 | failing her or |

Mr/Mrs/Miss.....of.....

as my/our proxy to present me/us and vote at the Annual General Meeting of the Company to be held on 27th March 2018 at 9.30 a.m. and at any adjournment thereof.

	For	Against
(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 2017 with the report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(2) To re-elect Mr. P M A Sirimane as a Director of the Company in terms of Articles 24(8) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(3) To re-elect Mr. L T Ranwala as a Director of the Company in terms of Articles 24(8) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(4) To elect Mr. P S Cumararatunga as a Director of the Company in terms of Articles 24(2) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(5) To elect Ms. A Nanayakkara as a Director of the Company in terms of 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 LKR 1.25 per share for the Financial Year 2017 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 of2018.

- NOTE :
- i. Proxy need not be a member of the Company
 - ii. Instructions regarding completion of Proxy are given on the reverse.

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the form of proxy, after filling in legibly your full names and address, and by signing on the space provided.
2. The completed form of proxy should be deposited at the Registered Office of the Company at 4th Floor, No. 110, Sir James Peiris Mawatha, Colombo 02, not less than 48 hours before, the appointed time for the holding of the meeting.
3. If you wish to appoint a person other than Chairman, Deputy Chairman or a Director of the Company as your proxy, please insert the relevant details at the space provided (below names of the Board of Directors) on the Proxy form.
4. Article 16(6) of the Articles of Association of the Company provides that; "Any corporation which is a member of the Company may by resolution of its directors or other governing body authorize such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the Company, and the person so authorized shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company".
5. Please indicate with an 'X' in the space provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy, at his discretion, will vote as he thinks fit.
6. In the case of a Company/Corporation, the Proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
7. In the case of a Proxy signed by an Attorney, the Power of Attorney must be deposited at the Registered Office of the Company for registration.

If undelivered, please return to;

Company Secretary

Siyapatha Finance PLC

No. 110, Sir James Peiris Mawatha,
4th Floor – Sampath Centre Building
Colombo 02.

Corporate Information

Name of the Company

Siyapatha Finance PLC (formerly known as Sampath Leasing and Factoring Limited)

Registration No. : PB 917PQ
Telephone : +94117605605
Fax : +94117605606
E-mail : info@siyapatha.lk
Website : www.siyapatha.lk

Credit Rating

Fitch Rating Lanka Limited has affirmed Siyapatha Finance PLC's National Long Term Rating of A- (lka) 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. C P Palansuriya	Chairman, Non-Independent, Non-Executive Director (appointed as Chairman w.e.f. 15/11/2017)
Mr. W M P L De Alwis	Deputy Chairman, Independent, Non-Executive Director (appointed as Deputy Chairman w.e.f.15/11/2017)
Mr. K M S P Herath	Managing Director, Executive Director
Dr. H S D Soysa	Independent, Non-Executive Director
Mr. P M A Sirimane	Independent, Non-Executive Director
Mr. L T Ranwala	Non-Independent, Non-Executive Director
Mr. P.S. Cumarathunga	Independent, Non-Executive Director (appointed w.e.f. 30/10/2017)
Ms. A. Nanayakkara	Independent, Non-Executive Director (appointed w.e.f. 06/11/2017)

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
Union Bank of Ceylon PLC

Memberships

Leasing Association of Sri Lanka
Finance Houses Association of Sri Lanka.
Employers Federation of Ceylon (EFC)
Credit Information Bureau of Sri Lanka

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 to the organization size, structure, ownership or supply chain during the reporting period.



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