

Connecting Growth Opportunities



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Connecting Growth Opportunities

In the year 2017, CSE witnessed a growth trajectory with a turnaround in market indices and record breaking foreign inflow supported by a growth in volumes. Renewed optimism created a platform for investors and companies to seek investment through the capital market.

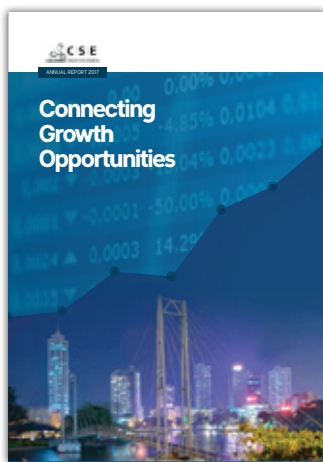
We envision to play a competitive role and be among the leading regional markets harnessing our key strengths of the established infrastructure and the reputation built over three decades. We strive to leverage regional opportunities by introducing a multitude of new initiatives. The CSE hopes to connect growth opportunities to fuel the expanding financing needs of the private sector and the Government.

It is with much optimism that we look to the future with the Colombo Stock Exchange acting as a catalyst to connect the growth opportunities open at the local and regional platforms, to propel our way forward.

About this Report

Welcome to our Annual Report 2017

The Colombo Stock Exchange is a catalyst for economic growth



Navigating Our Report

Setting it in Context

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Setting it in Context



Delivering Performance



Governance and Risk Management



Opportunities and Challenges



Nurturing our Capitals

Opportunities and Challenges

- ▶ Economic and Business Environment

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Nurturing our Capitals

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Scope and Boundary

Report Coverage

- Year ending 31 December 2017.
- Operations of Colombo Stock Exchange(CSE) and its fully owned Subsidiary (CDS).
- Material Financial and non- financial information.

Source of Information

- Audited and financial statements.
- Discussions with management and divisional heads.
- Agreements provided by management
- Management information systems (MIS)
- Industry information publicly available through governments and reputed international organizations.

Limitations

There were no identified limitations in information that could have a material impact on our operations.

Integrity of financial statements

The Board acknowledges full responsibility on the integrity of information provided.

During the year, there has been no material changes to the legal structure, ownership or products and services of the group.

Assurance and External Audits

Financial Statement audited by External Auditors, Messrs KPMG.
Disaster recovery drill independently validated by Ernst and Young.
Technological and information security governance audits

Standards and Guidelines

Reporting Guidelines

Integrated Reporting Framework of the International Reporting Council (IIRC). Global Reporting Initiative – GRI

Financial Standards

Sri Lanka Accounting Standards
Sri Lanka Auditing Standards

Regulatory Acts

Companies Act No 7 of 2007
SEC Act , No. 36 of 1987 as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act no. 47 of 2009

Other non -financial standards

Sustainability standards: Used GRI standards as a guideline.
Information security standards: Information Security (ISO 27001), Business Continuity (ISO 22301) and IT Service Management Systems (ISO 20000). Stock broker firms: International Organization of Securities Commissions (IOSCO) Price Indices: IOSCO Principles for Financial Benchmarks. Human Resource: ISO 9001: 2015 Quality Management System certificate.



Our Vision

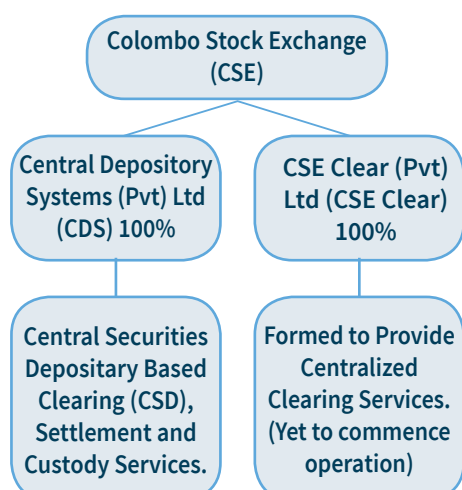
To be the preferred choice for creation of wealth and value.

Our Mission

- Encourage issuers to raise capital through the CSE.
- Increase the number of active investors.
- Provide facilities for diversified products.
- Ensure balanced regulation to maintain market integrity and investor confidence.

Group Structure

CSE has two 100% owned subsidiaries namely CDS and CSE clear. Subsidiaries involve in the provision of post trade services such as clearing, settlement and custody. Clearing services include trade confirmation, obligation calculations and reporting.



About US

Share trading in Sri Lanka dates back to 1896 when the Colombo Brokers Association was established as a secondary market for shares of mostly plantation companies. The share market went through numerous periods of growth and decline through different economic and political cycles in the country in its 122 years old history.

The Colombo Stock Exchange (CSE) in its present form began in 1985 when the Colombo Securities Exchange Guarantee Ltd was incorporated as a Guarantee company formed by 7 Stock Broker Firms who were the subscribing members. The company took over the operations of the stock market from the Colombo Brokers Association (CBA).

The name of the Company was later changed as the Colombo Stock Exchange (CSE) in 1990. Automation of the CSE commenced in 1991 with the establishment of the Central Depository System (CDS) as a fully owned subsidiary which enabled the market to go script-less. Secondary trading was fully automated with the commissioning of the Automatic Trading System in 1997.

The regulator for the stock market, the Securities and Exchange Commission was established in 1987 following the enactment of the Securities Council Act No. 36 of 1987.

Presently securities traded on the CSE are ordinary voting and nonvoting shares, preference shares, corporate debentures, company warrants and closed ended funds.

The Stock market is presently served by 31 Brokerages which are licensed by the SEC to act as stock brokers for listed equities and debt securities. There are no market makers, and Brokerages act in an agency capacity and as market intermediaries to secondary market transactions. Foreign ownership in market intermediaries are permitted up to 100 % and some brokerages are owned by conglomerates and banks. They are permitted to trade on their own account provided they are licensed by the SEC to do so.

The CSE is a price-driven auction market. Presently short selling of securities is not permitted. Margin trading which is regulated by the SEC is permitted. The CSE uses T+ 3 settlement for both buyers and sellers in equity and operates on a non DVP environment where buyers are given custody of securities instantly on successful execution of a transaction whereas sellers are paid on T+3. There are mechanisms in place to minimize the risk of default by the buyer.

Our Role in Socio-Economic Progression

Statement on Economic Value Added

Market performance is the key determinant of the economic value we generate in the form of revenues from our core functions. During the year, economic value generated increased by 15% to LKR 557 Mn in line with a 25% growth in market turnover. Nearly 52% of our economic value was distributed to employees, 12% to government in the form of taxes such as NBT, VAT and income tax and 36% was retained by CSE solely for the use of our development. As per CSE Articles, there will be no profit distributions in the form of dividends or the like thereof to any stakeholder of CSE.

Economic value-Indirect

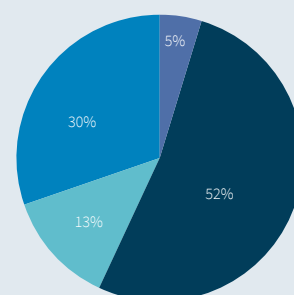
A significant part of the economic value we generate is in the form of trading commissions for members, share transaction levies for the government and fees for regulators based on the volume and value of share transactions that take place. During the year, we collected share transaction levies of 1,323 Mn on behalf of the government.

Current fee structure includes:

Transaction value	Up to Rs 100 Mn	Above Rs.100 Mn
Brokerage fee*	0.64%	A minimum of 0.2%
SEC Fee	0.072%	0.045%
CSE fee	0.084%	0.052%
Central Depository fee	0.024%	0.015%
Share transaction levy to government	0.3%	0.3%
Total	1.12%	0.61%

*Brokerage rates are fixed for transactions up to LKR 100 Mn

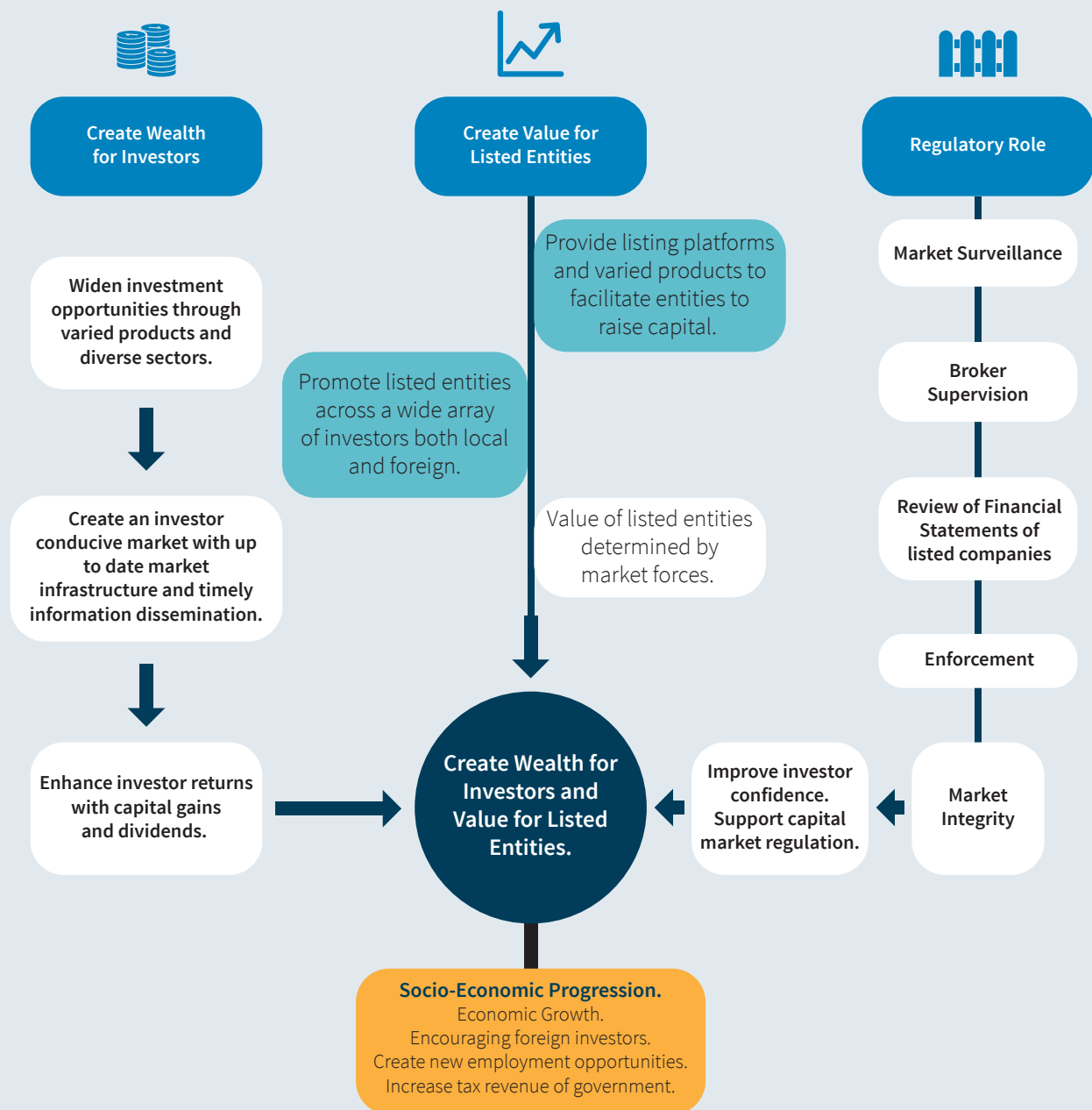
Direct Economic Value Distributed in 2017



- Value Retained by CSE
- Government
- Employees
- Trading Members

Our Role in Socio-Economic Progression contd...

Our Role



Platform for capital generation : CSE

widens the arena of financing opportunities for issuers irrespective of size, scale and type. With a market cap of LKR 2,899 Bn as at Dec 2017, CSE has facilitated 296 listed companies across 21 industry Groups to raise Debt and Equity capital.

Create an investor conducive environment :

Investors drive capital markets by subscribing to primary issues and engaging in trading activity that drive market performance. We continue to work on creating a conducive environment for investment through:

- Secure and robust trading Clearing & Depository platforms
- Regulation to balance stakeholder interests
- Enhancing convenience and accessibility through digitalization
- Enhance investor confidence.
- Investor education and awareness programs for new investors

During 2017, 11,764 new accounts were opened in CDS. Foreign investor interest improved with net foreign inflows. Australia, North America were among the regions to report strong growth.

Supporting corporate sector

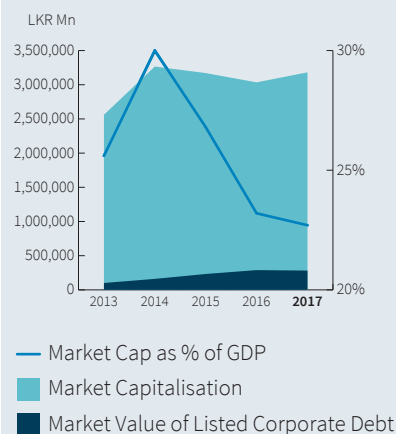
governance : A vibrant capital market is necessary for the growth of the corporate sector. Listed corporates have raised LKR 73 Bn of funds for an array of diversified objectives including:

- Capacity expansion and diversification
- Development of new and innovative products
- Entry into new sectors
- Promote presence in global markets

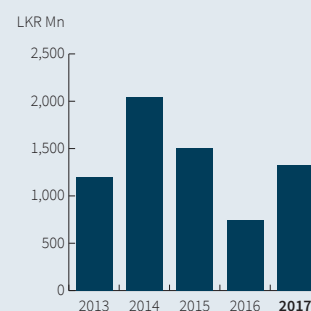
During the year, new listings were in Manufacturing, Land and Property and Hotels and Travels sectors.

Government Revenue : CSE provides additional government revenue directly in the form of direct taxes and share transaction levies (STL) based on market turnover. It also supports government agenda by providing a platform to raise capital for state owned enterprises through listing while supporting the country's capital inflows with foreign direct investments.

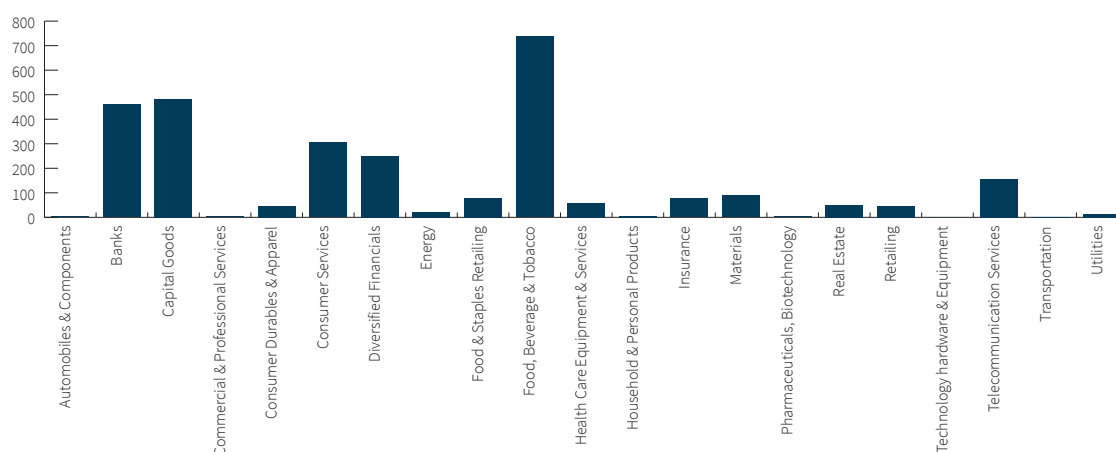
OUR Role In Capital Markets



Share Transaction Levy







Market Cap by Sector (LKR Bn)



Our Role in Socio-Economic Progression contd...

Our contribution to Sustainability Development Goals

Being a member to the sustainable stock exchange initiatives (SSE) of UN in 2015, CSE actively promotes sustainability initiatives across all its stakeholders including listed companies and wider communities. The Sustainable Stock Exchanges (SSE) initiative is a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency – and ultimately performance – on ESG (environmental, social and corporate governance) issues and encourage sustainable investment.

SDG	Sri Lanka SDG goals supported by the CSE (Source: extracts from Sri Lanka SDG goal indicators for 2017 by Department of Census and Statistics).	Direct contribution	Indirect contribution
 	<ol style="list-style-type: none"> 1. Eradicate extreme poverty. 2. All people have equal rights to economic resources. 4. Ensure significant mobilization of resources. 5. Achieve gender equality and empower all women and girls. 	<p>Joined international organizations such as the International Finance Corporate, UN Global Compact, International Trade Centre and SLID to host market opening ceremonies as a call to action on gender equality and the improved participation of women in trade and investment. Conducted four bell ringing ceremonies in 2017 including CSE and Sri Lanka Institute of Directors (IFC) to Ring the Bell for Gender Equality.</p> <p>Conducting educational programs around the country to foster financial literacy and sustainable financial decision making by people from all walks of society</p>	<ol style="list-style-type: none"> 1. The SME board to be launched in 2018 extend funding opportunities for small and medium sized industries. This will support employment generation. 2. Encourage listed companies to report on female representation.
	<ol style="list-style-type: none"> 1. Sustain growth in per capita income. 2. Improve economic productivity. 	<p>Developing knowledge and skills of workforce through training and career progression.</p>	
	<p>Build resilient infrastructure</p>	<p>Contribute to development of capital market infrastructure by being the sole stock exchange in Sri Lanka.</p>	

SDG	Sri Lanka SDG goals supported by the CSE (Source: extracts from Sri Lanka SDG goal indicators for 2017 by Department of Census and Statistics).	Direct contribution	Indirect contribution
	Deliver more effective, credible, accountable and legitimate institutions.	Encourage companies to enhance quality, transparency and accountability in financial reporting. CSE carries out this task by reviewing annual reports and interim reports.	
	Ensure sustainable consumption and production patterns.	Initiatives such as SMS based trade verifications, automation of purchase requisition process, e-statements, web portals, e-Board papers enable the CSE to reduce paper consumption.	Encourage listed companies to report environmental and social initiatives undertaken.
	Educating and raising awareness on impact of climate change.	Discussions have been initiated on the launch of an ESG index to CSE.	Encourage listed companies to report on environmental initiatives.
	<ol style="list-style-type: none"> Enhance regional and international cooperation and access to science, technology and innovation. Enhance knowledge sharing on mutually agreed terms. 	<ol style="list-style-type: none"> Member of: <ol style="list-style-type: none"> South Asian Federation of Exchanges (SAFE). World Federation of Exchanges (WFE). Association of National Numbering Agencies (ANNA) Asia-Pacific Central Securities Depository Group (ACG), Participated in SAFE workshops. Signed five MoUs with regional exchanges. Participated in cross market events. Cross border training programs are undertaken by CSE. 	

Our Journey

Catalyst in capital markets in Sri Lanka, driving growth of the country's corporate sector and supporting the country's socioeconomic growth.

1896	<ul style="list-style-type: none"> Formalized share trading commenced in Colombo. 		
1904	<ul style="list-style-type: none"> Colombo Share Brokers Association changed its name to Colombo Brokers Association (CBA). 	1998	<ul style="list-style-type: none"> The CSE become the 52nd Member of the FIBV [now known as the World Federation of Exchanges (WFE)]. The CDS gained membership in the Asia Pacific Central Securities Group (ACG)
1984	<ul style="list-style-type: none"> Establishment of a Public Trading Floor. 		
1985	<ul style="list-style-type: none"> The Colombo Securities Exchange (Guarantee) Ltd is incorporated as a Guarantee Company by seven (7) subscribing Stock Broker Companies and takes over the operations of the Stock market in Sri Lanka from the Colombo Broker Association (CBA). 	1999	<ul style="list-style-type: none"> Introducing of the Milanka Price Index (MPI) which replaced the Sensitive Price Index (SPI). Rule for Debt Securities introduced. CSE establishes its first Regional Office in Matara.
1987	<ul style="list-style-type: none"> The Securities Council Act No. 36 of 1987 passed providing for the establishment of a regulator for the capital market. 	2000	<ul style="list-style-type: none"> Formation of the South Asian Federation of Exchanges (SAFE) and Sri Lanka become a Founder Member. New Listing Rules introduced. Second Regional Office opened in Kandy
1990	<ul style="list-style-type: none"> Name changed to the Colombo Stock Exchange (CSE). Liberalization of investment in the stock market with the abolition of the 100% transfer of Property Tax on Share Purchase by non-nationals. 	2001	<ul style="list-style-type: none"> CSE Website re-launched with on line market information. Public gallery re-opened at the CSE after a lapse of 10 years.
1991	<ul style="list-style-type: none"> The clearing house of the CSE was automated with the establishment of a Central Depository Systems (CDS). 		
1995	<ul style="list-style-type: none"> Upgrade of the CDS Relocation of the Exchange to the World Trade Centre (WTC). Company Take Overs and Mergers Code introduced. 	2005	<ul style="list-style-type: none"> The 3rd Regional Office opened in Kurunegala. CSE introduces a new Triaxial Ribbon on its new logo. Settlement cycle shortened to T+3 for buyers and T+4 for sellers. Government imposed of Share Transaction Levy of 0.20%.
1996	<ul style="list-style-type: none"> Mark 10 years of Share Trading in Sri Lanka. The introduction of a Two-Tierd Board. The Main Board and the Second Board. The CSE is appointed as the National Numbering Agency for Sri Lanka. 	2006	<ul style="list-style-type: none"> Five Trading Members admitted increasing the number of Stock Broker Firms to 20.
1997	<ul style="list-style-type: none"> Automation of Trading with a screen based trading system. Establishment of a Settlement Guarantee Fund and a Compensation Fund. 	2007	<ul style="list-style-type: none"> Introduction of Single Tierd settlement of T+3. CSE opens a Regional Office in Negombo. Corporate Governance Rules for Listed Companies introduced.
		2008	<ul style="list-style-type: none"> CSE introduces an Automated Market Surveillance System. Cash margin for trades over Rs. 20 Million introduced by the CDS.

2009

- 3 new Settlement Banks appointed.

2010

- New CDS Rules introduced.
- New Regional Office in Jaffna opened.
- Revision of Transaction Costs.
- Tick size reduced to Rs. 0.10.
- Crossing threshold increased to Rs. 20 Mn.
- Seven (7) new Trading Members admitted.

2012

- S&P 20 Index launched.

2013

- 3 new Regional offices in Anuradhapura, Ratnapura & Hambantota opened.

2014

- Launch of the new CDS system
- Upgrade of Automated Trading System (ATS).
- The S&P SL 20 Index surpasses 4000 Mark for the first time since its launch.
- CSE wins award for 'Most Sustainable Growth Exchange' in Asia awarded by Capital Finance International (CFI).
- CSE hosts an International Fund Managers Forum in Colombo.

2015

- Holds Chairmanship of the South Asian Federation of Exchanges.
- Joins United Nations Sustainable Stock Exchanges (SSE) Initiative
- Adopts Global Industry Classification Standard (GICS) for classification of Listed Companies
- Signs MOU with the Maldivian Stock Exchange
- The CDS launches Custody services for listed companies.
- CDS hosts ACG Cross Training Seminar in Colombo.
- New HRIS system introduced.
- Intranet Portal for CSE Staff introduced.
- Introduction of Market Open Ceremonies.
- CDS signs MOU with NSDL India

2016

- CDS celebrates 25 years in the Sri Lankan capital market
- The S&P/CSE Sector and Industry Group Indices jointly launched
- CSE implements new Broker Back Office and Order Management Systems
- Opens branch office in Ambalantota
- Conducts first forum to encourage foreign company listings
- CSE wins Global HR Excellence Award for Innovation in Training and Development
- Wins IPM's – National HR Excellence Gold Award for Best HR Practices
- CDS launches e-Connect online account management portal
- The launch of the CSE Education Portal
- CDS signs MOU with Central Depository Company Pakistan Ltd
- New Surveillance System introduced.

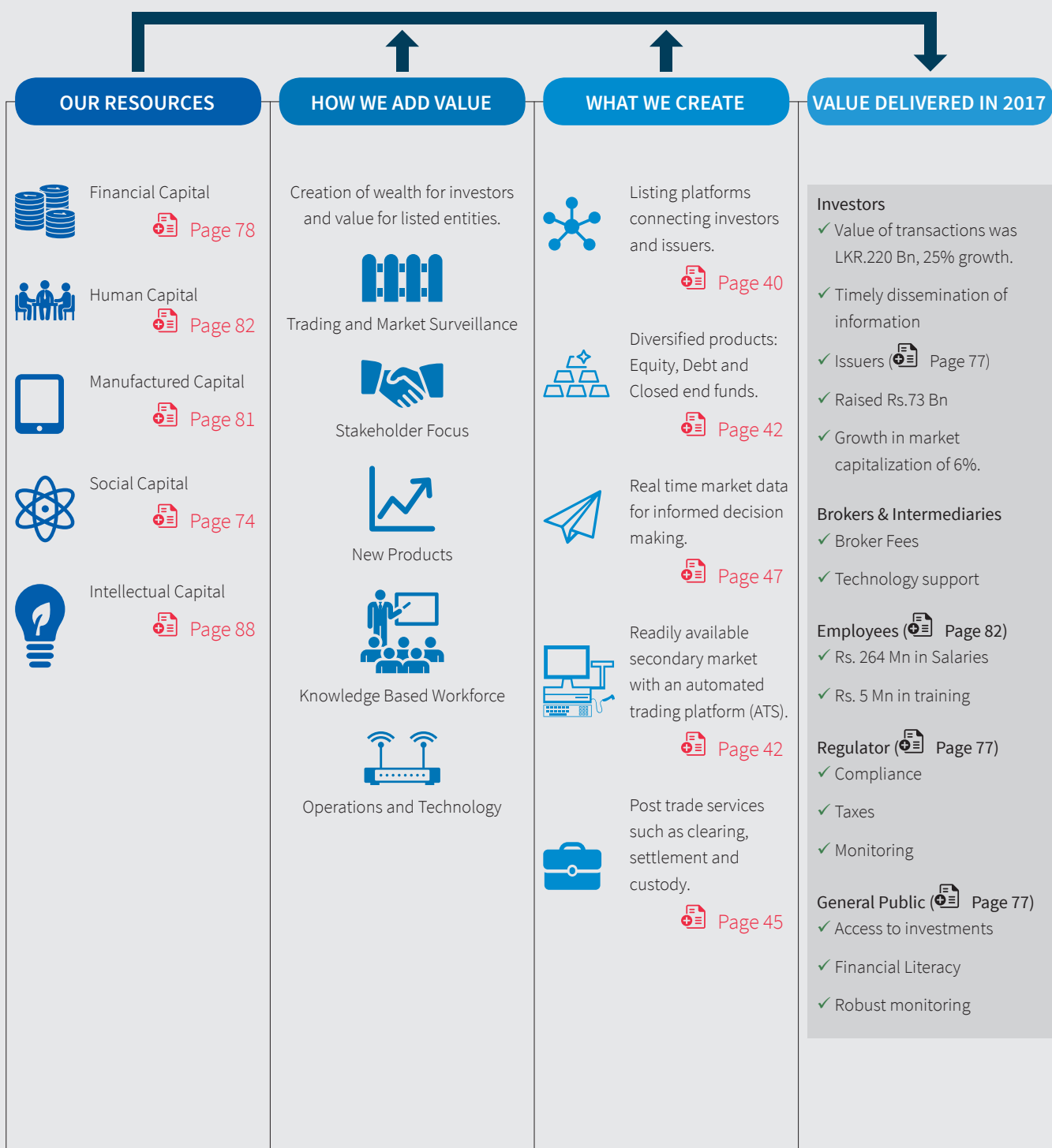
2017

- Implementation of Risk Based Capital Adequacy Requirement (CAR) for Member Firms
- CSE hosts South Asian Federation of Exchanges Workshop and Panel Discussion in Colombo
- Three MoUs signed with Korea Exchange, Sydney Exchange and Central depository (India).
- CSE introduces a step-up fee structure for Share Transaction Fees.
- Value of non -voting shares was included in market cap and index calculations.



Value Creation Model

Vision: To be the Preferred Choice for creation of wealth and value.



Integrated Planning and Review

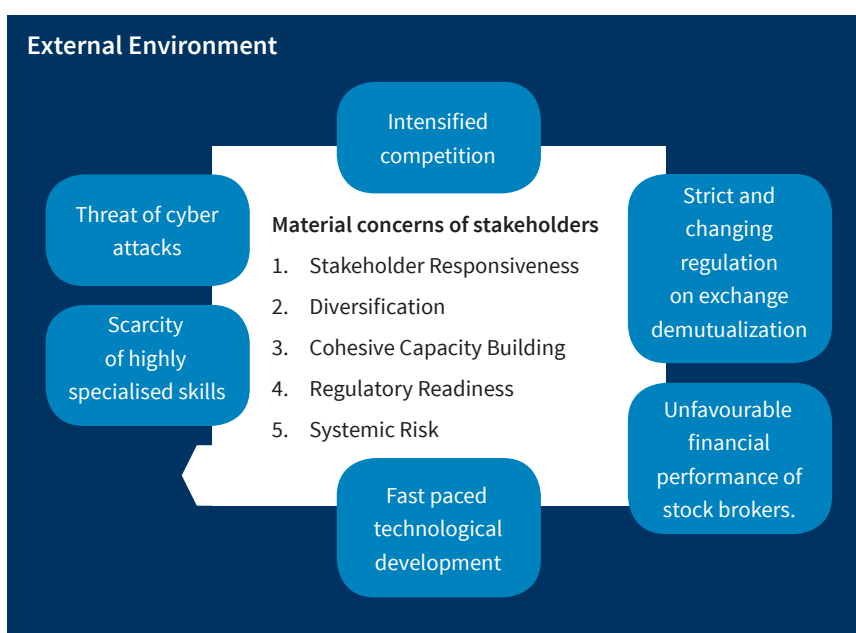
In preparation of the Strategic Summit 2018 (SS2018), the CSE evaluated external economic and business environments (page 70) and stakeholder concerns to identify the risks for strategy implementation. Materiality of concerns were determined on a scale of impact to stakeholders and impact on CSE.

The strategic plan for 2018-2020 continued to focus on the five main areas of market size & liquidity, regulation & risk, products & services, technology & process efficiency and Governance & Organizational Standards. Suitable strategic goals were identified and delegated across various divisions with divisional actions plans and budgets.

The final plan was discussed with key stakeholder groups and Board, before being launched at the beginning of 2018.

Dissemination and Monitoring

- Monthly monitoring via Intranet based WBS'
- Quarterly and Year End review reports and presentations with the coordination of divisional heads and CEO that was communicated to Board and staff on a periodic basis. During the year 8 reports/ presentations were prepared and discussed with Board.
- A Gap Analysis conducted with the Mid-year and Year end reviews.
- Prepared CSE budget proposals for National Budget 2018 with the coordination of Senior Management Team.



Monitoring ensured that we remained on track in strategy implementation whilst effective risk management limited the likelihood and impact of risks on strategy execution.

Integrated Planning and Review contd...

Delivered Market Performance:

- 25% increase in equity Market turnover
- 24% increase in daily Average turnover.
- 28% Free float
- Total Funds raised of LKR 73 Bn
- Eight new listings (3 equity & 5 debt)

Enhanced Market Returns

- Dividend Yield of 3.2% in 2017 (2.8% in 2016)
- ASPI : Growth of 2.3% compared to a (9.7%) in 2016.
- S&P : Growth of 5.0% compared to (3.6%) in 2016.

MATERIAL CONCERNS

Includes both stakeholder concerns and material risks identified through risk management



How we handled concerns in 2017 abreast strategy implementation.

Diversified product offerings with new products.

Technological platforms and rule amendments for launch of new listing boards such as SME and Multi currency Board was initiated in 2017.



Engaged with investors through

investor forums and awareness sessions that focused on improving financial literacy and fostering an optimistic outlook on Sri Lanka economic stability and policy reforms being material concerns of investors. Forums were held with joint participation of high caliber government officials to enhance investor confidence.



Knowledge based workforce :

Both inhouse and cross border trainings enhanced the tacit knowledge of workforce.



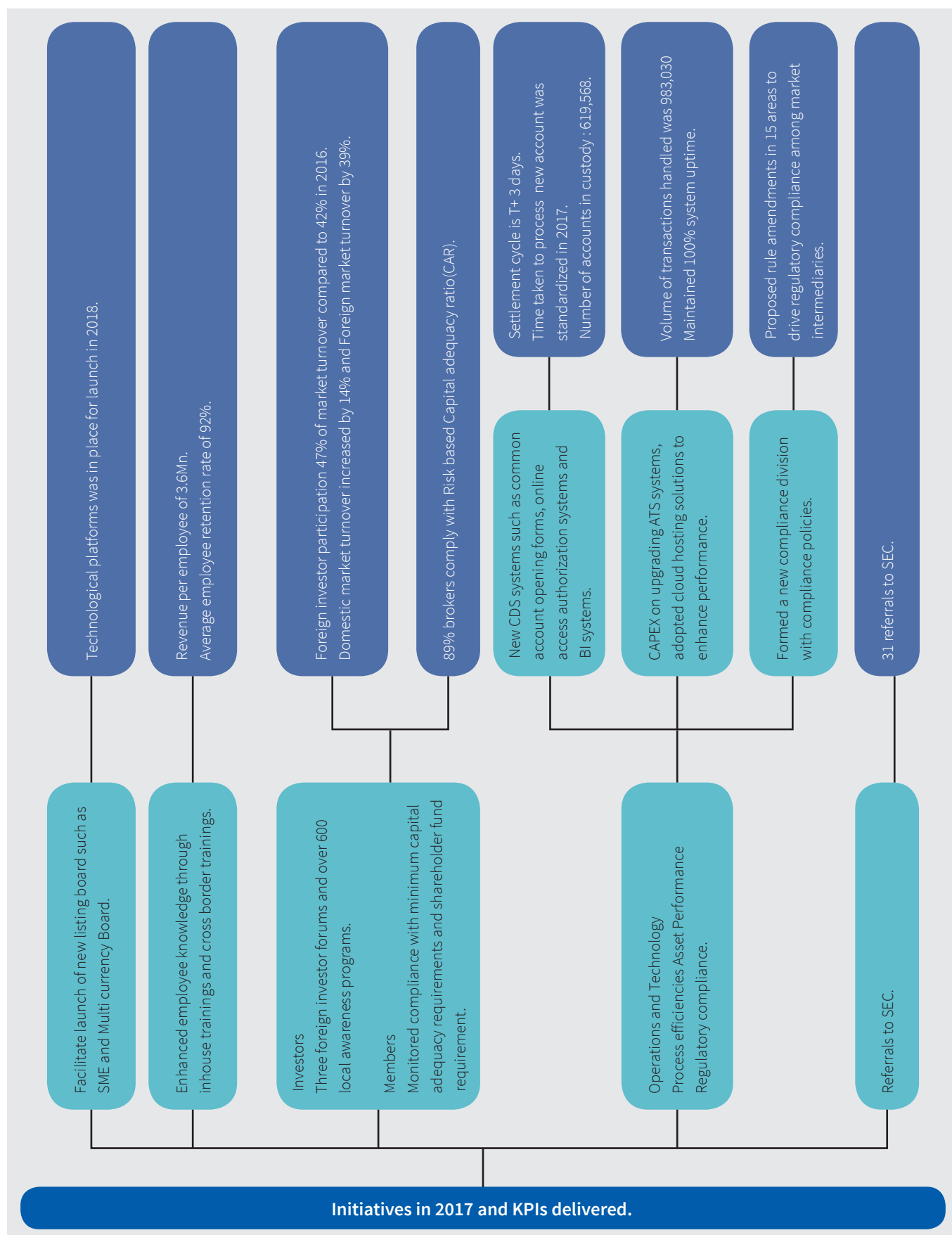
Operations and Technology

initiatives focused on process efficiencies, enhancing performance and quality of core assets, operational risk mitigation and affirming regulatory compliance.



Market integrity was established by surveillance activities, on-site inspections and monitoring of capital adequacy ratios for brokers with necessary enforcement action.





Stakeholder Engagement

Key stakeholder groups that CSE engages with in conducting its business comprise market regulator (SEC), member firms, employees, issuers and investors. Engagement with stakeholders is a key part of our operations as dissemination of information in a timely manner to key groups of stakeholders play a critical role in our day to day

operations as share prices are driven by the market forces of demand and supply of traded securities. Consequently, we disseminate information on robust electronic platforms such as official CSE website, Social Media Channels and Mobile Application for real time market updates.

23,000 Mobile App Downloads

35% increase in followers on social media

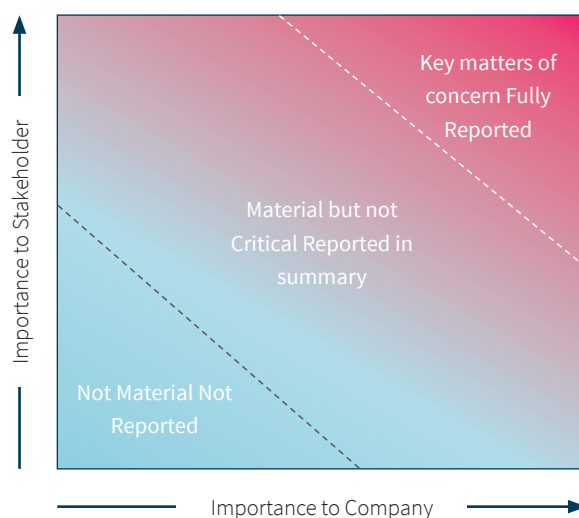
Stakeholders	Discussions during the year	Modes of engagement in 2017
Regulator: SEC		
Being the license provider and regulator of CSE, compliance and continuous engagement is essential for our day to day operations.	Formulating regulatory policy recommendation, Renewal of broker licenses, Rule amendments Discussion on DvP model and DvP margin methodology, Input for budget proposals, Launch of strategic plan, Quarterly statutory reporting, Market Performance, Surveillance referrals.	Meetings Discussions Letters: reporting on non-compliances, license renewals Weekly reports since June 2017 by research division Road shows
Members		
Members play a crucial role in the day to day activities of CSE.	Launch of strategic plan, Input for budget proposals, Margin requirements, New initiatives and projects, Regulatory concerns and requirements, Enforcement action.	Meetings Reports/Papers Annual Reports Daily reporting of capital adequacy requirements. Monthly report Circulars Briefings System reviews: Annual on-site inspections Special inspections Letters
Employees		
Retaining and developing highly specialized skills create our envisaged knowledge- based workforce.	Launch of strategic plan, CDS awareness programs, Training Market Update, Progress on IT projects.	Reports Awareness sessions Circulars Meetings and One to one discussions Employee welfare facilities (page 82)

Stakeholders	Discussions during the year	Modes of engagement in 2017
Investors		
Investors is our key stakeholder driving our day to operations. During the year we engaged with unit trust firms and institutional investors through investor forums.	<p>Held 3 investor forums abroad and over 600 awareness programs discussing the potential buying opportunities in Sri Lanka and market development.</p> <p>A set of one to one discussions between institutional investors and participating listed companies were facilitated on the sidelines of the Invest Sri Lanka Forums.</p>	<p>Investor forums Awareness programs Press advertisements Sponsorships Updates on digital platforms such as SMS alerts. Financial reports Investor complaints are handled via phone, email and letters.</p>
Issuers		
Being the source for capital offerings, issuers drive the growth of our market.	Data confirmations, Compliance to listing rulings, Market awareness, Review of prospectus on initial listings and secondary listings, Promotions to enhance issuer relations.	<p>Meetings Website updates, circulars, letters Events such as Annual report awards ceremony, Market opening ceremonies and “Best Sri Lanka brands List”. Road shows</p>
Government		
Engagement with government evaluates our contribution to socio-economic growth.	Approvals for projects Market Performance.	<p>IR meetings Road shows Investor forums</p>
Regional Exchanges		
Collaborative growth is important for us to extend beyond shores.	Market development Benchmarking	<p>Conference MoU, Cross border exchange training AGM WFE Questionnaires and monthly data updates Report such as ANNA country report</p>
External Associations		
Healthy interaction which will be beneficial for all parties.	Best practices	<p>Conferences Award ceremonies Surveys, Newsletter</p>
Community		
Community projects form a core part of SDGs.	Improving livelihoods	<p>CSR Education programs Bell ringing ceremonies such as gender equality, women's and minority economic empowerment.</p>

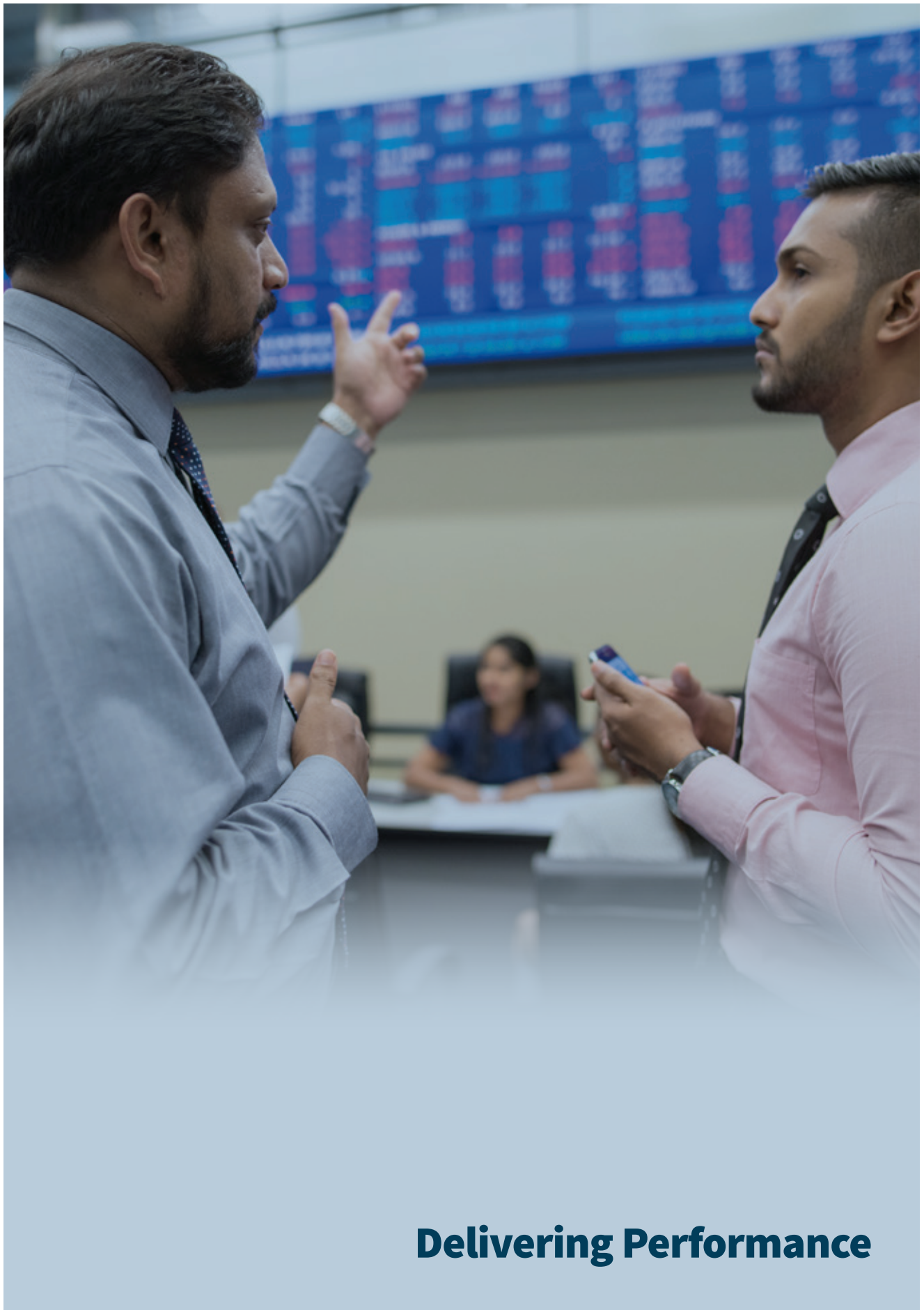
Determining Materiality

Material issues for measuring, monitoring and reporting are determined using feedback from stakeholders, an evaluation of the macroeconomic environment and a SWOT analysis of the CSE

and strategy. These are prioritized considering their relevance to the stakeholder and the company as depicted below to determine material matters.



Key Matters of Concern	Material but Not Critical	Not Material
1. Long term impact on national budget. 2. Support required from GOSL 3. Systemic risk mitigation measures. 4. Market performance 5. Economic growth 6. Market interest rates 7. Brand image and market awareness. 8. Regulatory compliance 9. Ethics and governance 10. Innovation 11. Resilient tech infrastructure 12. Market development. 13. Risk management 14. Employee development 15. Timely dissemination of market data.	Process efficiencies Competition from regional exchanges. Climate change Effluents and waste Diversity of employee cadre Privacy of customer data	Clauses in contractual agreements Procurement Energy consumption Health and safety.



Delivering Performance



Chairman's Message

Dear Members ,

I am pleased to report that the performance of the Colombo Stock Market improved significantly in 2017 with Total Market Turnover increasing by 25% to LKR 220 Bn strongly supported by foreign purchases which recorded the highest ever in a calendar year increased by 51% to LKR 112 Bn . This is particularly encouraging as the value of share trading globally decreased by 2.6%¹ in 2017, largely due to the decline observed in the Americas and the Asia Pacific regions. Domestic Turnover also increased by 14% to LKR 117 Bn despite the prevailing high interest rates which dampened interest in equity markets. The Daily turnover average of LKR 915 Mn was an improvement over the previous years average of Rs. 737 Mn. highest ever capital raised through Right Issues in a calendar year amounting to Rs. 51 Bn. Market capitalization increased to LKR 2,899 Bn as issuers raised LKR 74 Bn through the CSE using both equity and debt IPOs. Additionally, three new issuers took the total of listed companies to 296. While acknowledging that we need even higher levels of performance to meet the country's aspirations, I believe that the performance in 2017 has laid a strong foundation for growth, and plans are being implemented to build on same for long term wealth and value creation for market participants.



¹ World Federation of Stock Exchanges

Developing Capital Markets

As the sole licensed Stock Exchange in the country, CSE plays a key role as a catalyst for developing capital markets and works together with the market regulator SEC to build a vibrant market. A multi-faceted strategy addresses concerns of key stakeholders, building confidence in the market through increased transparency and sound governance.

Investors

Foreign investor interest reached a new high in 2017. The roadshows in Melbourne and Sydney attracted a fair amount of interest and had immediate results as the Sri Lankan diaspora showed keen interest in opportunities for growth in the Colombo bourse. The roadshow in New York attracted over 100 fund managers and this also supported foreign inflows and increased confidence in the market.

Sri Lanka is currently classified as a frontier market by Morgan Stanley Capital International (MSCI) and CSE is working together with the SEC and the stock Broking community to work towards Sri Lanka's reclassification to emerging market status offering broader visibility as an attractive portfolio investment destination.

In the domestic market, we conducted over 600 seminars and workshops to enhance awareness of the opportunities for wealth creation through the CSE to attract investors. Additionally, a new regional investor seminar series was launched for the discerning investor to enhance their skills with a view to attracting a larger share of their investments which has demonstrated tangible results. Conducted mainly in urban district capitals, these seminars contributed to increased interest from domestic investors.

Issuers

We worked with family businesses to increase the number of issuers who are showing interest as listing is a method for family businesses to expand their businesses by separating ownership from management to ensure sustainability of the business over generations, attracting talent and enhancing performance in addition to the primary benefit of access to capital. Further, the Government proposal to list state owned enterprises is a key development and we continue to support this initiative as realization of this would be a quantum leap in developing robust capital markets in the country.

Global Growth & Equity Markets

Global GDP growth of 3.7%² in 2017 was more broad based with 120 countries accounting for more than 75% of world GDP recording an

“Sri Lanka is currently classified as a frontier market by Morgan Stanley Capital International (MSCI) and CSE is working together with the SEC and the stock Broking community to work towards Sri Lanka's reclassification to emerging market status offering broader visibility as an attractive portfolio investment destination.”

increase in economic growth. World trade also demonstrated strong growth in the second half of 2017 supported by increased investment in advanced economies and increased manufacturing output in Asia against this backdrop, global market capitalization increased by 22.6% reaching a record high of US\$ 87.1³ trillion supported by an uptick in domestic market capitalisation across all regions. Market capitalization in the Americas increased by 17.8%, Asia-Pacific by 27.6%, and Europe Middle East & Africa by 24.3%. Market participants supported growth of equity markets, pricing in expected future gains from developments such as the tax overhaul by the US government, the Chinese government agenda to lower financial risk and implement structural reforms, the bank recapitalisation programme in India, gradual progress on Brexit negotiations and election outcome driven optimism in Europe.

2017 also witnessed the highest number of IPOs in a year since 2007 with over 1,700 new listings. The number of new listings and Investment flows through IPOs was up by 47.8% and 50.6% respectively as all the regions recorded an uptick in IPO activity. Non-IPO listings, which accounted for about 36% of the total new listings, were up 49.1% on 2016.

Domestic Operating Environment

Sri Lanka's GDP growth is estimated at 3.3% in the 3rd quarter of 2017 as climate change impacts were felt across the agriculture

² World Economic Outlook January 2018

³ World Federation of Exchanges, Market Highlights 2017

Chairman's Message contd...

and agriculture based industries. Growth rate of the services sector which accounted for 55% of GDP was 4.2% in the first 3 quarters of 2017 supported by financial services, telecommunication and insurance subsectors which recorded growth rates of 19.6%, 10.5% and 10.5% respectively. The Industry sector which accounts for 28% of GDP recorded a growth rate of 4.5% due to underperformance of the Food, Beverages & Tobacco subsector despite increased activity in construction and manufacturing sectors in the same period. The agriculture sector declined for the 2nd consecutive year in 2017 by 3.2% following a decline of 4.2% in 2016 and accounted for a mere 7.5% of GDP.

Relatively tight monetary and fiscal policies designed to enhance macroeconomic stability contributed in some part to moderating economic growth as private and public sector spending declined during the year. Headline inflation increased 7.3% YoY due to food supply issues stemming from the drought, increased indirect taxes and increased prices of imports. Core inflation also increased 2.7% YoY. Encouragingly, a competitive exchange rate and strengthening global demand supported an 8.8% growth in exports in the first 10 months of 2017. Imports also grew by 8.8% in the first 10 months of the year due to increased expenditure of fuel, rice and gold imports which resulted in a widening of the country's trade deficit. Growth in tourism was 3.2% for 2017 despite the closure of the main airport for upgrading of facilities. Remittances from migrant workers declined by 7.9% contributing to a marginal increase in the budget deficit of 4.5% of GDP. Depreciation of the rupee was curtailed to 2.3% supported by CBSL's accommodative stance on exchange rate policy, FDI inflows and the release of the fourth IMF Extended Fund Facility. Policy interest rates edged up by 25 basis points as CBSL focused on controlling inflation while AWDR and AWLR increased by 78 bps and 90 bps during the year in response.

Policy instability remains a key concern for market participants dampening the growth potential of the market given its strategic location and diplomatic ties with South Asian and other Asian countries.

A Positive Outlook

The CSE has developed a number of projects as part of a broader strategy to develop Sri Lanka's bourse on par with other regional markets and boost the inflow of foreign funds. Accordingly, proposals to launch a multi currency Board are at an advanced stage, pending final regulatory approvals and we hope to launch the same during 2018. Initially, only foreigners will be allowed to buy and sell shares in the multi currency board and there is opportunity for local unlisted and listed companies to also list on the new Board. Proposals for launch of the SME Board in 2018 will allow SME companies to list and provide an exit mechanism for private equity investors in those companies as well as in start-

"We also look forward to launching the Delivery Vs Payment System and expect to commence procurement of the necessary system upgrades in 2018. We are now at the final stages of obtaining regulatory approvals we expect to finalise these with the regulator and roll it out to market intermediaries in 2018."

ups. This will complete the value chain from a start-up through a PE firm, to migrate to the SME Board, to the Diri Savi Board and finally to the Main Board or Multi Currency Board listing. We also look forward to launching the Delivery Vs Payment System and expect to commence procurement of the necessary system upgrades in 2018. We are now at the final stages of obtaining regulatory approvals we expect to finalise these with the regulator and roll it out to market intermediaries in 2018.

The Demutualization of CSE is at the top of the Board's agenda and the proposed new SEC Act will pave the way for the necessary changes after which we will have a one year window to implement the necessary changes to our structure. The draft bill has already been approved by the cabinet and is to be presented to the Parliament in March 2018. As discussed in last year's report, this will separate trading rights from ownership rights and also broaden base ownership and enhance governance through the presence of independent directors. Demutualization will pave the way for members to unlock value.

Economic activity is expected to pick up pace with the Port City and several other large projects that will make Sri Lanka a regional hub in line with the 2025 vision of the government. Investors can take advantage of attractive pricing across a broad range of shares with a view to unlocking significant value in the future.

Political stability and a clear direction in policy is necessary to enhance investor confidence necessary for the functioning of efficient capital markets. Additionally, the prevailing high interest rates deter issuers and investors from accessing equity markets and a rationalization would enhance the prospects for efficient functioning of capital markets. Local captive funds, must also be encouraged to enhance asset allocations to strengthen equity portfolios. Their participation must at least be equal to foreign inflows as they are a key stakeholder in nurturing vibrant equity markets. Additionally, companies also need to unlock and increase the float to create more trading opportunities for investors as liquidity remains a concern.

Appreciations

I wish to thank my co-directors for their counsel and careful deliberation of matters set before them. We warmly welcome Mr.Dumith Fernando and Mr.Dilshan Wirasekera who were appointed during the year to the Board of CSE and bring with them practical insights and experience.

I wish to place on record my sincere appreciation to the outgoing Chairman Mr. Vajira Kulatilaka who stepped down as the Chairman and as a Director of the CSE after serving on the CSE Board for a period 8 for years .

I also wish to place on record my sincere appreciation to Mr.Maxi Prelis , Mr. Asanga Seneviratne and Mr.Aravinda Perera who also stepped down from the CSE board during the course of the year .

I wish to commend the Chief Executive Officer Rajeeva Bandaranaike and his team who have worked on a number of proposals during the year to make the CSE more vibrant and also improved its financial performance. The Board joins me in thanking Chairman , Commission members and officials of the SEC who work towards a vibrant capital market with necessary safeguards for market participants. We also wish to thank the Governor and officials of the Central Bank of Sri Lanka for their support .

We continue to rely on the active participation of brokers, investors and listed companies for our growth. I thank them for their co-operation and look to their continued participation in the future as we enhance our offering allowing stakeholders to realise sustainable value.



Ray Abeywardena

Chairman

Colombo

09th May 2018



Chief Executive Officer's Review

“Our aspiration to be included in the Morgan Stanley Capital International (MSCI) Emerging Markets Index would be the culmination of our market development efforts to reach emerging markets status. Accordingly, our strategic plan has been formulated to deliver these outcomes, addressing a complex matrix of factors required to drive sustainable growth.”

The Performance of the Colombo Stock market improved in 2017 across a number of indicators reflecting an improving environment for the capital market. Equity market turnover increased by 25% to Rs.220 Bn, supported by strong foreign institutional investor interest and accounted for 46.9% of equity market turnover. Debt market turnover increased by 23% to Rs.3.5 Bn as the number of trades more than doubled reflecting growing interest in debt. Capital raised through Rights issues increased from Rs.2.5 Bn in 2016 to Rs.50.6 Bn in 2017 making it the highest capital raised through Rights issues in the market in a given year. Disappointingly, total capital raised in the primary market through the bourse declined 13.9% due to a sharp decline in debt IPOs and to a lesser extent, equity IPOs.

The Financial performance of the Colombo Stock Exchange (CSE) improved significantly with a revenue growth of 15.8% to Rs. 558Mn and Other income growth by 76.7% to Rs.406 Mn supported by increased market turnover, increased interest income and Gain on disposal of financial assets held for sale. Rationalisation of the staff cadre and staff costs enabled the CSE curtail the increase in total expenses to 4.6% over the previous year despite currency depreciation and cost escalation for all its services. Consequently, the CSE was able to record a profit of Rs.94 Mn in comparison to a loss of Rs.152 Mn in the previous year. Income tax increased due to increased profitability to Rs.24 Mn resulting in a profit for the year of Rs.70 Mn. However, Other Comprehensive Income was negative mainly due to the net change in the Fair Value of Available-for-Sale Financial Assets Reclassified to Profit or Loss had a negative impact resulting in a Total Comprehensive Expense for the year of Rs.88 Mn.

Strategy

The Colombo Stock Exchange (CSE) has functioned as a Capital Markets Infrastructure provider (CIMP) for the last 33 years, made steady progress and supported companies, Investors and Government agencies in building businesses and contributing to the growth of the economy.

The stock market has come a long way from its early beginnings, undergone many changes and has evolved into a stage where it needs to transform itself to be more relevant and appealing in today's context. The CSE now needs to transform the stock market to a vibrant liquid market that offers value to investors and issuers. The transformation plan includes improving the depth and breadth of the market in terms of more larger listed companies, a larger free float of shares, a wider spread of investors, a more diversified product range, development of innovative technology that has the agility to respond to market needs, improvement of the risk management capabilities, establishment of an effective market regulatory framework to build investor confidence, improvement of Industry Governance practices and engaging in institutional and capacity building.

Our aspiration to be included in the Morgan Stanley Capital Index (MSCI) Emerging Markets Index would be the culmination of our market development efforts to reach emerging markets status. Accordingly, our strategic plan has been formulated to deliver these outcomes, addressing a complex matrix of factors required to drive sustainable growth.

Delivering Market Growth

- Wider choice for capital raising
- Enhanced both foreign and local Investor base
- Enhance CSE brand awareness
- Strengthened relationships with other exchanges
- Enhanced Liquidity
- Market Expansion

Country fundamentals also play a key role in the development of capital markets and it is commendable that the CSE has delivered a positive performance in a year when the country's growth moderated. Overall, although policy changes have not incentivized the capital market, these changes also have not been unfavourable and this has supported our growth in 2017. High interest rates deterred growth as domestic investors diverted funds to fixed income instruments. A monetary policy targeting a lower interest rate would support both private sector investment and growth in capital markets.

For many initiatives, CSE's role is to drive structural reform and a development strategy and we work closely with the Securities & Exchange Commission, market intermediaries, Central Bank and other Government agencies. It is a journey with deliberations and discussions to ensure that the final outcome safeguards interests of all stakeholders while advancing the implementation of the market development strategy.

Driving Market Growth

Market growth is a key strategic pillar and the CSE worked on a number of initiatives to support market development and implemented growth strategies targeting investors, issuers and market intermediaries.

Enhancing Investor Base

The CSE continued the domestic investor awareness workshops initiative, conducting over 600 workshops. A new series of workshops targeting high net worth individuals and professionals was also launched. We continued with organizing International roadshows to promote the equity market with the support of the SEC, Listed Companies and Stock Brokers. Strengthening processes to enable ease of movement in and out of the market by foreign investors also supported the increased inflow of foreign capital.

The CSE also strengthened its relations with other exchanges during the year. The CSE signed MOUs with Sydney Stock Exchange (SSX) and Korea Exchange (KRX) to collaborate on mutual development opportunities in the Sri Lankan, Australian and Korean capital markets. As a part of cross exchange activities, the CSE continued to work in collaboration with the SAFE Secretariat and with the WFE and took part in the WFE Emerging Markets Survey on "Enhancing Retail Participation on Emerging Markets", where CSE was highlighted as a case study.

The CSE initiated a Public Perception and Investor Profiling survey in the latter half of 2017 to enhance our understanding of concerns and issues related to broad basing the investor base. The results are expected in 2018, giving direction to market development activities.

Increasing the Number of Issuers

Growing the number of issuers of debt and equity securities is also a priority and a separate issuer relations unit maintains relations with potential companies to provide additional support complementing the work of investment banks. In 2017, we focused efforts on encouraging family businesses to list and conducted a programme with the Sri Lanka Institute of Directors and International Finance Corporation to encourage listings.

We are also in the final stage of obtaining regulatory approval for rules to launch the SME and multi currency Boards to be relevant across two key market segments, adding to the Main Board and the Diri Savi Board. The multi currency board facilitates companies incorporated overseas to list their shares while also encouraging local companies to make use of this board to raise debt and equity in foreign currency. The SME Board supports growth of this vital sector, encouraging private equity investor participation by providing an

Chief Executive's Review contd...

exit mechanism from these entities. These two new Boards supports entities from a start up in the SME Board through to the Diri Savi Board and finally to the Main Board or Multi-currency Board.

Supportive regulation

Regulatory approvals were obtained for the further amendments to listing rules for debt securities to facilitate banks to issue Basel III debt. However there are a number of rule amendments that are to be approved.

Another development that the market requires is the standardization of financial reporting formats so that investors are able to better analyze company results. The need to establish XBRL or equivalent reporting for listed companies has become important.

Strengthening Risk Management

Implementation of Delivery Versus Payment has been a key priority to minimize the asset commitment risk in the market and we are pleased with the progress made during the year facilitating our journey to be on par with other exchanges. The 1st phase covering broker readiness has been completed with installation of broker back office systems which was funded by the CSE and the SEC. Presently all brokers are on similar back office platforms with ledger and order management systems with risk management capability. Disaster Recovery mechanisms have also been put in place, strengthening BCP processes as well. The necessary system enhancements to the CSE and CDS systems have been identified for the second phase and we are awaiting regulatory approvals to commence the system upgrades. We are looking to complete implementation by end 2018 and go live by the 1st quarter of 2019. This is perhaps one of the most significant development efforts since the automation of trading in 1997 enabling CSE to take a quantum leap in future readiness.

Well Regulated Market

- Strengthening safeguards for market participants
- Enhanced Risk Management capability
- Improve International Recognition
- Enhance Investor Confidence

The minimum standards applicable to brokers were enhanced by the SEC. Brokers are required to have a minimum of Rs.100 Mn as share capital or 50% of the firm's stated capital whichever is higher.

The Stock Brokers' ability to trade will depend on many factors and one of such factors would be minimum Capital Adequacy Requirements, which requires Stockbroker Firms to maintain a minimum Capital Adequacy Ratio 1.2 and a Minimum Liquid Capital Requirement of Rs. 35Mn. The Capital Adequacy Requirements were developed taking in to consideration the best global practice. The

methodology and the Rules for Capital Adequacy Requirements have been implemented and Stockbroker Firms' compliance with minimum requirements are being monitored by the CSE on a daily basis.

Technology and innovation

To respond to the dynamic demands of the market, technology and innovation become critical success factors. As providers of Capital market infrastructure the technology used has to be agile and ever evolving. At the CSE we have established a technology innovation cell to brain storm ideas and give leadership to a digital transformation of the exchange. Leveraging on cloud hosting to minimize costs, looking at block chain technology for the depository, paperless environment, digitalized product offerings to stakeholders and in-house development of systems to enable the CSE to be tech agile are being actively pursued.

We lay much emphasis on technology to ensure that we achieve 100% uptime in all our systems and also ensure that proper measures are in place to protect our systems from any external vulnerabilities, cyber and otherwise. We also have in place a rigorous and well functioning BCP process.

Governance

One of the most progressive measures in improving Governance is the conversion of the CSE from a guarantee company to a company limited by shares. This process known as demutualization of the exchange is a process by which the trading rights of brokers are separated from their ownership rights.

A Bill has been submitted to parliament by the SEC to enable this transition and from what we understand the bill has now been listed for debate in parliament.

The demutualized exchange will see some changes to the governance structure. Brokers will get a minority representation on the Board and the position of chairman will shift from a broker director to a non-broker independent director and independent directors will form a majority on the board.

A share of the ownership will be with the brokers. However no broker or any other person can hold more than 5 % of the shares. A well thought measure is that proceeds from the non broker part of the equity of the company will be diverted towards establishing a Capital Market Development Fund. The funds will be managed by the CSE and the SEC and will be used solely for the development of the stock market. There is a requirement in the demutualization Act to complete the legal conversion process within one year of the Act coming into force and from the date the

company is converted there is a requirement for the exchange to go public, with a period of Three years.

As such once demutualized, the Exchange will be more representative of a wider stakeholder group.

Institutional Development

The CSE has in place a performance linked compensation scheme in readiness for a more commercial orientation in the operations of the CSE.

We continue to invest in human resources continuously acquiring new skills as well as providing local and overseas training for existing staff to upgrade their skills in line with the evolving needs of our market. Our goal is to evolve to a knowledge based organization and as such we lay emphasis on training and development. We have over the years established succession planning and we are pleased to report that we are grooming future leaders to take over the leadership of the CSE.

Employee engagement and retention improved during the year and this has been key to driving change within the CSE. Team building activities to foster greater camaraderie are well received by our team who participate in these activities enthusiastically. Recognition programmes such as the value Champions awards serves to encourage ethical behavior and to be results oriented.

The many national level HR awards we have won over the last few years for sound HR practices is testimony to the strides we have taken in the development of our people.

The recently established Internal Audit team is improving the quality of the control mechanisms and measures within the organization.

The Future

The work in progress on structural reforms such as the demutualization, implementation of DVP, launch of the SME and Multi Currency Boards and the introduction of new products holds the promise of a paradigm shift in the operations of the CSE. Our strategy is fully aligned with the country's development agenda, supporting much needed capital inflows in to the country. Strong positioning of the country as an investment destination will enable issuers to unlock value and enable the CSE to realize the full potential of the initiatives launched in 2018. We will also continue to build on the relationships that have been developed with diverse stakeholders to build value for the Exchange.

We eagerly await the return of captive funds to the market to support the growth of the market and we understand that policy changes are necessary to drive these changes.

A Future Ready CSE

- Performance based reward and recognition
- Knowledge based organization
- Right talent pool
- Employee retention and staff morale

The Government proposals to list state owned enterprises starting with the non strategic enterprises are also eagerly awaited as these will spur interest in the market, driving significant growth in market size, critical to progress from our current classification of a frontier market to an emerging market and a vibrant capital market.

There is scope for higher levels of utilization of the existing infrastructure and we are actively looking at strategies that can encourage higher levels of market activity and increased liquidity so that we make optimum use of our resources.

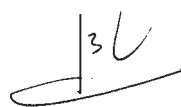
Our vision of creating wealth through securities can be achieved if we are able to spur market activity through more transactions, achieve higher levels of investor participation and add more new listings. We are unfailingly devoting our energies towards making this our mission.

Appreciations

We are conscious that a sustainable capital market requires all stakeholders to work in harmony and that synchronization of activities is necessary to drive growth. Accordingly the results that are reported are dependent on the work of key stakeholders including the regulator, Stock brokers, other market intermediaries, investors and issuers and on behalf of the management I wish to place on record our sincere appreciation of their co-operation and support.

The Chairman and Board continue to provide strategic direction and wise counsel and I wish to record my deep appreciation for their insights and for being very supportive of our development initiatives.

In conclusion I wish to thank the "CSE team" for their unwavering support, commitment and dedication which inspires all of us to work towards a transformation of our capital markets.



Rajeeva Bandaranaike

Chief Executive Officer

Colombo
09th May 2018

Board of Directors



1	Mr. Ray Abeywardena	<i>Chairman</i>
2	Mr. Dakshitha Thalgodapitiya	<i>Director</i>
3	Mr. Dilshan Wirasekara	<i>Director</i>
4	Mr. Anton Godfrey	<i>Director</i>
5	Ms. M.A.D.S. Jeeva Shirajanie Niriella	<i>Director</i>
6	Mr. Dumith Fernando	<i>Director</i>
7	Mr. Anthony Shanil Fernando	<i>Director</i>



Mr. Ray Abeywardena

Chairman

Mr. Ray Abeywardena is the Managing Director of Acuity Partners (Pvt) Ltd. He has been associated with Sri Lanka's capital markets for over 30 years, primarily as a Stockbroker and since 2009 as an Investment Banker. Prior to being appointed as Managing Director/CEO of Acuity Partners (Pvt) Ltd he served as the Managing Director/CEO of Acuity Stockbrokers (Pvt) Ltd from 2001 to end 2008. Mr. Abeywardena is the Chairman of Acuity Stockbrokers (Pvt) Ltd, Acuity Securities Ltd and Guardian Acuity Asset Management Ltd and a Director of Lanka Ventures PLC, Lanka Energy Fund Ltd, The Associated Newspapers of Ceylon Ltd (Lake House), Lake House Property Development (Pvt) Ltd, Observer Jobs (Pvt) Ltd and Lake House Connect (Pvt) Ltd. He also serves as an independent non-Executive Director of Softlogic Life Insurance PLC.

Mr. Abeywardena is a past Chairman of the Colombo Stockbrokers Association, is a member of the Chartered Institute of Marketing (UK) and holds a Masters Degree in Business Administration from the University of Wales.

Mr. Dumith Fernando

Director

Mr. Dumith Fernando is Chairman of Asia Securities (Pvt) Ltd, Sri Lanka's leading independent Research, Advisory and Stock Broking firm. Mr. Fernando has over 20 years of experience in international investment banking and previously worked at the U.S. bank JPMorgan (based in New York and Hong Kong) and the Swiss bank Credit Suisse AG (based in Hong Kong). Until 2013, he was Managing Director and the Chief Operating Officer for the Credit Suisse Group's Asia Pacific region, a business with over US\$ 2.5 billion in revenues across 12 countries.

Mr. Fernando is also a Director of Singer (Sri Lanka) PLC and is a member of the Economic Policy Steering Committee of the Ceylon Chamber of Commerce. He is a Senior Advisor at Tybourne Capital

Management (a leading asset manager based in Hong Kong) and non-executive Chairman of several start-up companies. He holds a BA (Honors) in Physics & Economics from Middlebury College in the U.S. and an MBA from Harvard Business School.

Mr. Dilshan Wirasekara

Director

Mr. Dilshan Wirasekara, is Director / Chief Executive Officer of First Capital Holdings PLC. He is an investment banker by profession with a career spanning over 22 years, comprising diversified expertise in financial services including, treasury and investment management, capital market strategy and corporate finance advisory.

He is an Alumnus of INSEAD having completed his Executive Professional Education at INSEAD Business School in Fontainebleau, France.

Mr. Wirasekara specializes in Asset and Liability Risk Management having secured the accolade of leading and representing two Sri Lankan companies in winning the International Bank Asset and Liability competition organized annually by the Netherlands Development Finance Company (FMO), German Investment Corporation (DEG) and Proparco – a subsidiary of the Agence Française de Développement (AFD).

He was the former General Manager of Softlogic Capital PLC guiding investment and trading portfolio management across subsidiaries inclusive of the Group's Licensed Finance Company, Composite Insurer and Equity Brokerage; prior to which he was Head of Treasury at Nations Trust Bank PLC.

Mr. Dakshitha Thalgodapitiya

Director

An Accountant by profession, Mr. Dakshitha Thalgodapitiya served as a Consultant to the Board of Investment of Sri Lanka, served as a member to the Board of Investment on the Petroleum Resources

Board of Directors contd...

Development Committee (PRDC), served as a member of Board of Governors of Sri Lanka Arbitration Center, served as the chairman of Risk and Audit Committee of the Colombo Stock Exchange (CSE) from 2007-2017 and is a member of the Board of Governors of the University of Vocational Technology also served as a consultant to Two Indian Investment Companies. Mr. Thalagodapitiya counts over 38 years of experience at CEO level in both the public and private sectors. He has served the public sector as Chairman / CEO of Sri Lanka Land Reclamation & Development Corporation, River Valleys Development Board and Lanka Machine Leasers Ltd. He has also served as Director of a large number of public corporations engaged in infra-structure development and in the irrigation and water management sectors. He has carried out many consultancy assignments for International organisations and donor agencies. Mr. Thalagodapitiya holds postgraduate qualifications in Management from the George Washington University, Washington D.C., USA.

Ms. M.A.D.S. Jeeva Shirajanie Niriella

Director

Ms. M.A.D.S. Jeeva Shirajanie Niriella is a senior academic of the University of Colombo and is a senior attorney-at-law. She holds Bachelor's Degree with Honours in Law and Master's Degree (M.Phil) in Law and Criminal Justice from the University of Colombo and a PhD Scholar of KIIT University, India.

She was the former Head of the Department of Public and International Law, Faculty of Law, University of Colombo. She rendered her service as member of the First Board of Management of the National Authority for the Protection of Victims of Crime and Witnesses, Sri Lanka and served as a member of the National Research Committee of National Science Foundation from 2005-2011.

She is presently the Deputy Director/Examinations of Virtual Campus, University of Colombo, Course Director of LLM Programme conducted by the Faculty of Law, University of Colombo, visiting lecturer for the Master of Laws programmes conducted by Open University, Sri Lanka and Kotelawal Defence University, Course Module Writer of Sri Lankan and International Commercial Law and Sri Lankan and International Business Structures for the LLM Programme of University of West London, U.K., member of the executive committee of World Center for Women Studies, USA, International Economic Development, Research Center, China, member in the Presidium of General Assembly, Asian Criminological society, Life member of the Bar Association of Sri Lanka, Sri Lanka Women Lawyers' Association, Sri Lanka Federation of University Women, World Victimology Society and International Bar Association.

She also serves on Advisory Panel, Editorial and Reviewer Boards of several International Journals including International Journal of Contemporary Laws, International Annals of Criminology published by the University of Cambridge Press, Asian Journal of Humanities

and Social Science, Asian Journal of Humanities and Social Studies, International Journal on Art and Humanities and African Journal of Politics and Governance.

Mr. Anton Godfrey

Director

Mr. Anton Godfrey is the Founder of Agxa Global which focuses on resources trade, energy, pulp and paper, technology, futures & options. The company has global presence in Australia, Singapore, India and Sri Lanka with principal network span over Europe and North America.

He possesses over two decades of extensive expertise on capital markets derivatives, international trade-futures and FDI initiative with global networking skills. Mr. Godfrey holds an MBA from the University of Leicester UK, Chartered Marketer and a Fellow of The Chartered

Institute of Marketing UK and the Australian Institute of Management. Mr. Anton Godfrey has also been actively involved in International Trade Councils including the Chamber Of Commerce

in Sri Lanka and Australia. He is the past president of the Vietnam Sri Lanka Business Council and Indonesia Sri Lanka Business Council of the Ceylon Chamber of Commerce and currently serves on the Board of the Western Australian Chamber of Commerce and Industry's panel

focusing on International Trade. An entrepreneur with demonstrated business acumen, he is the recipient of the Outstanding Asia Pacific Entrepreneurship Award, APEA 2013 leading the frontier in Asia Pacific and Australasia.

Mr. Anthony Shanil Fernando

Director

Mr. Anthony M Shanil Fernando, Attorney-at-Law, Solicitor, MBA, MsiArb, is Partner at Anton Fernando Associates Law firm. Shanil is Lawyer, Arbitrator, Notary Public, Commissioner of Oaths and Registered Trade mark Agent and Company Secretary.

Shanil obtained a First Class Honours and Prize in Commercial Law at the Sri Lanka Law College has followed Postgraduate studies at the Queen Mary College, University of London, in Corporate Law, on a Commonwealth Scholarship. And The University of Texas, USA, and the University of Prince Edward Island Canada. He has also followed a course on South Asian Corporate Management in Tokyo Japan.

Shanil has obtained a Master of Business Administration (MBA) from Postgraduate Institute of Management (PIM) University of Sri Jayawardenepura and his research on the Use of Electronic Data interchange for the facilitation of Trade and Transport Facilitation. Shanil is a member of the Singapore Institute of Arbitrators.

Chairman of, Asian Logistics Park Pvt Ltd, and World Express (CMB) Limited. And Director of The Colombo Stock Exchange of Sri Lanka and Director of the Central Depository Systems Ltd, and Chairman of AFA Corporate Services Limited and is the Director and Secretary of The International Chamber of Commerce (ICC Sri Lanka). Shanil was a Task Force Member, of the ICC Commission on Arbitration and ADR, and has attended many international ICC workshops.

He has also served as member of the board of Urban Development Authority (UDA), and Paliyagoda Warehousing Co Ltd, He was a recipient of the Achieves Award by the Postgraduate Institute of Management Professional Association University of Sri Jayewardenepura.

Shanil is a certified trainer on Corporate Governance and was trained by Commonwealth Association for Corporate Governance London.

He also serves as a visiting Lecturer and resource person in the area of Corporate Law, Arbitration, Corporate Compliance, Negotiations and Conflict Resolution and Supply Chain Management.

Management Team



**Chief Executive Officer**

1. Mr. Rajeeva Bandaranaike

Chief Regulatory Officer

2. Mr. Renuke Wijayawardhane

Chief Information Officer

3. Mr. Chandrakanth Jayasinghe

Head of Enterprise Risk Management

4. Mr. Charita Dumbukola

Head of Legal

5. Ms. Renu Ranatunge

Head of Finance and Administration

6. Mr. Kusal Nissanka

Head of Market Development

7. Mr. Niroshan Wijesundere

Head of Research and New Products

8. Mr. Nishantha Hewavithana

Head of Central Depository Systems

9. Mr. Nalin Fonseka

Head of Trading, Market Surveillance & Corporate Affairs

10. Ms. Nilupa Perera

Head of Strategy

11. Ms. Nilma Samarasinghe

Head of Human Resources

12. Ms. Prashanthi Sabesan

Head of Internal Audit

13. Ms. Kushlani Coswatte

Head of Compliance

14. Ms. Lankesha Molligoda

Head of Listing

15. Ms. Vinduni Dullewe

Manager System Operation

16. Mr. Kaushal Siriwardena

Manager Data Center Operation

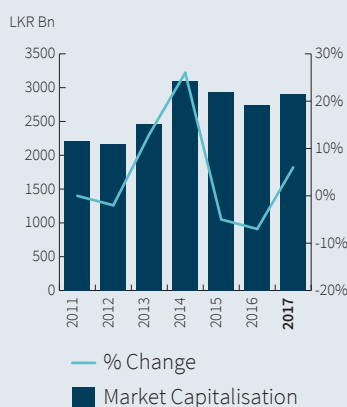
17. Mr. Janaka Mahagedarawatta

Market Highlights

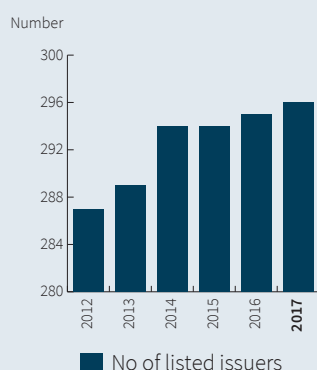
Year 2017, marked a turnaround driven by growth in market cap, turnover and returns despite a competitive operating environment with increasing market interest rates.

Market Cap of LKR 2,899 Bn increased by 6% being in line with five- year CAGR of 6% (2012:2017).

Market Size



Market Liquidity



Market Turnover increased by 25% in 2017 primarily driven by strong foreign investor interest that marked the highlight of the year. Daily Average Turnover was LKR 915 Mn compared to LKR 737 Mn in 2016.

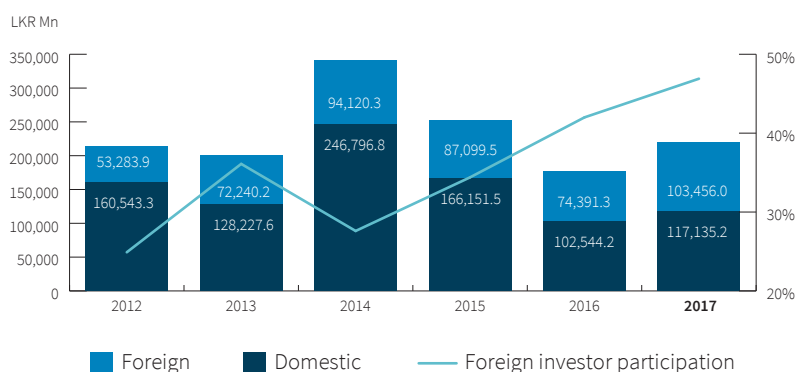
Market Performance - Sri Lanka

Catalyst to market performance and investor confidence in 2017 was the optimistic outlook as policy reforms enhanced economic stability and supported government long term plan to sustain economic growth and transform Sri Lanka to upper middle- income economy status. Foreign direct investments significantly increased especially in the 1st half of 2017 showing signs of a recovery in investor confidence that powered growth in several industries. Additionally, the Central Bank shift to a flexible exchange rate regime smoothened exchange rate volatility and improved external trade activity. Key economic sectors such as construction, wholesale and retail trade, financial services

and manufacturing industries, supported a projected economic growth of 4.5% in 2017 (4.4% in 2016) despite adverse weather conditions prevalent throughout the year.

Foreign exchange reserves improved to USD 7 Bn from USD 5.5 Bn at the start of the year. Foreign investor interest spurred in equity markets contributing 47% to market turnover in 2017 as equity markets offered competitively better returns of 5%-6% amidst low interest rates of 1%-2% in global financial markets. On the contrary, local investor interest continued to remain bearish in 2017 with rising market interest rates impeding market performance. Stress free investments such as fixed deposits offered competitively better returns to local investors with a short- term view on investments. With a focus of increasing local investor interest, we held 484 awareness sessions in 2017 to improve financial literacy and cultivate a long -term view on investments.

Market Turnover



Outlook

Stability in macroeconomic outlook in addition to structural and policy reforms in recent years fostered growth in capital markets with improving investor confidence and correlative growth of foreign investors. We expect growth momentum to continue to 2018 driven by sizeable investments into the market.

In keeping pace with the expected growth momentum, CSE continued to progress in market development, product diversification, governance, market infrastructure and risk management being the core pillars to enhance regional competitiveness. Some of the key implementations in 2018 include the SME Board and Multi currency Board.

The SME Board to be launched in 2018 will widen our SME coverage and leverage on the growth potential of the sector being a backbone to the Sri Lankan economy.

The Multi currency Board targets to initially list shares of overseas companies and subsequently enable local companies both listed and unlisted to raise equity and debt capital in foreign currency. During the year, we undertook necessary market infrastructure developments to facilitate the launch of the Multi-Currency Board which is currently in the stage of obtaining regulatory approvals.

We expect the year 2018 to continue the positive drive in 2017 driven by attractive market valuations that deliver comparatively better buying opportunities in the region to investors as Sri Lanka continues to be an undervalued market. In addition, policy reforms and macro-economic stability continue to drive the long-term plans of the government, enhancing investor confidence.

Way Forward 2018 and 2019

- Two investor forums planned in Singapore during the 1st Quarter of 2018 and London in the 3rd quarter of 2018.
- Launch of SME Board in 2018.
- Facilitate listing of foreign companies through Multi currency Board.
- Focus on new products such as REITS, ETFs and derivatives.
- Launch of Delivery Vs Payment (DvP model) will place a significant milestone in our history and significantly improve post trade risk management.
- Decentralization of CDS functions to improve the post trade processing efficiency and shorten the settlement cycle.
- Cost efficiencies by adopting Cloud-hosting solutions and Block-chain technology.
- Demutualization of the Exchange.

Global Market Performance

As per the World Federation of Exchanges Global market capitalization reached record level of USD 83.4 trillion in 2017 driven by significant growth in global equity fund raising to USD 260 Bn from 1800 IPOs, being the highest in recent years. Global Markets sentiment was driven by equity

markets in both advanced and emerging market economies. Advanced economies benefited from improved corporate earnings, strong macro-economic data and improving consumer and business confidence. Emerging markets benefited from accelerated process of IPO approvals

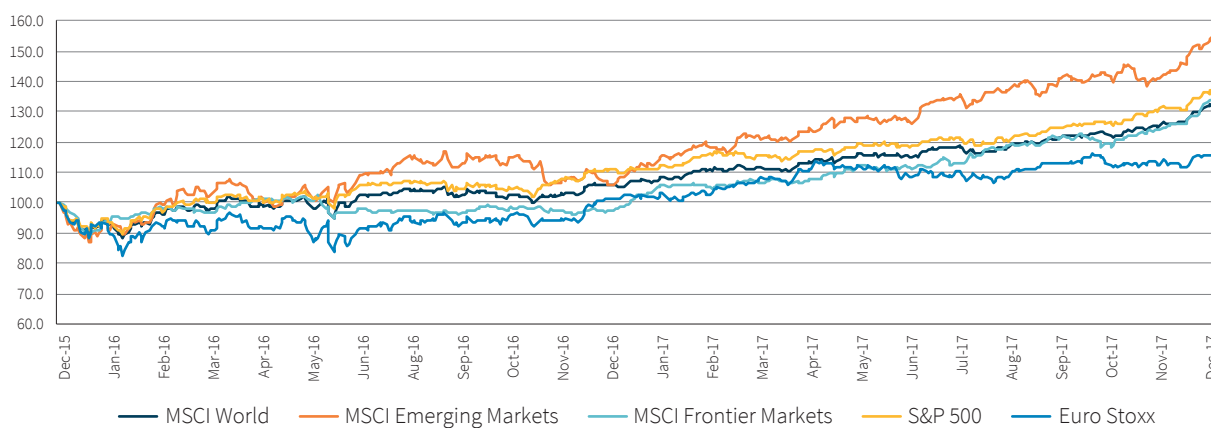
in China, increasing industrial output and retail sales in Asia Pacific markets. The MSCI World Index, which captures large and mid-cap companies across 23 Developed Markets grew by 22.40% in 2017, compared to 7.51% in 2016.

Global Capital Market Statistics

	2016	2017	Growth (%)
Market Capitalization (USD trillion)	72.6	83.4	15%
Value of Share Trading (USD trillion)	86.5	82.4	(5%)
Number of newly listed companies	1224	1804	47%
IPO Investment flows (USD billion)	131.8	261.0	98%

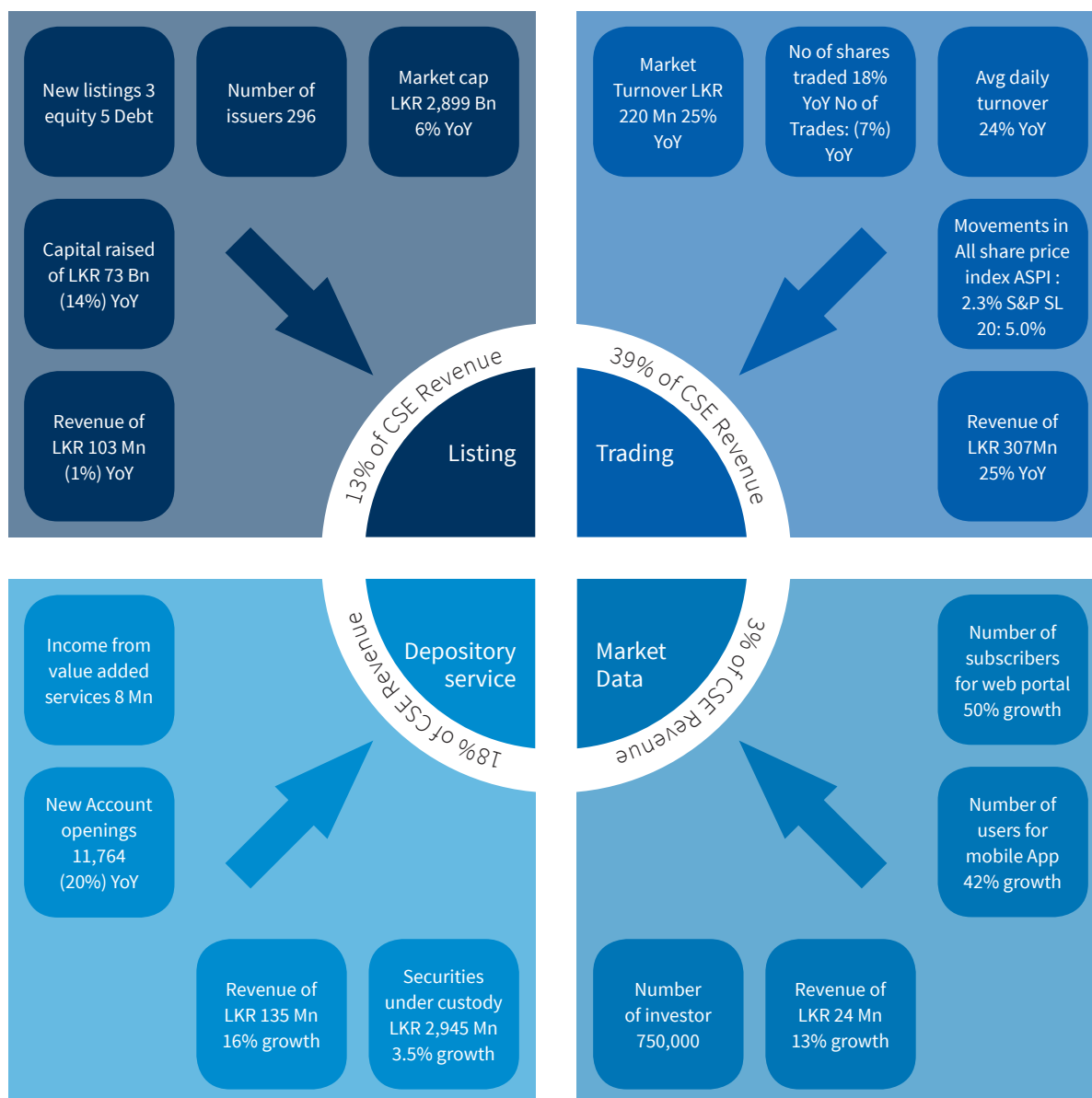
Source: World Federation of Exchanges

Equity Markets (Index, 31.12.2015 = 100)



Divisional Reviews

CSE core strategic business units include Listing, Trading, Post Trade and Market Data that cumulatively contributed 77% of revenues in 2017. Other incomes such as member fees and investment incomes accounted for 23%.



Other business units that support core functions

Market Integrity	Governance		Other		Strategy	
Market Surveillance	Compliance	Internal Audit	Information Technology	Finance and Administration	Market Development	Strategy
Broker Supervision	Risk Management	Corporate Affairs	Legal	Human Resource	Research and New Products	

Divisional Reviews contd...

Listings

We provide corporates with access to CSE's equity and debt capital markets through our listing platforms, facilitating connectivity and visibility to investors. Our mandate is to enhance our listing platforms and increase issuer choice in line with varied characteristics such as size, scale, locality and needs for value recognition. Efficiency and fairness of our markets through full and fair disclosure, is a pivotal focus of our listing related services.

Listings Platforms

Equity 290 entities

Main Board 215
entities *

Diri Savi Board 81
entities

Debt 6 entities

* includes companies which also have listed debt

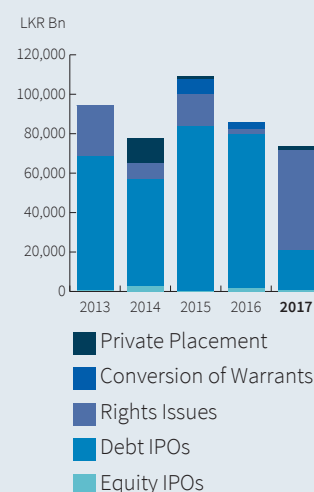
We provide an array of mechanisms facilitating raising of capital, enabling issuers to reap the benefits of listing on the CSE's equity and debt markets. Continuous guidance is provided to issuers on the Listing Rules of the Colombo Stock Exchange (Listing Rules), throughout the listing process, ensuring that offer documentation disseminated to the public contain adequate disclosures which empower investors to make informed investment decisions. The Listing Rules are reviewed and revised on a regular basis to ensure they are fit for purpose to safeguard the integrity of the market.

Rs.50.6 Bn Capital Raised
through 15 Rights Issues

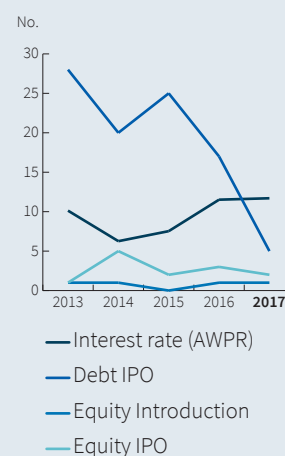
Rs.20 Bn through five Debt IPOs.

Three New Listings

Funds Raised Through CSE



New Listings



Performance

Listing and service revenues remained in line with last year at LKR 103 Mn as number of debt IPOs significantly declined during the year with the rise in market interest rates and the lifting of tax exemptions.

Total capital raised through primary and secondary issuances was LKR 73,576 Mn in 2017 with Rights issues accounting for 69% of capital raised. Rights issues of LKR 50,604 Mn was the highest recorded driven by issues in Banking & Finance & Insurance, Plantations and Manufacturing sectors. Net foreign inflows to primary markets amounted to LKR 22,463 Mn with rights issues attracting LKR 20,225 Mn as the Banking, Finance & Insurance sector attracted foreign investors. However, total capital raised declined by 14% as significant decline in number of debt IPOs had a weighty impact on total issuances given its popularity over the last two years.

Debt markets were impacted by high interest rates that prevailed during the year due to the tight monetary policy stance maintained in 2017. Corporates raised a further Rs.20 Bn in debt offerings although activity declined significantly with only 5 debt IPOs in 2017 compared to 17 debt IPOs in 2016. Consequently, the cumulative new listings declined to 8 in 2017 compared to 21 in 2016.

A Positive Outlook

CSE also focused on new product launches such as developing SME Board and Multi Currency Board to be implemented in 2018. The SME Board will initiate with equity offerings which can be subsequently expanded to debt offerings. We are also exploring the feasibility of listing shares and debt securities of Local Companies on Multi Currency Board.

We have also enhanced the existing product portfolio with the commencement of processing BASEL III compliant securities.

Outlook 2018

Listing of State Owned Enterprises

SME Board

Multi Currency Board

Basel III Compliant Debt Securities

Strengthened engagement with potential issuers

Divisional Reviews contd...

Trading

Secondary markets involve share trading activities driven by members and investors. A robust and state of art automated trading platform (ATS) form the core infrastructure for share trading. Products traded include equity, corporate debt and closed end funds of which equity accounts for 98% of market turnover.

Trading

Market
Regulation

Foreign
Investor
Roadshows

Domestic
Investor
Briefings

Engage with
SEC on policy
matters

Performance

CSE Trading revenues increased by 25% to LKR 307 Mn contributing 57% of our revenue growth with a recovery of equity market turnover being the core determinant of our trading revenues. Equity market turnover improved by 25% in 2017 compared to a (30%) decline last year marking a profound recovery in market performance. Increasing foreign purchases as an immediate aftermath of our successful investor forums enabled a 39% growth in foreign market turnover being the core driver for our market performance in 2017. Net foreign inflows amounted to LKR 17.7 Bn compared to LKR 0.38 Bn in 2016, driven by 48% growth in foreign purchases and foreign investor participation improved to 47% compared to 42% in 2016.

Domestic market turnover increased by 14% to LKR 117 Bn driven by both retail and institutional investors as CSE continued its awareness drive with varied programs such as direct meetings, exhibitions, regional investor forums, school programs, etc. A total of 16,857 participants attended 484 programs held in 2017.

Market turnover of other product categories such as corporate debt and closed end funds account for an insignificant portion of total market turnover.

**Rs.220 Bn Market
Turnover**

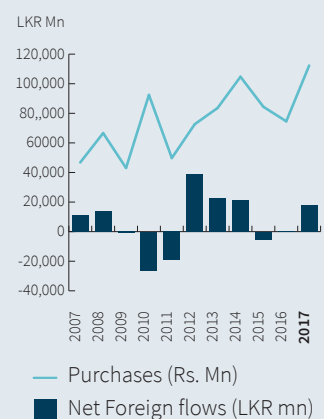
**39% growth in foreign
turnover**

**14% growth in domestic
turnover**

CSE Trading Revenues



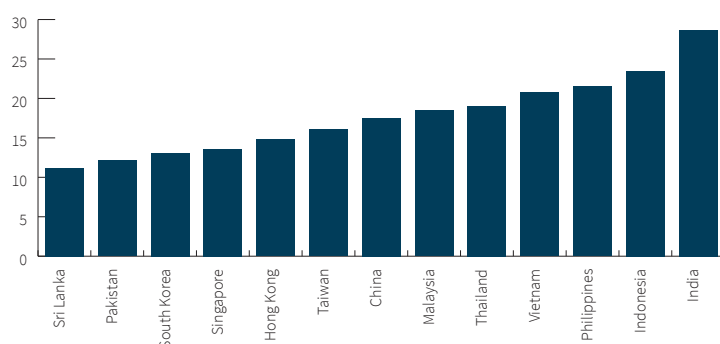
Spurring Foreign Activity



Key Competitive Advantages

CSE offers buying opportunities with potential capital gains on price growth. Currently it is an undervalued market with comparatively lower P/E compared to regional exchanges and 10 - year historical averages. Market PE of 10.6 as at Dec 2017 lower than 10 - year average of 15.2. P/B of 1.3 lower than historical average of 1.8. The returns are also attractive as dividend yields of 3.2% are higher than 10- year historical average of 2.7%.

Regional Comparison of Market level PE Ratios - 31.12.2017



Source: Bloomberg

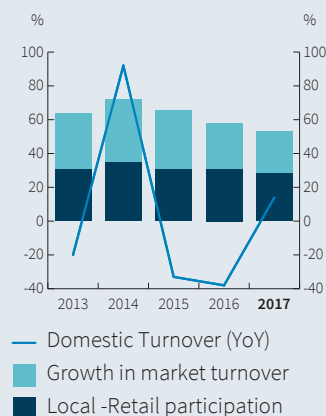
Key economic indicators that served as catalysts

- Stabilized economic growth projections as per Government vision 2025.
- Relaxation of capital controls for foreign investors served as a catalyst.
- Regaining of investor confidence on receipt of IMF funding during the year 2017.
- Implementation of policies to control inflation and exchange rate depreciation.
- Increasing wealth of high net worth individuals and increasing institutional fund flows especially to Asian markets.

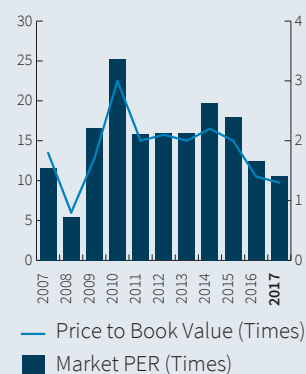
Global performance

As per WFE, global value of share trading declined by (5%) in 2017 despite improving market sentiment as a larger proportion of institutional fund flows were directed towards primary markets/IPO projects.

Local Investor Growth



Market Valuations



Market Returns



Divisional Reviews contd...

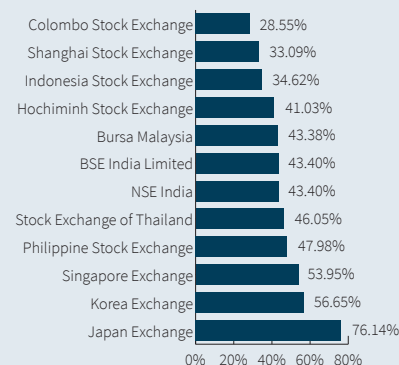
Challenges

- Tightened monetary policy with Increasing market interest rates.
- Uncertain political environment.
- Low Participation of local institutional funds in secondary markets such as long-term pension funds.
- Limited growth in market size due to subdued growth in new listings. Market cap as % of GDP being relatively lower compared to regional exchanges.
- Low free float compared to regional exchanges limit growth in market liquidity. However, the proposed rule amendment to revise public holding requirements is expected to increase free float.

Overcoming Challenges

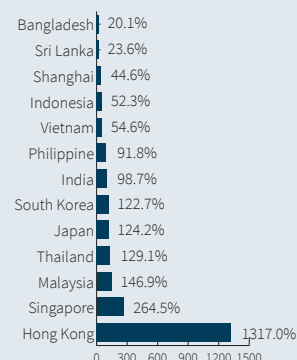
As we entered the year amidst policy uncertainties, enhancing investor confidence was the critical factor to driving growth of trading activity. Accordingly, we conducted three overseas investor forums to multiple investor segments with the joint participation of key government personnel providing insights to investors on the positive economic transformations of Sri Lanka in addition to buying opportunities. This was further supported by the sanctioning of the IMF funding in mid-2017. However, a rebound in investor confidence is not successful without a corresponding increase in trading activity being constrained by limited free float and subdued market liquidity. Our strategies during the year, focused on proposing rule amendments to revise public holding requirements, encouraging listings of family owned businesses and enhancing the accessibility and convenience of trading platforms for investors.

Free Float % of Listed Equity



Source: Bloomberg

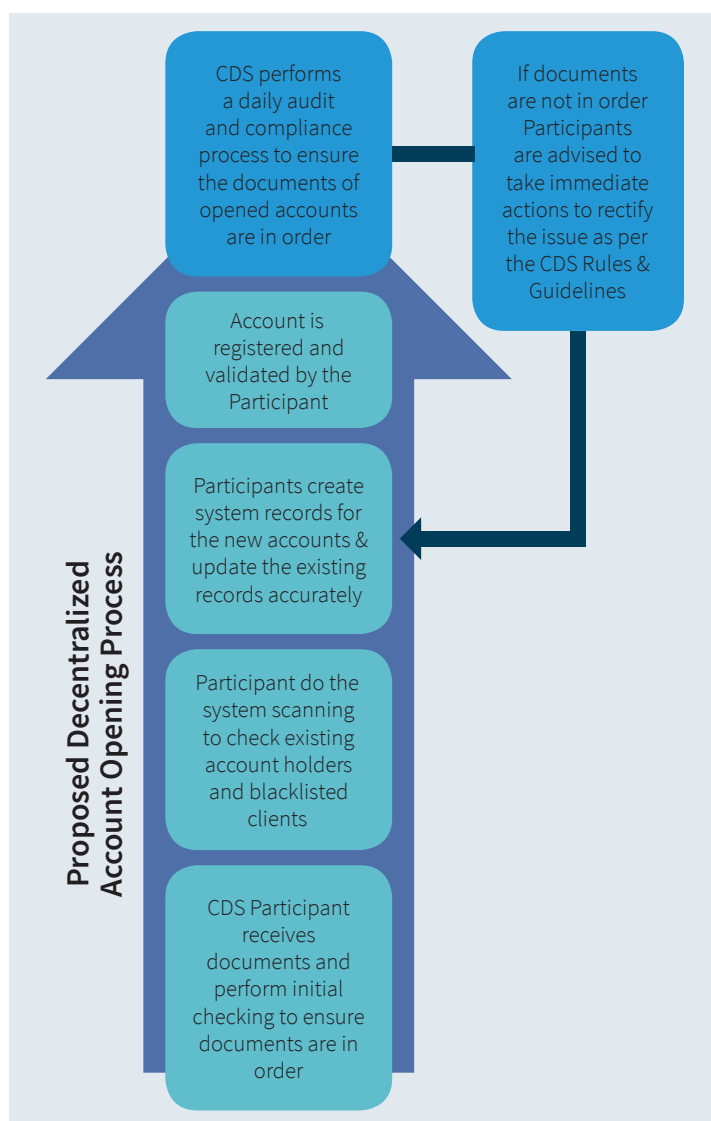
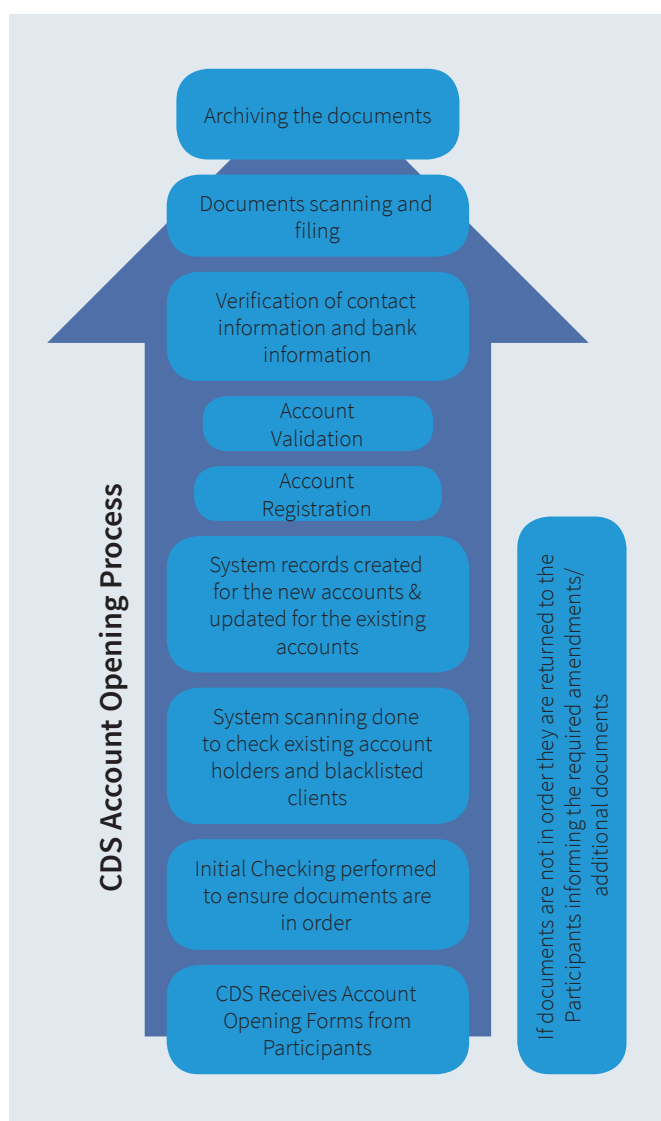
Market Capitalization as a % of GDP



Source: CSE estimates based on WFE and World bank data

Depository services

Secure Post trade systems and processes are a sine qua non for the effective functioning of capital markets and building investor confidence. Post trade activities is currently undertaken by 100% owned subsidiary - Central Depository Systems (CDS) which is responsible for custody, clearing and settlement of securities transactions. They also provide other value -added services such as corporate action and intend to launch registrar services enhancing the investor value proposition. Going forward, the two key developments in post trade will be the proposed launch of the DvP model and decentralization of certain CDS functions.



Divisional Reviews contd...

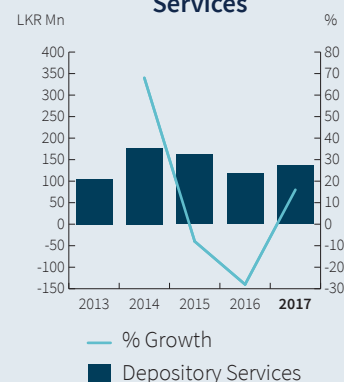
Performance

As 50% of CDS income relating to transaction fees, market trading activity has a significant impact on total depository incomes. Accordingly, CDS income increased by 16% in 2017 compared to a 28% decline last year. The number of new accounts opened during the year declined as local investor growth remained subdued during the year. Income from other CDS services increased by 7% and accounted for 13% of total income.

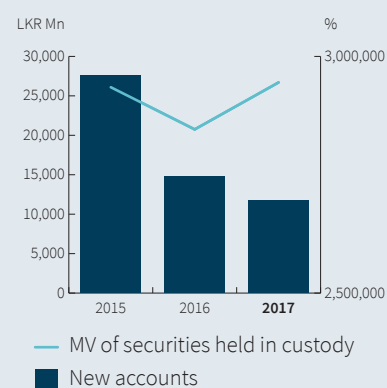
Key developments

- We continue to focus on improving post trade services to minimize post trade risks which is a material concern for investors. The proposed launch of a Delivery Vs Payment Model (DvP) will be a significant technological breakthrough for CSE, significantly reducing post trade risks such as asset commitment risks. The implementation of DvP and CCP will be in two phases.
- In addition, new rules were submitted for the proposed decentralization of certain CDS functions such as account openings and process enhancements such as dematerialization of securities and the intra-transfer of securities to broker firms.
- Increasing focus on value added services such as provision of registry services to companies.
- Streamlining the account opening process to enable investors to open accounts with a common account opening form.
- To date, CSE has signed three Regional Depositories, namely “National Securities Depository Ltd, the largest Depository in India, “Central Depository Services (India) Ltd and “Central Depository Company Pakistan for sharing of expertise and experience.

Income from Depository Services



Accounts Held by CDS



Market Data

Being a value-added service offered by CSE, the provision of real time and up-to date market data plays a crucial role for meaningful decision making of investors. A robust trading platform with a 100% uptime and various digital channels enable CSE to provide real time market data.

Market Data

How we Provide Market Data to Stakeholders

Our Digital Platforms

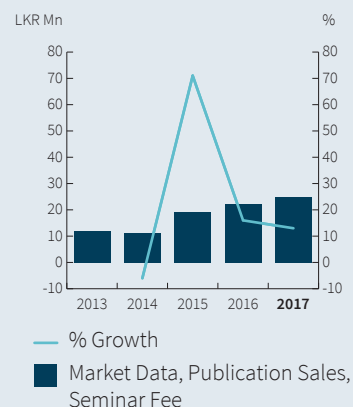
Other Social Media Platforms.

Global Data Providers

The key developments in 2017 focused on improving user interface and accessibility of the various digital platforms.

1. Migration of CSE website to cloud based technology that is compatible with mobile phone technology.
2. Reduced time taken to disseminate price sensitive information by introducing a web portal for issuers to submit corporate disclosures in a standard format.
3. Improving user accessibility through digital platforms.
4. Enhanced coverage of market indices by including non-voting shares in index calculations.

Market Data Revenue



Divisional Reviews contd...

Ten Year Market Summary

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Market Size										
Market Capitalisation (Rs. Bn)	2,899.3	2,745.4	2,938.0	3,104.9	2,459.9	2,167.6	2,213.9	2,210.5	1,092.1	488.8
% change	6%	-7%	-5%	26%	13%	-2%	0%	102%	123%	-40%
Companies Listed (No.)	296	295	294	294	289	287	272	241	231	235
Companies Traded (No.)	279	278	278	284	278	280	264	238	231	232
Turnover to Market capitalisation (%)	7.8%	6.2%	8.4%	12.3%	8.7%	9.8%	24.7%	34.5%	18.0%	16.9%
Market Capitalisation as a % of GDP*	22.7%	23.2%	26.8%	30.0%	25.6%	24.8%	30.7%	34.5%	22.6%	11.1%

* based on latest available revised GDP, at current market prices for each year

Returns, Yields and Valuation Multiples										
All Share Price Index	6,369.26	6,228.26	6,894.50	7,298.95	5,912.78	5,643.00	6,074.42	6,635.87	3,385.55	1,503.00
Change %	2.3%	-9.7%	-5.5%	23.4%	4.8%	-7.1%	-8.5%	96.0%	125.3%	-40.9%
S&P SL 20**	3,671.72	3,496.44	3,625.69	4,089.14	3,263.87	3,085.33	-	-	-	-
Change %	5.0%	-3.6%	-11.3%	25.3%	5.8%	8.4%*	-	-	-	-
Market PER (Times)	10.6	12.4	18.0	19.7	15.9	15.9	15.8	25.2	16.6	5.4
Price to Book Value (Times)	1.3	1.4	2.0	2.2	2.0	2.1	2.0	3.0	1.7	0.8
Dividend Yield	3.2%	2.8%	2.2%	2.1%	2.9%	2.4%	1.8%	1.2%	3.0%	5.6%

** Launched on 27 June 2012








Primary Markets										
New Listings/ Issues										
Equity IPOs (No.)	2	3	2	5	1	6	13	8	2	2
Equity Introductions (No.)	1	1	-	1	1	11	16	2	0	1
Debt IPOs (No.)	5	17	25	20	28	3	1	2	1	4
Capital Raised										
Equity IPOs (Rs. Mn)	960.0	1,822.5	329.6	2,693.8	494.4	1,739.4	19,155.7	4,347.5	681.8	1,518.5
Debt IPOs (Rs. Mn)	20,000.0	77,994.9	83,414.4	54,234.9	68,262.3	12,500.0	1,000.0	15,000.0	630.6	5,581.7
Rights Issues (Rs. Mn)	50,603.9	2,531.1	16,105.3	8,099.0	25,539.0	11,128.0	28,019.7	24,321.7	5,235.4	2,679.1
Conversion of Warrants (Rs. Mn)	-	3,193.8	7,972.8	0.0	0.5	1,954.8	2,675.0	Not Available		
Private Placement (Rs. Mn)	2,012.7	-	1,517.7	12,755.2	-	2,266.2	4,500.0	433.0	1,100.0	510.0

Secondary Market										
Equity										
Turnover (Rs. Mn)	220,591.2	176,935.4	253,251.0	340,917.1	200,467.8	213,827.2	546,255.8	570,326.8	142,462.6	110,453.9
Domestic (Rs. Mn)	117,135	102,544	166,152	246,797	128,228	160,543	486,959	464,734	99,011	50,797
Foreign (Rs. Mn)	103,456	74,391	87,100	94,120	72,240	53,284	59,296	105,593	43,452	59,657
Shares Traded (No. Mn)	8,468.3	7,195.8	9,414.7	16,721.5	9,054.2	9,691.2	24,543.7	18,489.2	4,762.7	3,154.9
Domestic (No. Mn)	6,528.8	5,776.2	7,693.2	14,726.2	7,861.6	8,289.6	23,151.6	16,684.5	3,784.2	1,934.9
Foreign (No. Mn)	1,939.5	1,419.6	1,721.5	1,995.4	1,192.6	1,401.7	1,392.1	1,804.7	978.4	1,220.0
Trades (No.)	981,977	1,056,849	1,506,790	1,982,709	1,421,303	1,857,384	4,579,352	3,355,126	1,266,299	776,244
Domestic (No.)	928,276	1,002,476	1,431,750	1,899,569	1,355,380	1,796,868	4,463,404	3,225,041	1,190,822	730,415
Foreign (No.)	53,701	54,373	75,040	83,140	65,923	60,516	115,948	130,085	75,477	45,829
Daily Average Turnover (Rs. Mn)	915.3	737.2	1,059.6	1,414.6	828.4	883.6	2,285.6	2,396.3	593.6	464.1

Closed End Fund										
Turnover (Rs. 000)	28,888	113,300	55,317	131,873	44,160	21,866	137,848	621,265	4,616	-
Funds Listed (as at 31st December,	2	2	2	1	1	1	1	1	1	-

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Debt										
Turnover (Rs. 000)	3,592,906	2,932,154	4,714,013	7,139,730	2,229,221	75,717	2,690,664	72,288	136,765	102,639
Trades (No.)	529	290	220	401	173	39	62	92	42	27
Debentures Traded (No. 000)	35,696	28,317	42,201	56,909	19,999	740	25,861	693	1,020	953
Contribution to Total Market Turnover										
Foreign Companies	45.1%	41.0%	32.8%	26.0%	34.3%	23.5%	8.3%	15.3%	26.8%	49.0%
Foreign Individuals	1.8%	1.0%	1.6%	1.6%	1.8%	1.4%	2.6%	3.2%	3.7%	5.0%
Total Foreign Investor Contribution	46.9%	42.0%	34.4%	27.6%	36.1%	24.9%	10.9%	18.5%	30.5%	54.0%
Local Companies	28.2%	30.9%	30.4%	34.7%	30.4%	41.0%	34.5%	37.5%	33.9%	23.8%
Local Individuals	24.9%	27.1%	35.2%	37.7%	33.5%	34.1%	54.6%	44.0%	35.6%	22.2%
Total Local Investor Contribution	53.1%	58.0%	65.6%	72.4%	63.9%	75.1%	89.1%	81.5%	69.5%	46.0%
Net Foreign Flow (Rs. Mn)	17,657	384	(5,370)	21,139	22,734	38,661	(19,039)	(26,335)	(789)	13,951

CSE in Social Media

Share Market Data Through:		Unit of Measure	2015	2016	2017	Change %
Social Media Platforms						
Facebook		likes	8,886	13,180	18,866	43%
Twitter		followers	1,736	2,133	2,552	20%
YouTube		subscribers	N/A	324	925	185%
LinkedIn		followers	2,286	3,093	4,989	61%
Our Digital Channels						
CSE Website		hits	17,518,874	15,293,707	22,912,571	50%
Mobile App Android		subscribers	14,433	23,761	33,829	42%
Mobile App IOS		subscribers	3,530	5,930	11,800	99%
E-connect		Registered account		21	278	
E-statements		Registered users	10,000	15,000	19,515	30%
SMS alerts		Registered users	8,000	9,000	10,884	21%
Data Providers						
Data providers continued to play an integral role in enhancing our reach in both local and foreign markets. We network with seven global providers including Bloomberg Finance Lp, Reuters limited and FTSE in addition to three local providers namely Dialog, Mobitel and Ayax.						



Governance and Risk Management

Corporate Governance

Code Ref E & F

The CSE is a mutual exchange and has fifteen Members & Sixteen Trading Members, Twenty Seven Members operate as Stockbrokers for both Equity & Debt and Four members are appointed by the CSE as Trading Members only for Debt. All Members are corporate entities. The Annual General Meeting is used to have an effective dialogue with the members on matters which are relevant and concern to the general membership. The feedback obtained from members are communicated to the Board by the CEO.

CSE's governance structures and frameworks have evolved over time, keeping pace with best practice, regulatory requirements and business needs. It has proved to be a solid foundation facilitating oversight and accountability while driving sustainable value creation. The governance framework is fully compliant with the following:

- Companies Act No. 7 of 2007
- Relevant provisions of the Securities & Exchange Commission Act No. 36 OF 1987 and amendments thereto
- in view of the requirement to be listed on our own bourse in the future (pursuant to the demutualization), the CSE has aligned its corporate governance practices with the ICASL/SEC Corporate Governance Code.

This report is set out in accordance with the Code to ensure that it is comprehensive and in a logical sequence.

Board Priorities in 2017

Code Ref D.5

The following matters were prioritized by the Board as they impact the operations of the CSE as a whole.

Market Development

- Expansion of investors and strategies to increase market volumes

Risk management

- DVP, enforcement of capital requirements of brokers, BCP

Governance

- Demutualisation

Regulation

- Enforcement of regulation on listed companies and listed companies

IT

- New technologies, cloud hosting and digitization

Institutional Development

- Improving financial performance
- Compliance framework
- Internal audit and controls
- People development

Board activities

An Effective Board

Code Ref A1

The Board of Directors is responsible for setting the strategic direction and monitoring performance of the CSE. It sets the tone at the top by setting in place formal governance structures and policy frameworks which provide the executive management team guidance in managing their day to day operations.

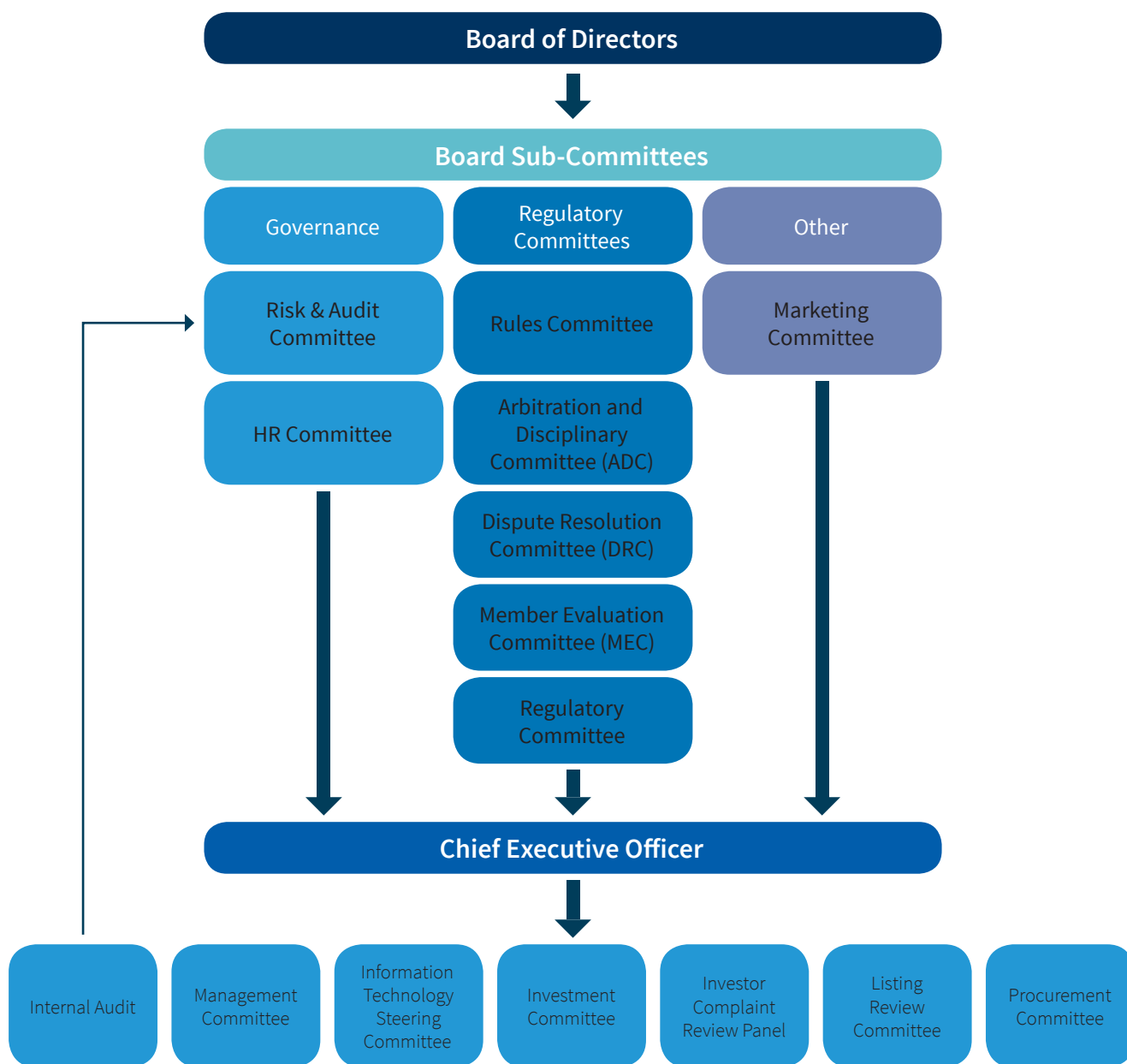
Composition of the Board

Code Ref A4 & A5

The Board comprises nine independent non-executive directors with five directors elected by the fifteen Members, and four directors appointed by the Subject Minister on the recommendation of the Securities and Exchange Commission of Sri Lanka. Their profiles are given on page 31 of this report and sets out the diversity of skills and experience within the Board. The Directors are holding senior positions in leading companies, as a result of that they have gained vast experience and also due to their academic and professional background, all of them possess financial acumen and knowledge. The Chief Executive Officer is responsible for implementing strategy and managing day to day operations of the CSE Secretariat and is accountable to the Board of Directors for its performance.

The Board has delegated authority to facilitate smooth operations of the CSE and has set in place an appropriate organization structure and a comprehensive policy framework to ensure compliance with regulatory requirements and realization of its short, medium and long term goals. The Directors have no vested interests and take decisions on matters before them using independent judgment. It has also appointed Sub Committees to assist in the discharge of their duties which have oversight responsibility for defined areas as detailed in the Governance structure below.

Corporate Governance contd...



Internal Governance Framework

- Articles of Association
- Rules
- The Board Charter
- Policies
- Instructions
- Guidelines
- Values
- Compliance culture

Board Sub Committees

Composition and areas of oversight by the sub-committees are given below:

Board Sub Committees	Composition	Objective
Regulatory		
Rules Committee	5 Members <ul style="list-style-type: none"> • Ray Abeywardena (Chairman) • Dakshitha Thalgodapitiya • Jeeva Niriella • Shanil Fernando • Dumith Fernando 	The Rules Committee of the CSE ensures that the Rules of the CSE achieve the purpose of maintaining a market in which securities are issued and traded in an organized and fair manner. The Committee reviews and approves the amendments proposed to the Rules of the CSE and where necessary, provides recommendations for enhancing same. All decisions of the Committee will be submitted to the Board of Directors for approval, modification or rejection as per the Terms of Reference and the Articles of Association of the CSE.
Arbitration and Disciplinary Committee	4 Members <ul style="list-style-type: none"> • Shanil Fernando (Chairman) • Dakshitha Thalgodapitiya • Jeeva Niriella • Ray Abeywardena 	The Arbitration and Disciplinary Committee reviews any disputes or disciplinary matters arising between the Members of the CSE as well as disputes arising between investors and Members. Further, matters pertaining to breach of CSE and/or Central Depository Systems (CDS) Rules or provisions of the Securities and Exchange Commission Act by Members will also be referred to the Committee for review. The Committee consists of four Directors of CSE, one of whom shall be an elected Director and the other three shall be appointed Directors. Members of the Committee shall notify the Board of Directors before the hearing of any possible conflict of interest and abstain from hearing a charge in which they may have a conflict of interest. The Committee may establish its own procedures except where it is expressly provided in the Stockbroker Rules and/or the Articles of Association of the CSE.
Dispute Resolution Committee	4 Members <ul style="list-style-type: none"> • Jeeva Niriella (Chairman) • Dakshitha Thalgodapitiya • Anton Godfrey • Ray Abeywardena 	The Dispute Resolution Committee of the CSE adjudicates upon the decisions of the Secretariat on disputes arising between investors and Members. The Committee may grant a hearing to the Member and/or the complainant if required. The decisions of the Committee shall be referred to the Board of Directors for ratification and the decision of the Board will be conveyed to the relevant parties in dispute. The Committee consists of one elected Director and three appointed Directors.
Member Evaluation Committee	3 Members <ul style="list-style-type: none"> • Ray Abeywardena (Chairman) • Dakshitha Thalgodapitiya • Anton Godfrey 	The Member Evaluation Committee is responsible for evaluating and reviewing applications submitted by Broker Firms for a significant change in shareholding. The Committee's role would be to ensure compliance with the guidelines and procedure set up by the CSE Board, granting approval for a significant change in shareholding of a Broker Firm and make suitable recommendations to the CSE Board.
Regulatory Committee	4 Members <ul style="list-style-type: none"> • Dakshitha Thalgodapitiya (Chairman) • Jeeva Niriella • Anton Godfrey • Shanil Fernando 	The Regulatory Committee was set up in June 2017 to oversee and review the regulatory functions exercised by the CSE on market surveillance functions, broker supervision functions, review of listed company financial report, enforcement actions on listed companies, corporate disclosures, investor complaints and evaluation and approval of listing applications.

Corporate Governance contd...

Governance		
Risk and Audit	5 Members <ul style="list-style-type: none"> • Dumith Fernando (Chairman) • Dakshitha Thalgodapitiya • Jeeva Niriella • Shanil Fernando 	<p>The primary function of the Risk and Audit Committee is to ensure the establishment of an appropriate risk management framework within the CSE, to monitor the integrity of financial statements and review internal controls and work of internal and external audit functions. The Committee should comprise of at least two appointed directors and two elected directors, one of whom shall have recent and relevant financial experience. This Committee is also empowered to review the financial statements of the CDS.</p>
HR	3 Members <ul style="list-style-type: none"> • Ray Abeywardena (Chairman) • Anton Godfrey • Dumith Fernando 	<p>The HR Committee is entrusted with evaluating, assessing, deciding and recommending to the Board of Directors on any matter that may affect the Human Resource Management of the CSE.</p> <p>The Committee reviews and recommends the compensation and benefits of the CEO and lays down policies and parameters for compensation structures, reviews additional/ new expertise required by the CSE and promotions for the Heads of Divisions, approves annual increments and bonuses and establishes a succession plan in respect of the office of the CEO and key management personnel of the CSE. Recommendations of the Committee are submitted to the Board of Directors for approval, modification or rejection.</p>
Other		
Market Development	5 Members <ul style="list-style-type: none"> • Anton Godfrey (Chairman) • Dakshitha Thalgodapitiya • Ray Abeywardena • Shanil Fernando • Dumith Fernando 	<p>The above Committee was set up in March 2015 to give policy direction to the market promotional strategies of the CSE with a view to developing and broad basing the stock market. The Committee is also mandated to give policy direction aimed at developing the debt and equity IPO markets.</p>

Other committees

Consultative Committee of Market Stakeholders	16 Members The Committee comprises of sixteen members representing all stakeholders of the CSE selected by the Board of the CSE.	<p>The Consultative Committee of Market Stakeholders was set up to provide recommendations and responses to the Board of Directors or the Rules Committee of the CSE on market development and rules relating to CSE operations and to the Board of Directors of the CDS on new rules and amendments to rules of the CDS. The Committee is chaired by the Chairman of the CSE.</p>
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Board Meetings

Code Ref A1.1, A1.6 & A6

Regular Board meetings are held monthly with special Board meetings being convened as the need arises. The required quorum for a meeting is 5 directors with at least two elected and two appointed directors being present. Questions arising shall be resolved with a majority vote and in the event of equality of votes, the chairman shall have a second or casting vote. A secure electronic Board paper storage and distribution system is used to circulate meeting agendas and Board papers prior to Board and

Sub-Committee meetings. Agenda and board papers are uploaded giving directors a week for review of the same. There is provision for approval of board resolutions by circulation for urgent matters for which unanimous approval is required. Minutes are maintained by the company secretary and directors have access to the archives through the secure electronic platform. Minutes of Board Sub-Committee meetings are tabled at the following Board meeting and matters arising from the same are deliberated and actioned as deemed appropriate. Attendance at Board Meetings and Board Committee Meetings are given below.

	Board		Governance Committees		Regulatory Committees					Other			
Director	Board Meetings	Special Board Meetings	Risk & Audit	HR	Rules	Arbitration & Disciplinary	Dispute Resolutions	Member Evaluations	Regulatory	Market Development	AGM	SEC	Other
Mr. Ray Abeywardena	12/12	13/13	6/12		3/3	2/8	9/11		1/11	2/2	1/1	3/3	3/8
Mr. Dumith Fernando	7/7	7/7			2/2					1/1		1/1	1/4
Mr. Dilshan Wirasekara	1/1												
Mr. Dakshitha T. W. Thalagodapitiya	12/12	13/13	12/12		2/3	8/8	11/11		11/11	2/2	1/1	3/3	6/8
Ms. M.A.D.S Jeeva Shirajanie Niriella	12/12	13/13	12/12		3/3	8/8	11/11		11/11		1/1	3/3	5/8
Mr. Anton Godfrey	8/12	10/13				4/8	3/11		8/11	2/2	1/1	1/3	6/8
Mr. A. Shanil Fernando	12/12	12/13	2/12		3/3	4/8	3/11		10/11	2/2	1/1	3/3	4/8
Mr. C.V Kulatilaka (retired 26th May 2017)	5/5	6/6	1/8	1/1	1/1	4/5	2/2			1/1	1/1	1/2	3/4
Mr. M.R. Prelis (resigned on 01st June 2017)	6/6	6/6	10/10	1/1	1/1						1/1	2/2	2/4
Mr.A.C. Seneviratne (resigned on 21st November 2017)	3/11	6/12									1/1	1/3	2/7
Mr. M.Y. Aravinda Perera (resigned on 07th December 2017)	8/12	6/12	6/12	1/1	1/3					1/2	1/1		1/8

Corporate Governance contd...

Activities during the year

Rules Committee	<p>Four (4) sets of Rule amendments were reviewed by to the Rules Committee, relating to the following areas.</p> <ul style="list-style-type: none"> • Enforcement Rules for Key Continuous Listing Requirements (including Continuous Public Holding Requirements) • Amendments to the CDS Rules to facilitate Decentralization of Specific Functions of the CDS and other Connected Matters. • Amendments to the CSE Stockbroker Rules to facilitate Revisions to the Methodology to Calculate the Minimum Capital Adequacy Requirements. • Amendments to CSE Stockbroker Rules to facilitate Minimum Shareholders' Fund Requirement.
Arbitration and Disciplinary Committee	<ul style="list-style-type: none"> • The committee delivered decisions in respect of Disciplinary action against three stockbroker firms.
Dispute Resolution Committee	<ul style="list-style-type: none"> • Handled five (5) appeals with one (1) decisions being issued.
Regulatory Committee	<ul style="list-style-type: none"> • Reviewed regulatory issues in relation to Member Firms including non-compliances with CSE Stockbroker Rules. • Reviewed reports on referrals made to SEC regarding market offences. • Reviewed reports on noncompliance with Listing Rules by the listed companies. • Submitted monthly regulatory reports to the CSE Board.
Member Evaluation Committee	<ul style="list-style-type: none"> • Evaluation carried out by the Secretariat in relation to a transfer of shares of a Member Firm resulting in a significant change in shareholding which was recommended for approval to the Board of Directors
Risk and Audit	<ul style="list-style-type: none"> • Approve the annual internal audit plan. • Oversee the progress of internal audit function. • Review internal audit reports and determine whether critical risks are mitigated. • Appointment of external auditors and review their performance.
HR	<ul style="list-style-type: none"> • Review and recommend the CEO's compensation, including incentive, bonus, benefit and retirement plans, to the Board for approval. • Review and recommend the Company's compensation philosophy, strategy, and guidelines. • Review major changes in the organizational structure of management as proposed by the CEO. • In consultation with the CEO, review and recommend the appointment of and compensation, including incentive, bonus, benefit and retirement plans, for the senior management. • Review with the CEO existing senior management resources, and performance evaluations, including recruitment and training programs, to ensure that compensation is linked to performance.
Market Development	<ul style="list-style-type: none"> • Reviewed progress of marketing initiatives of the CSE. • Provided guidance for local and foreign investor focused awareness drive on broad-basing the investor base.

Board Responsibilities

Code Ref A1.2

The Corporate Board charter introduced in 2017 sets out the roles and responsibilities of the Board as summarized below.

Role	Responsibilities	Duties
<ul style="list-style-type: none"> Leadership Strategic guidance Independent oversight Ultimate decision making body 	<ul style="list-style-type: none"> Optimal use of skills and expertise. Implement strategic plans and policies. Monitor operational performance. Develop sound internal controls Ensure compliance with regulation. Risk management Evaluate social and environmental impact. Appointment of the Chief Executive Officer (CEO) Implementing the terms of appointments and KPIs for evaluation of CEO. 	<ul style="list-style-type: none"> Fiduciary duty of integrity, transparency and in best interest of all stakeholders. Protect and promote CSE image Confidentiality of information

Adoption of Board charter in 2017 improved governance process significantly as follows:

- Enhanced process of Board nominations.
- Clearly defined roles and KPIs through terms of references.
- Adopted a Structured process for managing conflicts of interests and evaluating independence of directors.
- Defined criteria for Board evaluations

It is proposed that the Charter is reviewed annually to ensure it is fit for purpose incorporating key developments.

In accordance with the role of the Board as set out above, the Board reviewed the 3 year Strategic Plan developed by the Management up to 2020 and reviewed performance against agreed goals and KPIs on a quarterly basis. Robust stakeholder engagement processes facilitate

development of capital markets and this is a critical function for which responsibility is shared across the organization. Key concerns raised by stakeholders are escalated to the Board as deemed appropriate by the management. The Board critically evaluates the impact of business decisions on stakeholders and carefully balances their diverse interests in determining strategy.

Working with the HR Committee, the Board ensures that the CEO and the Key Management Personnel (KMP) have the required skills and expertise to implement business strategy and uphold the corporate values of CSE. The HR Committee also reviews processes in place for ensuring that there is a sufficient talent pool available for CSE's business needs through talent development and retention initiatives. Additionally, a performance management system is in place to provide feedback. Identify areas for development and measure performance. High performers are rewarded in accordance with an incentive scheme approved by the Board. The HR Committee also ensures that succession plans are in place for KMPs and reviews these on an annual basis.

Corporate Governance contd...

Company Secretary

Code Ref A1.4

Company secretarial services are provided by Corporate Services (Pvt) Ltd., with a full time representative to assist and advise the Board of directors. Responsibilities of the Company Secretary are summarised in the adjacent column. Appointment and removal of the Company Secretary is a matter for the Board as a whole.

Role of Chairman

Code Ref A2 & A3

The roles of Chairman and CEO are separated and the Chairman is a non-executive director who presides over all meetings. The same Elected Director can be re-appointed as Chairman provided that no such Chairman shall hold office for more than three (3) consecutive years from the date of his appointment unless re-elected unanimously by the Board.

Appointment, Re-election & Independence

Code Ref A.8

In terms of Article 50 of the Articles of Association of the CSE, the two Directors who have been longest in office since their last election shall come up for retirement but as between persons who became or were last re-elected Directors on the same day the Directors to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Elected Director shall be eligible for re-election by the members at the Annual General Meeting.

The nominations committee evaluates director nominations presented by existing trading members and makes recommendations to the Board. Based on the recommendations, the Board recommends directors to SEC. New directors need to provide declaration forms assuring that he/she is fit and proper to hold office based on factors such as past performance, skills, technical knowledge, instances of past/pending disciplinary or administrative action by regulators or judiciary system.

Director Induction & Training

During the year induction training programs were conducted to new directors to ensure there is a comprehensive understanding on regulatory requirements and key development in the industry. As directors of the CSE, they participate in numerous forums where they receive presentations on matters related to their roles which support them in discharging their roles.

Directors' Remuneration

Code Ref B.1

Directors of the Board serve without remuneration. However, CSE repays any reasonable expenses incurred on the business or management of the exchange.

ROLE OF COMPANY SECRETARY

- Provide guidance to the Board on matters of governance;
- Assist the Chairman in organizing the activities of the Board
- Ensure Board compliance regulatory requirements and the articles of association
- Assist the Board in self-evaluations processes
- Maintain register of conflicts of interest
- Carry out any other duties as may be assigned by the Board

ROLE OF CHAIRMAN

- Effective participation of both elected and appointed directors.
- Effective contribution of all directors
- Balance of power between elected and appointed directors.
- Views of all directors are considered on issues.
- Promote a constructive relationship with the Board directors and management.
- Ensure the Board has complete control on CSE affairs

Managing Conflicts

It's a requirement for directors to act in the best interest of the exchange that enhance public confidence and impartiality of the board. As per the Board charter, the directors are advised to discuss at the AGM, the hypothetical situations leading to conflicts of interest. In addition, a questionnaire is circulated every year to Board directors to identify instances of conflicts of interest.

In the event of a conflict of interest:

1. The director is required to submit written application form disclosing the conflict of interest.
2. Obtain advice and guidance of the Chairman in the event of uncertainty of conflict of interest.
3. Board director cannot participate in the decision- making process.
4. The disclosure of the decision on whether a conflict exists and how the conflict was managed are documented in meeting minutes.

Board Evaluation

Code Ref A9

As per the Board charter, the effectiveness of the Board is evaluated in areas of composition, accountability, responsibility and conduct. The board evaluates its performance at least annually based on a performance evaluation checklist in addition to self- evaluation.

Performance evaluation of CEO

Code Ref A11

The Board reviews the performance of the CEO with reference to annual targets agreed and set for CEOs based on the strategic goals and the operating environment. The targets include financial and non-financial goals.

Relations with Members

Code Ref C1-3

The Board directly engages with the members who are licensed stock brokers with meetings of the Consultative Committee of Market Makers. Minutes are maintained of these meetings and feedback is given on how concerns raised are being addressed. During the year the following concerns were addressed:

- Launch of strategic plan and meeting held to obtain input for budget proposals

- Member firm participation at Foreign road shows and investor forums
- Meetings with IT managers of member firms as required for specific projects

The Annual Report, Notice of Annual General Meeting, Resolutions and voting procedures are sent to members 21 days prior to the AGM facilitating participation and review of matters presented. Proxy forms are also included on page 145 of this report enabling members to participate via proxy. The CSE has a mechanism to record all proxy votes and proxy votes lodged for each resolution. Separate resolutions are proposed at the AGM for each substantially separate issue facilitating voting on each substantial issue. Accordingly the adoption of the report and accounts is proposed as a separate resolution. The Board, including the Chairmen of all the sub committees, are present at the AGM to answer any questions.

The CSE's future strategies and their potential impact have been disclosed in the following sections of this Annual Report.

- Chairman's Statement on pages 22 to 25.
- CEO's Review on pages 26 to 29.
- Operational Review on pages 39 to 88.

Accountability & Audit

Code Ref D.2 & 3

The Risk & Audit Committee has oversight responsibility for approval of appropriate accounting policies, CSE's internal control framework, compliance and risk management processes. It comprises of 4 independent non-executive directors as set out in the report of the Risk & Audit Committee on page 97 which also summarises the responsibilities of the Audit Committee and activities undertaken during the year. They are supported by Internal Audit who reports directly to the Risk & Audit Committee reviewing the efficacy of internal controls and regulatory compliance. Additionally, the committee also reviews risk management processes of the CSE which is supported by the ERM Division which ensures that potential risks are identified, measured, monitored and managed or mitigated within the defined risk appetite approved by the Board. The Risk & Audit Committee also meets with external auditors to discuss audit plans, matters arising from the audit, audit reports and management letters including an in-camera meeting.

Code Ref D.1

This Annual Report provides a balanced view of CSE's position, performance for the year ended 31st December 2017 and its prospects. The Annual Report of the Board of Directors on page 93 contains the following as specified by the Code:

Corporate Governance contd...

Requirement	Page Ref.
Statement that all material interests in contracts involving the Company have been declared and that they refrained from voting on matters in which they were materially interested	95
Statement confirming review of the internal controls and obtaining assurance on its effective operation	95
Statement setting out the responsibilities of the Board for the preparation and presentation of financial statements	93
Statement by the Auditors about their reporting responsibilities	93
Report/Statement on Internal Control	95
Management Discussion & Analysis	93
Statement that the business is a going concern	94
Related party transactions	95

Sustainability Reporting

This Annual Report is an Integrated Report prepared according to the IR Framework published by the International Integrated Reporting Council, integrating sustainability information with governance and financial information.

Requirement	Page Ref.
Economic sustainability	10
The Environment	11
Labour Practice	82
Society	10, 11 and 74
Stakeholder identification, engagement and effective communication	18
Formalise Sustainability Reporting processes	10

Risk Management

Risk management forms an integral role in strategy implementation providing early warnings of potential threats arising from changes in external and internal operating environments supporting optimal allocation of resources. Given the complex interconnectivity of several stakeholders in our day to day operations such as investors, issuers and market intermediaries with varying stakeholder interests, risk management and governance play a prominent role in balancing their legitimate interests.

Our Risk Management Process

We follow an Enterprise risk management (ERM) framework based on the three lines of defense model. The Framework conforms to best practices defined in COSO (The Committee of Sponsoring Organisations of the Treadway Commission).

The risk management processes encompass the following:

- Risk identification and assessments through self- risk assessments by risk coordinators appointed for each division. The organizational risk matrix is reviewed annually in line with changing risk landscapes and practices of global exchanges.
- Risk prioritization based on a severity score that accounts for likelihood and impact of each risk.
- Risk monitoring through risk registers maintained at both organizational and divisional level, risk reviews and risk meetings.
- Risk mitigation strategies which are approved by the Board. This includes adequacy of internal controls which are assessed by the internal audit team.

Focus areas during the year

Market Surveillance

Regulatory Readiness

Systematic Risks

Market Performance

Technological Risks

Key Initiatives in 2017

Formed a new Compliance Division.

Strengthened governance and risk monitoring.

Implementation of CAR for Stock brokers.

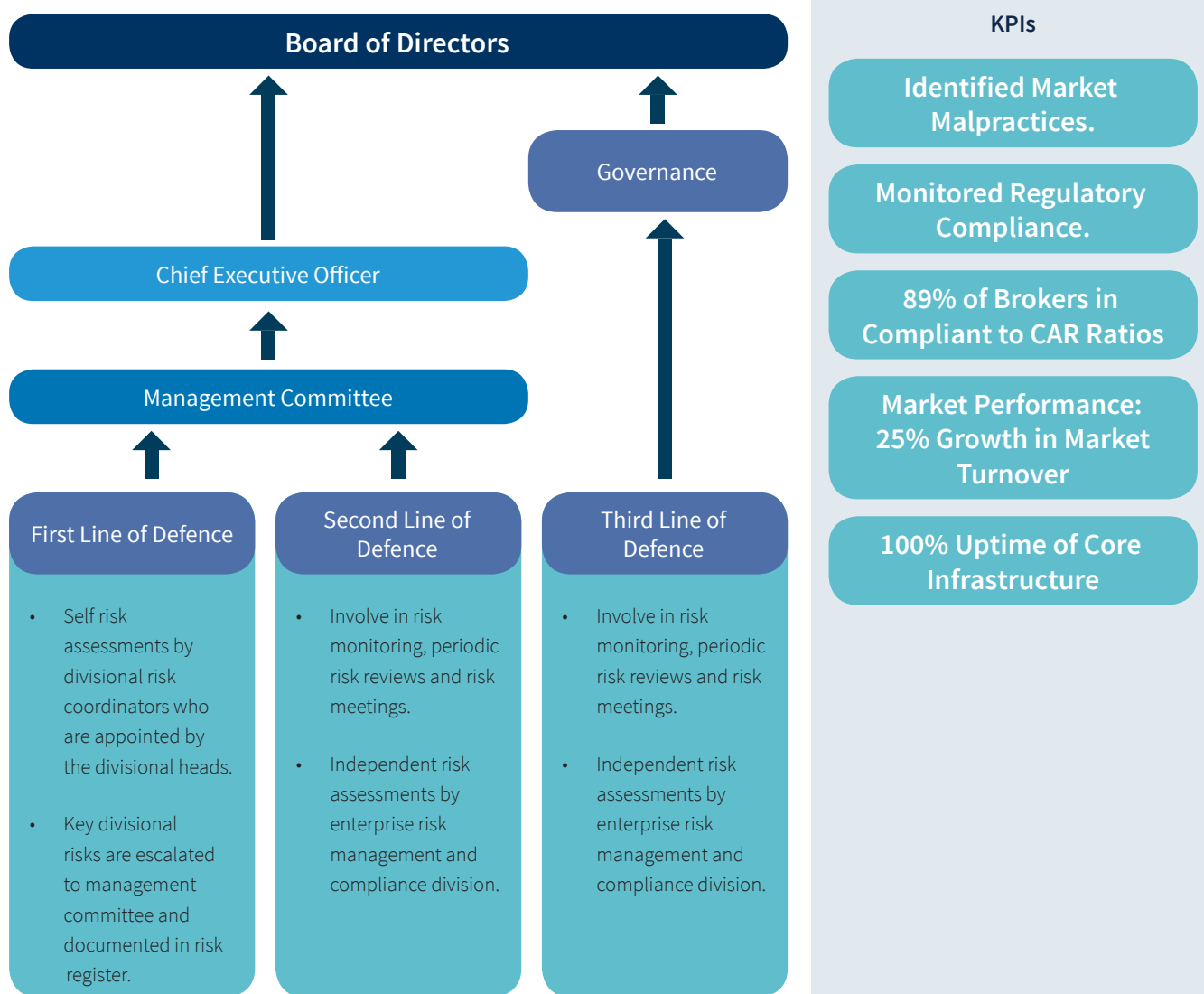
Implemented enforcement action.

Three new risks such as competition, cyber security and changing regulation added to risk matrix

Drafted Comprehensive audit plan.

Risk Management contd...

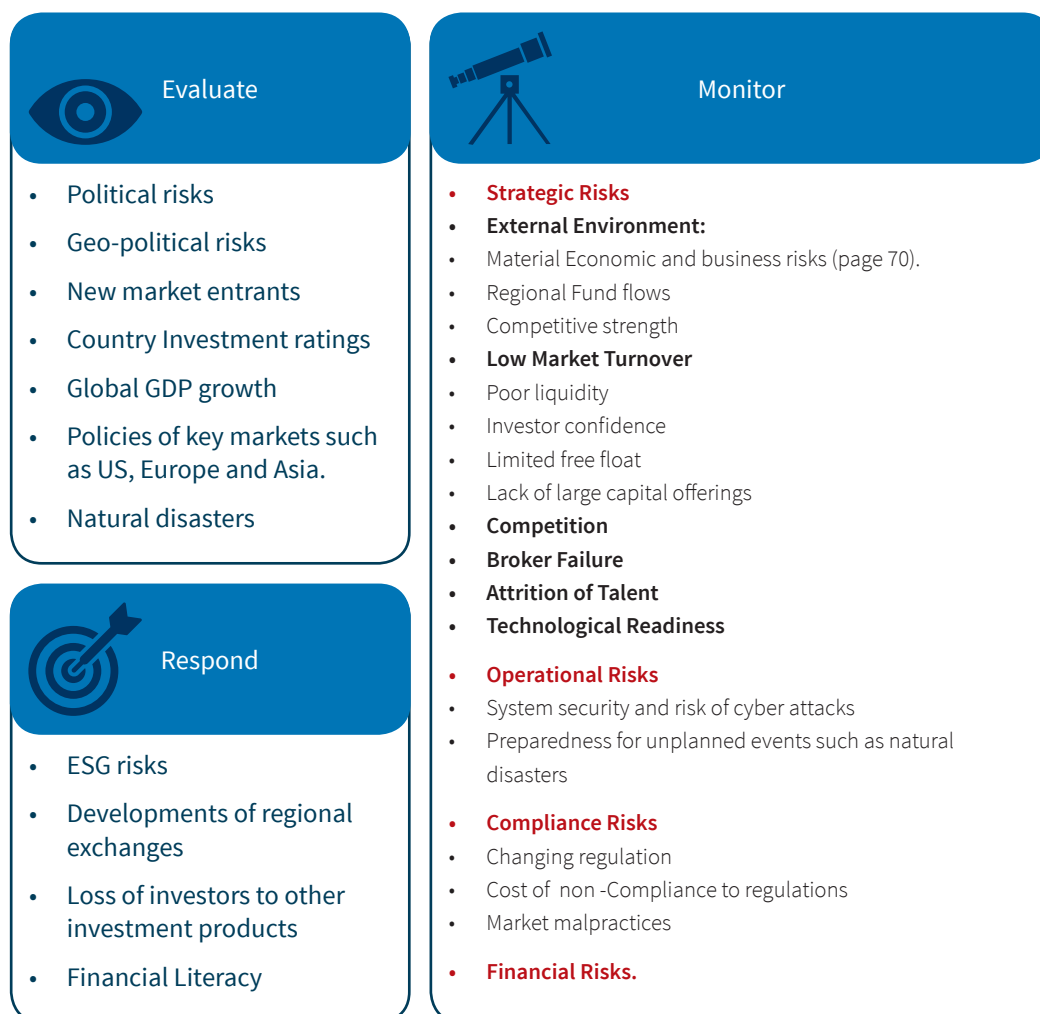
Risk Governance



Developments in Risk Management in 2017

- Drafted a comprehensive audit plan in Jan 2017 after detailed divisional risk reviews by internal audit function. Three focus areas were highlighted by the internal audit findings namely cost minimization, process efficiencies and compliance.
- Risk mitigation strategies were approved by the Board.
- Established a Compliance Division to enhance regulatory readiness. Formed an effective risk based Corporate Compliance Program, which will guide all operational and support divisions of the CSE to satisfy the legal, regulatory and other obligations inherent in their respective areas of work.
- Strengthened governance with the adoption of the Board charter.
- Focus areas discussed at risk meetings in 2017 were ERM framework and updates on organizational risk matrix.

Our Current Risk Landscape



Material Risks	How we reacted during the year
Strategic Risks	
Low market turnover	<ul style="list-style-type: none"> • New product development: <ul style="list-style-type: none"> • The foundation has been laid for the launch of new listing platforms such as Multi currency and SME Board to enhance issuer choice, encourage foreign issuers and provide SME and alternate segments to access the market. • Extended value -added services for issuers such as registry services. • Focus on attracting new listings from the private sector through one to one discussions with family owned businesses. • Proposed rule amendments on revising public holding rules and ensuring that issuers continue to maintain free float requirements. • Conducted three investor forums overseas targeting multiple investor segments such retail, high net worth and institutional investors. • Enhanced reach in local markets through 484 education and awareness programs in 9 regions .Enabled informed decision making for investors through real time updates online and mobile apps.

Risk Management contd...

Material Risks	How we reacted during the year
Competition Risk Increasing interest rates in 2017 shifted investor interest towards fixed deposits. Competition intensified among regional exchanges.	<ul style="list-style-type: none"> • Focused product diversification. • Adopted global benchmark practices. • Strengthened brand positioning by participating in cross market events such as WFE – Block chain, on site visits, WFE AGMS and annual conferences. • Branches focused on attracting retail investors to the market through awareness sessions.
Broker Failure Lack of adequate capital could result in broker failures.	<ul style="list-style-type: none"> • Implemented risk- based Capital Adequacy Requirement (CAR) for stockbrokers with an internally developed automated system for daily reporting of CAR. The Minimum Capital Adequacy Ratio (CAR) is 1.2 and Minimum Liquid Capital Requirement is Rs. 35 Mn. • Monitored compliance to minimum Capital Adequacy Requirements and instituted enforcement action on on-compliances. • Provided the Stockbroker Firms with the option of introducing additional margins on T+1 to support compliance of minimum Capital Adequacy Requirements taking in to consideration the VaR margins associated with different securities. • The implementation of OMS and BBO systems improved risk management at stockbroker-end. • Conducted broker awareness sessions on new initiatives and engaged in onsite inspections and special inspections.
Attrition of right talent Loss of key employees impact our operations and strategy implementation which require specialized skills and competencies.	<ul style="list-style-type: none"> • Competency based training initiatives are planned. • Conducted training and development programs in addition to initiatives to reward and recognize employees. • Employee concerns were discussed in common quorums/focus groups. • Internal/Industry salary surveys undertaken to identify gaps. • Signed MoUs with regional exchanges to enhance cross border knowledge sharing. During the year, conducted training programs to Nepal Stock Exchange and received training programs from Korea Exchange and Bursa Malaysia.
Investor Confidence impacted by policy inconsistencies.	<ul style="list-style-type: none"> • Conducted investor forums with the joint participation of policymakers giving a clearer direction to govt policies. • Enhance financial literacy through education and awareness programs. • Enabled informed decision making for investors through real time updates online and mobile apps. • Strengthened market surveillance with the use of new market surveillance system. • Introduced an anonymous tip off system in the CSE website.
Financial Risks	
Increasing uncertainties in external environments pose a threat to core business operations such as trading and listing activities.	<ul style="list-style-type: none"> • Increased revenues from value added/ fee- based services. • Increased revenues from provision of market data. • Process improvements to optimize cost management. Initiatives include tech upgrades, re-engineered rights issue process, decentralization of CDS functions. • Active treasury management to increase investment incomes. During the year, investment portfolios were restructured in line with increasing market interest rates.
Counterparty Credit Risk (settlement failures)	<ul style="list-style-type: none"> • Post trade risk management: DvP model to be implemented by 4th quarter of 2018 as part of initiative to establish a central counterparty(CCP) for securities transactions.

Material Risks	How we reacted during the year
Compliance/Regulatory Readiness	
Propose Rule amendments to facilitate regulatory requirements and market dynamics	<ul style="list-style-type: none"> An effective risk based Corporate Compliance Program was formed by the Compliance Division Strengthened relationships with the SEC and other government agencies such as CBSL, finance ministry and Inland Revenue through active engagement. Reviewed legal aspects pertaining to new market developments to ensure that markets operate in an orderly and fair manner. Proposed rule amendments in 15 areas to drive regulatory compliance among market intermediaries. Continuous upgrade of legal, product and industry knowledge. Adopted the Board Charter to enhance governance.
Compliance-Operational	
<p>Failure of systems and procedures.</p> <p>System failures have a significant impact on the entire capital market operation.</p> <p>Cyber security</p> <p>Cyber security has become a growing concern globally and CSE sets in place IT security tools and mechanisms to protect against emergent and persistent cyber security threats.</p>	<ul style="list-style-type: none"> Ensure systems and procedures are compliant with ISO standards. CSE complies with three ISO Standards namely Business Continuity Management System, IT Service Management System and Information Security Management System. A Comprehensive Business Continuity Plan (BCP), including a Disaster Recovery Plan was successfully tested with a disaster recovery drill. BCP is ISO22301:2012 compliant and evaluates preparedness of all stakeholder in the event of a disaster. Conducted IT system audit. Enhanced staff awareness on policies and internal controls.

Risk Monitoring

Risk monitoring at CSE is conducted on a quarterly basis by assessing threats and opportunities that impact the overall business objectives. The severity of risks is determined by the Management Committee at risk meetings held with respective divisions and escalated to organizational level depending on the risk severity. The action plans set out in the Strategic Plan aim to reduce the Residual Risk. Organizational Risk Register with recommended mitigating strategies are reported to the Risk and Audit Committee (RAC) for review on a quarterly basis. Subsequent, to the approval of the RAC these are submitted for the review and approval of the CSE Board.

Strategic Risks

Strategic risks are continuously monitored by evaluating market performance. (page 36)

Trading and Market surveillance

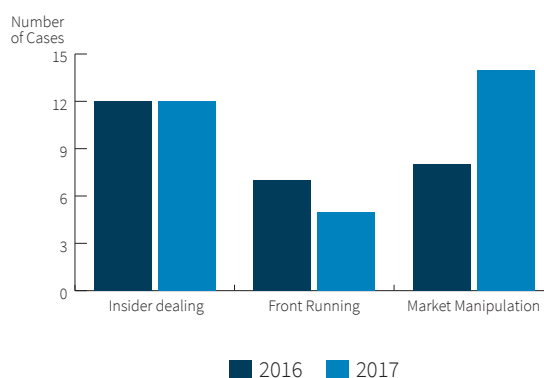
Unusual Trading activities (UTA) - in September 2017, the CSE adopted a procedure regarding UTA pertaining to the shares of listed companies where CSE will inquire by way of a letter from the company, the reason for the Unusual Trading Activity of the security and will request the company to immediately forward a clarification

in writing. This would also serve as a caution to the market that the unusual trading activities of the shares of the company may be due to speculative trading by investors rather than due to any specific corporate development relating to the listed company.

As an alternate surveillance method, the CSE IT team developed a surveillance system in order to enhance our market surveillance activities.

The CSE detected a total of 31 cases of suspected market malpractices during the year. All the cases were referred to the SEC.

Refferrals to SEC



Risk Management contd...

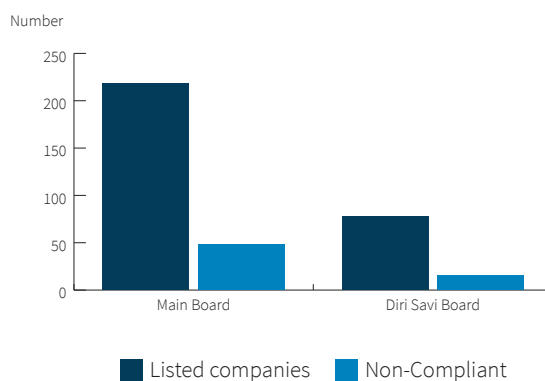
Monitoring compliance – Conformity to listing rules was monitored and identified non-compliances were reported to the respective companies for rectification and future compliance. The CSE observed that the non-compliances were mainly regarding corporate governance, related party transactions and other disclosures in the annual report in terms of CSE Listing Rule 7.6. Interim financial statements of listed companies were also reviewed on a sample basis and the non-compliances were reported to the relevant listed companies for rectification and for further market disclosures where appropriate in terms of CSE Listing Rules.

The enforcement rules in respect of minimum public holding as a continuous listing requirement came into effect from 01st July 2017. As per the new rules, listed companies are given a choice to select the public float requirements based on the listing Board that is Main Board and Diri Savi Board. The listed company must comply with the float adjusted market capitalization, and the corresponding public holding percentage and number of public shareholders applicable under the Option which the listed company selected to adopt. The listed companies which are in non-compliance with the minimum public holding requirement must make an announcement to the market stating the non-compliance with the rules, reasons for non-compliance and the steps to be taken/adopted by the company to comply with the minimum public holding requirement and the progress made until such time the company complies with the minimum public holding requirement. The Companies which remain non-compliant with the minimum public holding requirement as at 01st July 2018 will be transferred to the watch list with effect from 01st July 2018. If the company remains on the watch list for more than 20 months the company will be transferred to the Diri Savi board or trading will be suspended.

New enforcement rules, which will be effective from 01st January 2018, sets out the enforcement actions against violations of corporate governance rules, late submission or non-submission of interim financial statements and annual reports by listed public companies, incidence of modified audit opinions and emphasis of matter on going concern in the audited financial statements of listed public companies. By carrying out the enforcement action set out in the rules, the CSE will improve the financial reporting and governance aspects of listed companies.

As per the new enforcement rules, the name of the default board will be changed to "Watch List" and companies with late submissions of interim financial statements and annual reports will be transferred to the watch list on or before the expiry of five market days from the defined time period. If the listed company does not rectify the non-compliance with corporate governance rules within a period of three months from the date of non-compliance will be transferred to the watch list upon the expiry of three months. Listed companies with modified audit opinions and emphasis of matter on going concern in the audited financial statements will be transferred to

the watch list within 5 market days. The new enforcement rules sets out the procedure for enforcement action for violations of corporate governance rules, late submission or non-submission of interim financial statements and annual reports by listed public companies, incidence of modified audit opinions and emphasis of matter on going concern in the audited financial statements of listed public companies.



Systematic Risk

Stock Broker supervision

Our broker supervision activities in 2016 revealed unfavorable performance of certain stock brokers necessitating stringent monitoring. During the year 2017, the methodology for capital requirements for Stockbroker Firm was revised after 20 years taking into consideration the risk associated with the Stockbroker Firm by introducing and implementing Risk based Capital Adequacy Requirements (CAR) in March 2017. Resultantly, 27 Broker Firms reported relevant CAR computations online via the internally developed reporting platforms. In addition, 12 onsite and 4 special inspections were undertaken in 2017.

Cases identified included:

- 3 Stockbroker Firms with continuous non-compliances to statutory capital risk based adequacy requirements and 6 Broker Firms with random non-compliances.
- 4 Stockbroker Firms violated Credit Extendable Limit (3x of Adjusted Net Capital).
- 5 Stockbroker Firms violated Single Client Limit (extension of credit over 15% of the total Credit Extendable to a single client) during certain months in 2017.

- 2 Stockbroker Firms did not maintain adequate funds in their respective Client Fund Bank Accounts to settle the Creditors over T+3 balances during certain months in 2017.

Periodic referrals were made to Board sub committees such as Regulatory committee and comprehensive referrals to the Board of directors in relation to regulatory and enforcement matters concerning Stockbroker Firms. Further, enforcement action was taken in respect of three Stockbroker Firms in relation to non-compliance with Minimum Capital Adequacy Requirements.

Regulatory Readiness

- Drafted a compliance policy for CSE group to be implemented in 2018.
- Formulated an effective risk based Corporate Compliance Program.
- Completed Self-assessment of CDS against the Principles for Financial Market Intermediaries and Recommendations for Securities Settlement Systems and findings submitted to SEC.
- CDS Registration with the SEC was timely renewed for the year 2017/2018.
- Examined compliance status of price indices against IOSCO Principles for Financial Benchmarks and status of compliance communicated to the SEC.
- Proposed CSE/CDS rule amendments in 15 areas as listed below:

Approved by SEC & Implemented

- Amendments to the Listing Rules to enhance Enforcement Action for Key Continuous Listing Requirements.
- Amendments to the Listing Rules to facilitate Revised Public Holding Requirements and Enforcement Action thereof for non-compliance
- Amendments to the CDS Rules to facilitate trading of All-or-None Blocks on the CSE
- Amendments to the Listing Rules to facilitate listing of BASEL III Compliant Debt Securities
- Amendments to the Stockbroker Rules to facilitate the Shareholders' Fund Requirements and enforcement action thereof for non-compliance with same.

The following rules are in the process of obtaining SEC approval.

- Amendments to the Listing Rules and CDS Rules to facilitate the Multi-Currency Board Rules
- Amendments to the Listing Rules to facilitate the Small and Medium Enterprise Board, including Sponsor Rules
- Amendments to the CDS Rules to facilitate Decentralization of certain CDS Functions
- Amendments to the Stockbroker Rules to revise the Methodology to calculate the Capital Adequacy Requirements (CAR)
- Amendments to the Stockbroker Rules to revise the CAR Enforcement Procedure;
- Amendments to the Stockbroker Rules to facilitate Inactivation of Business Operations of Stockbroker Firms
- Complete revision of the CSE Listing Rules
- Listing Rules pertaining to Book-Building
- Listing Rules pertaining to Amalgamations which involve Listed Entities

Information Technology (IT)

Technology plays a crucial role in enabling connectivity of our stakeholders being a vital aspect for business performance. Being on track with fast paced technological developments is challenging but of paramount importance to our business. As such we continue to upgrade our core market infrastructure platforms and develop our systems and procedures whilst continuously focusing on monitoring the vulnerability of our systems. In 2017, our core technological platforms the Automated Trading System (ATS) and the Central Depository System (CDS), network and infrastructure operations recorded a 100% uptime in addition to being compliant to three standards namely Information Security (ISO 27001), Business Continuity (ISO 22301) and IT Service Management Systems (ISO 20000) benchmarks.

Key developments during the year include improving core systems, driving efficiency in service delivery and enhancing cyber-security preparedness.

Improving Core Systems: CSE successfully upgraded the server infrastructure and underlay software layer of the Automated Trading System Platform without any significant critical incidents demonstrating our continuous commitment towards maintaining a robust technological architecture. We also successfully developed an in-house surveillance system with more enhanced features for

Risk Management contd...

effective surveillance of the market which resulted in significant cost saving to the technology cost structure.

Driving efficiency on internal and external Stakeholder Services

- During the period of review, CSE launched an online CAR reporting system to monitor capital adequacy of stockbroker Firms.
- Implemented the necessary technological infrastructure to support the custody agent services of the Central Depository Systems.
- Implementation of a Business Intelligence system was a noticeable initiative during the year to empower internal stakeholders of CSE with on demand information for proactive decision making.

As a part of the strategy to streamline internal processes via digital and paperless solutions, CSE is currently in the final stages of testing several solutions connecting its internal as well as external stakeholders and expected to be launched early next year.

Information and Cyber Security: CSE continued to give priority for cyber-security preparedness due to the increasing volume of global cyber-security threats and breaches. During the year, we enhanced security infrastructure and conducted multiple rounds of vulnerability and threat assessments conducted for internal assets as well as publicly available services which guaranteed an un-interrupted service for all stakeholders. Additionally, multiple systems, technological and information security governance audits was conducted with the aid of leading audit and advisory firms to ensure Information and Cyber Security operations are up to internationally accepted criteria. A full day trading from the Disaster Recovery site was conducted in 2017 with no significant operational issues, the results of which was independently validated by Ernst and Young.

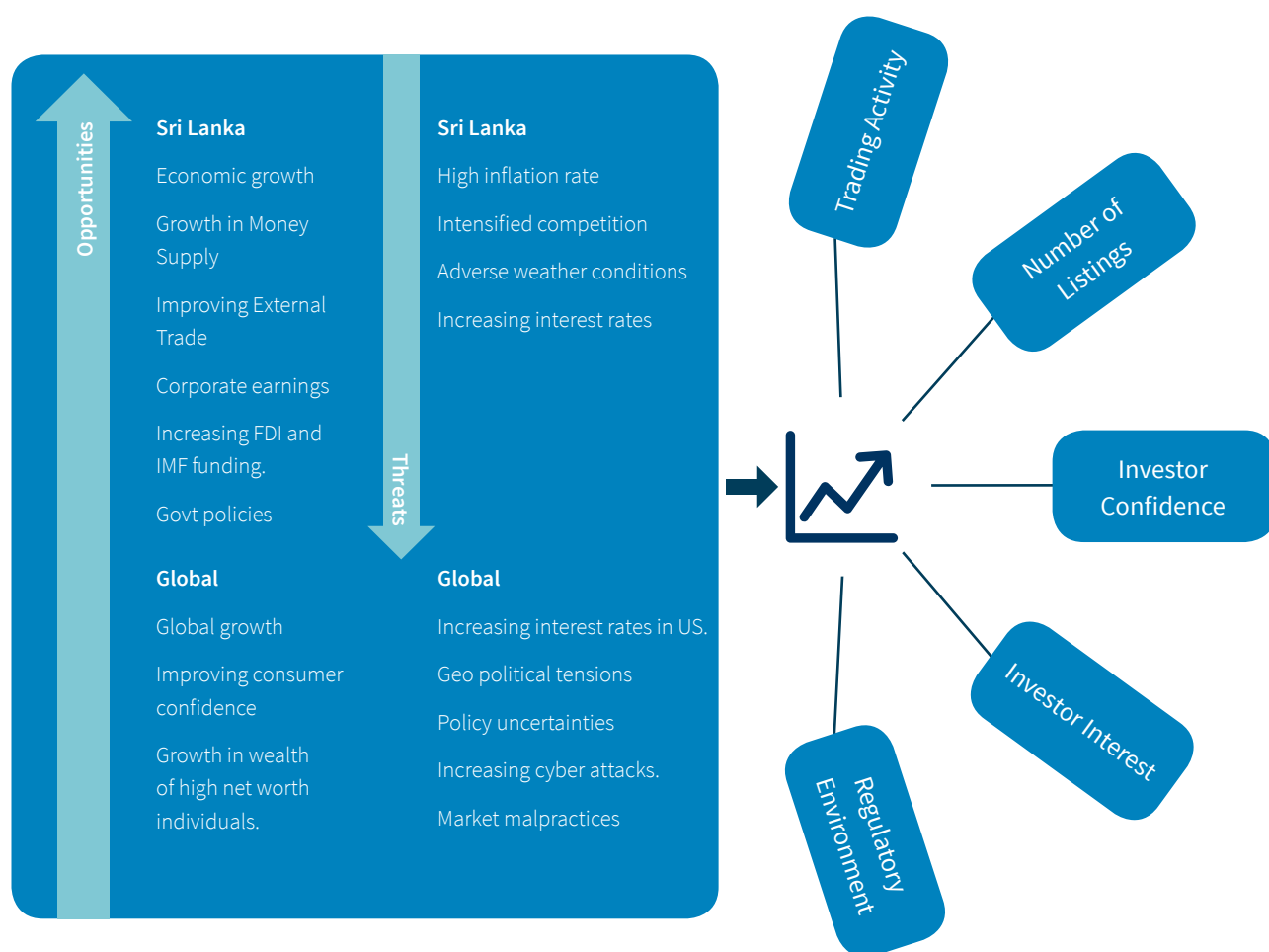


Opportunities and Challenges

Economic and Business Environment

Investor interest was impacted by several global and local events such as Fed rate hikes, natural catastrophes, changing global trade policies and uncertain government policies in Sri Lanka. Despite the challenges, growth in market turnover improved with stabilized growth projections for Sri Lanka driven by improving external

trade activity and policies to control inflation and exchange rate depreciation. Investor confidence was further supported by the grant of IMF funding in 2017.



Opportunities

Sri Lanka economic growth compares well with global peers:

Over 9 months ended September 2017, the economy grew at 3.7%, supported by construction, retail and financial services despite setbacks in agriculture due to adverse weather conditions. As per IMF estimates growth for 2017 is expected at 4.7% compared to 4.4% in 2016. As per the Road map for 2018, government envisages to maintain a stabilized economic growth.

Significant Growth in External trade: Recovery of key export markets, restoration GSP+ facility in May 2017 and free trade agreements with Singapore, China and India aided the growth. As per Road Map for 2018, the government expects to increase external demand to drive economic growth and reduce budget deficits. According to the Ministry of Development Strategies and International Trade, Sri Lanka's exports in 2017 hit an all-time high of USD 11.4 billion, up 10% from 2016 and surpassed the previous best of USD 11.1 billion achieved in 2014.

Declining rate of currency depreciation with the government shift to market-based exchange rate system in 2017: The Sri Lankan Rupee depreciation moderated to 2.0% against USD in 2017.

Improvement in balance of payments position

As per the monetary policy review published by CBSL, sustained inflows to CSE, the Extended Fund Facility (EFF) Program of IMF and divestment of Hambantota Port strengthened the Balance of Payments (BOP) position with gross official reserves reaching USD 7.95Bn by Dec 2017 (USD 6.02 Bn at Dec 2016).

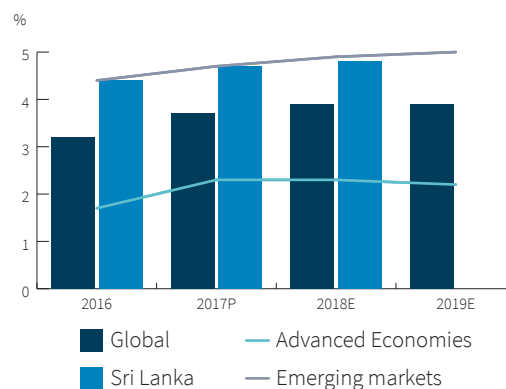
The rebound in investor confidence was supported by growth in foreign direct investments and IMF funding.

- Foreign direct investments (FDIs) increased with surging real estate activities and infrastructure projects such as Hambantota industrial zone and Colombo Port City project. FDIs increased to USD 601 Mn during the 1st Half of 2017 compared to USD 332 Mn in comparable 2016.
- Sri Lanka received the Fourth tranche of the Extended Fund Facility (EFF) of the IMF in December 2017 bringing the total funding to USD 759.9 Mn. There is a clearer direction to govt policies on IMF funding given the need to meet the conditions imposed by IMF.

Growing need for capital Generation:

- Increasing money supply** driven by increasing domestic credit despite higher interest rates, showing a growing need for capital generation that serves as a catalyst for our primary markets: Broad money supply grew by 16.7% in December 2017 with increasing credit to private sector being a significant contributor.
- Entrepreneurship development initiatives** by the government for Agriculture and micro, small and medium scale (MSME) sectors are planned for 2018.

Global Growth



Source: CBSL, WEO outlook Jan 2018

Opportunities in the global market:

Positive global outlook: Global growth is estimated to be 3.7% outperforming projections. Revival of global growth was supported by economic expansion driven by improving external trade, investments and higher manufacturing activity. Favorable tax policies implemented in US is expected to further stimulate economic activity in 2018.

Growth in wealth and institutional fund flows to Asia

Pacific regions: As per the World wealth report for 2017, Asia Pacific was recognized as the largest market of High net worth individuals (HNWI). During 2016, HNWI population increased by 7.5% and wealth by 8.2% and is expected to grow by 5.9% to reach USD 100 trillion by 2025.

	2016 %	2017(P) %	2018(P) %
World Output	3.2	3.7	3.9
Advanced Economies	1.7	2.3	2.3
United States	1.5	2.3	2.7
Euro Area	1.8	2.4	2.2
United Kingdom	1.9	1.7	1.5
Japan	1.0	1.5	0.7
Emerging Market and Developing Economies	4.4	4.7	4.9
Russia	(0.2)	1.8	1.7
China	6.7	6.8	6.6
India	7.1	6.7	7.4
Sri Lanka	4.4	4.7	4.8

Source: IMF World Economic Outlook Update, Jan 2018

Economic and Business Environment contd...

Challenges in 2017

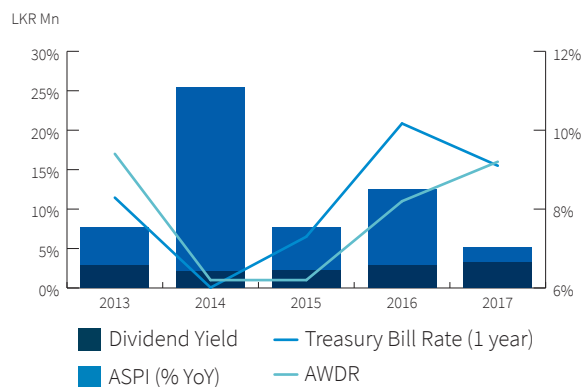
Increasing market interest rates improved returns on savings products with AWDR reaching 9.2% in 2017 compared to 8.2% in 2016. Consequently, investor interest in fixed income securities and deposits remained at high levels despite improved capital market returns (sum of average price growth and dividend yield) in 2017, widening the gap between savings and investments.

Inflation: During 2017, disruption to food supply due to adverse weather conditions resulted in higher food prices which had a direct impact on inflation. However, government plans to shift to a Flexible Inflation Targeting (FIT) by 2020 to maintain inflation at 5%-6% levels as per Road Map 2018¹ are expected to support management of inflation within a narrow band.

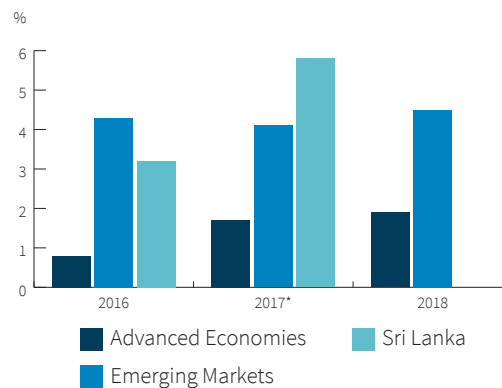
Challenges in the global market:

1. Potential impacts of financial correction in response to interest rate increases by market regulators in advanced economies as they move out of relatively relaxed monetary policy regimes.
2. Geo-political tensions and political uncertainties.
3. Increasing cyber- attacks and market malpractices necessitating tightened regulation and monitoring.

Comparison of Returns

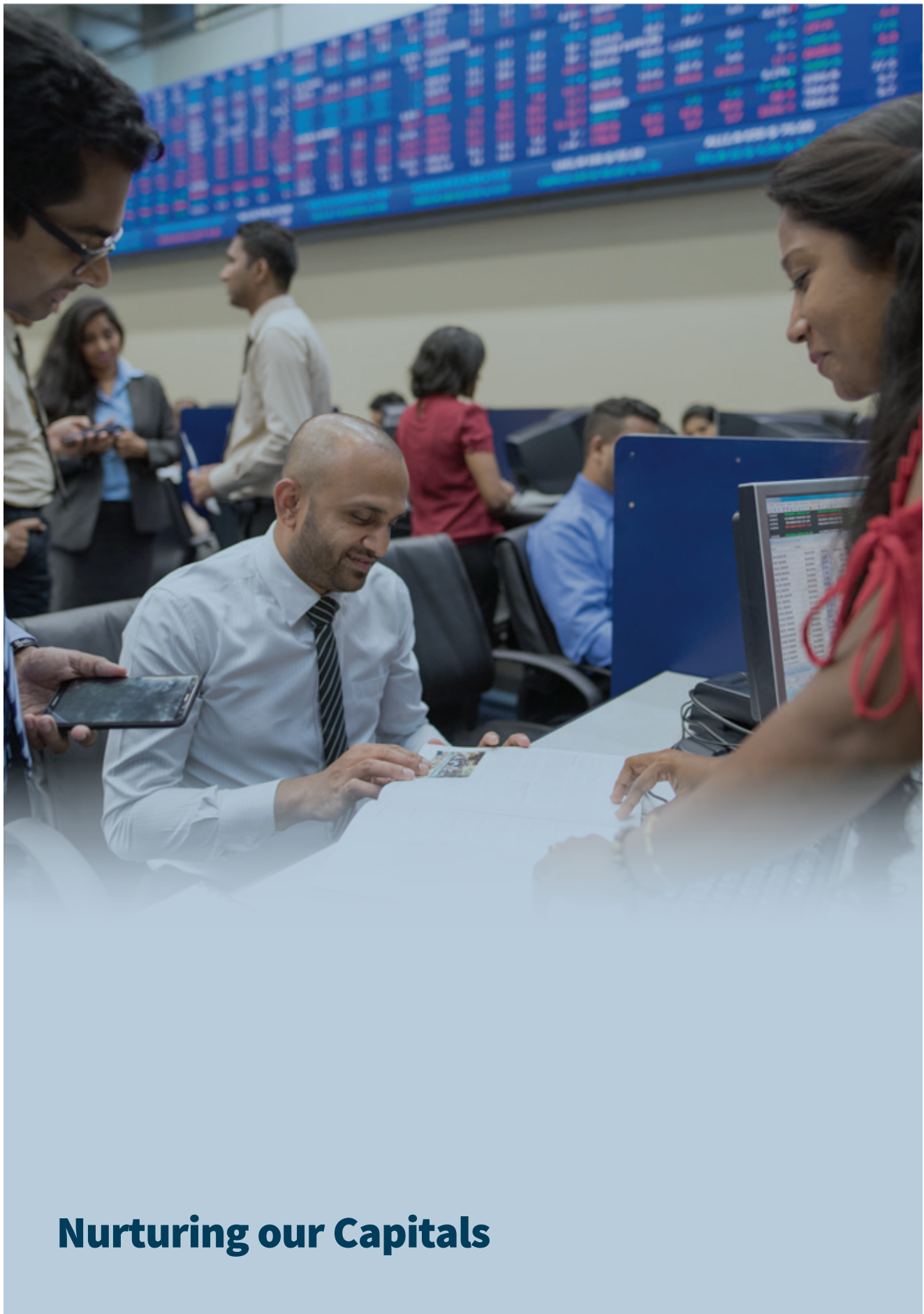


Inflation



Source: CBSL, WEO outlook Jan 2018
 *SL inflation for 2017 is over Jan to Sept

¹ Road Map 2018_CBSL speeches



Nurturing our Capitals

Social & Relationship Capital

Investor confidence, issuers and the work done by market intermediaries such as stock brokers and investment banks are vital to market performance making Social & Relationship Capital the most important capital although it is not monetized.

Investor confidence is highly dependent on market information being disseminated in a timely and fair manner. Consequently, significant resources are devoted to ensuring this happens as described on page 18, Stakeholder Engagement. Growth in listed entities depends on a more complex combination of factors necessitating a longer-term approaches to relationships. Accordingly, our formula for growth in social and relationship capital is driven by building long term

relationships, stakeholder development and continued investments in market development ensuring that we deliver growth across multiple stakeholders.

Stakeholder engagement

Digital platforms form an integral part of our connectivity with diverse stakeholders through timely information dissemination being a material concern to our stakeholders such as investors, issuers and trading members. During the year, we had promising growth rates across all our digital channels as shown in page 49 – Market data.

Local Investor Engagement



“Kotas Welendapola: Nagarayen Nagarayata”:

CSE conducted six regional Investor Forums to enhance awareness of opportunities for investment among retail investors in several important towns in the country including Negombo, Colombo, Jaffna, Kandy and Galle. This attracted over 1,518 participants which is expected to create enhanced interest in the country's capital market.

Branch Network Driven Events

A total of 484 educational and awareness programs were conducted island-wide attracting the involvement of over 16,857 participants. Programs included educational workshops, seminars on market conditions, programs for schools & universities, trade exhibitions, and other awareness programs



CSE – CSBA Research Presentation Series

The CSE and the Colombo Stock Brokers Association (CSBA) collaborated to launch a series of broker research presentations to bring together local Institutional Investors, HNWIs and senior representatives of S&P SL20 companies for an exclusive, investment case focused discussion.



International Investors Awareness

CSE in association with the SEC created awareness in key foreign markets during 2017, through 'Invest Sri Lanka' Forums in Sydney, Melbourne, Auckland and New York. The events reached out to leading institutional investors and Sri Lankans living in the locations, and provided perspective on the economic policy direction and stock market opportunities. The events in Australia were followed up with 2017 marking a new all-time record for foreign purchases in the stock market originating from the country in any given year. The figure amounted to Rs. 666 million.



Social & Relationship Capital contd...

The Sri Lanka Economic and Investment Conclave

SEIC is an international event hosted to create and strengthen investment partnerships with China, USA, Netherlands, Switzerland, Dubai and Hong Kong which was supported by the CSE through an event sponsorship and speaking engagements in the Capital Market and Private Equity segment of the conference.

Engagement with regional exchanges:

- Colombo Stock Exchange took part in the World Federation of exchanges (WFE) Emerging Markets Survey on “Enhancing Retail Participation on Emerging Markets”. The chairman of WFE visited CSE for the first time in 2017.
- Participation in conferences and workshops by SAFE Secretariat and active presentation at the World Federation of Exchanges.
- Memorandum of Understanding (MoUs) that enable cross border trainings and knowledge sharing. During the year, three new MoUs were signed with Sydney Stock Exchange (SSX), Korea Exchange (KRX) and Central Depository services (India) Limited. In addition, we conducted training programs to Nepal Stock Exchange and received training programs from Korea Exchange as part of cross- market training initiatives.

Structured Process to Handle Stakeholder Concerns

Followed a structured procedure to handle Investor Complaints, which was translated into Sinhala and Tamil languages. A total of 16 Investor Complaints were handled during the year. A panel is appointed by the CEO to handle each Investor Complaint.

Handling of Disciplinary Matters

- Five (05) appeals were submitted to the Dispute Resolution Committee (DRC) and one (01) decision has been issued.
- The Arbitration and Disciplinary Committee of the CSE (ADC) issued three (03) decisions in respect of the disciplinary actions taken by the ADC.

Client-Stockbroker Dispute Resolutions		Appeals to the Dispute Resolution Committee		Disciplinary Action Against Stockbroker Firms
Status	No. of Complaints			Instituted disciplinary action against four Stockbroker Firms of the CSE and delivered decisions in respect of three Stockbroker Firms of the CSE.
Decisions Issued	07	Total number of appeals received	05	
Decisions Pending	07	Decisions issued	01	
Complaints Withdrawn	02	Decisions pending	04	

Board Governance

A Board Charter, prepared in line with regulatory requirements and global best practices was duly adopted by the Board of Directors.

Amendments to Articles

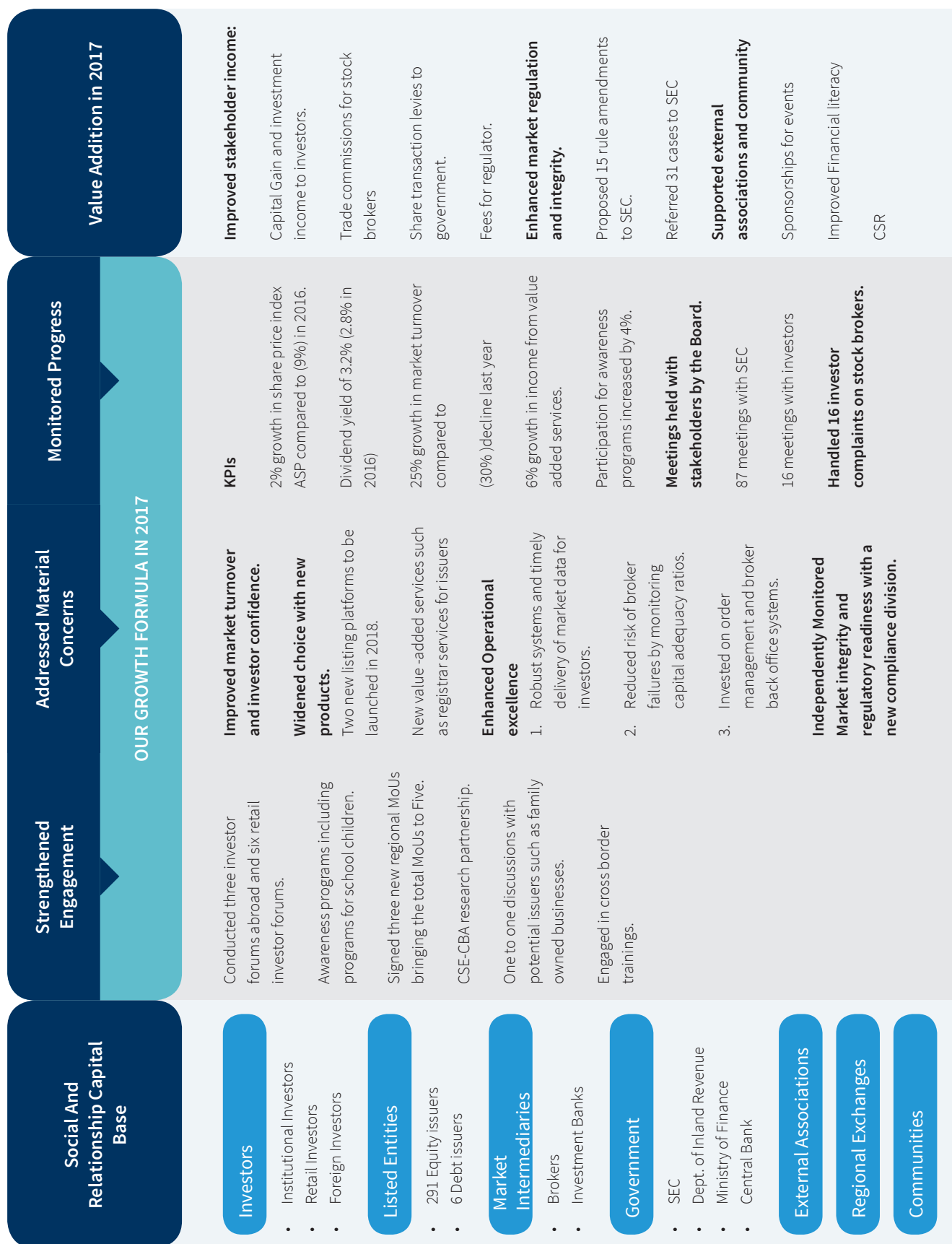
Amendment of Article 16 of the CSE articles of association was effected.

Litigation

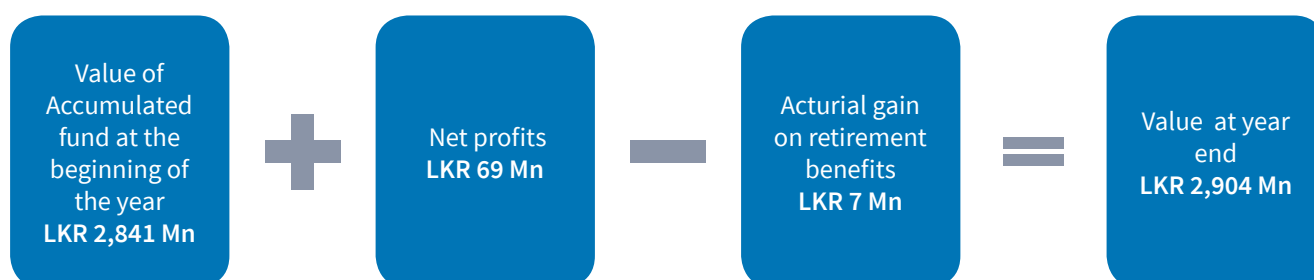
During the year, 8 litigation matters filed against the CSE.

Agreements/deeds

In total, over Eighty- Five Agreements/Deeds were prepared/ reviewed and finalized for execution by the CSE/CDS in 2017.



Financial Capital

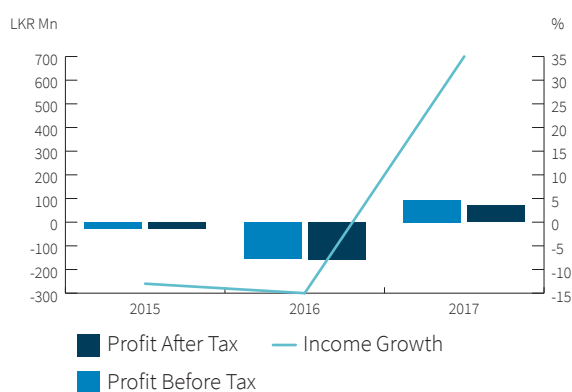


Performance

LKR Mn	2016	2017	% change
Group Revenue	481	557	16%
Other income	230	406	77%
Total income	711	964	35%
Operating expenses	863	870	1%
Profit/(loss) before tax	(152)	93	161%
Profit/(loss) after Tax	(156)	69	144%

such as retail investors and high net worth individuals enabling a 25% growth in market turnover despite a challenging operating environment. Foreign purchases significantly increased by 51% in 2017 enabling foreign investor participation to reach 47% compared to 42% last year. However, rising interest rates continued to challenge our growth in local markets with investor interest drifting towards fixed deposits. As a counter measure, we strategically restructured our investment portfolio by increasing exposure to fixed deposits that provided interest income of LKR 210 Mn in 2017 (LKR 86 Mn in 2016) representing 22% of group income.

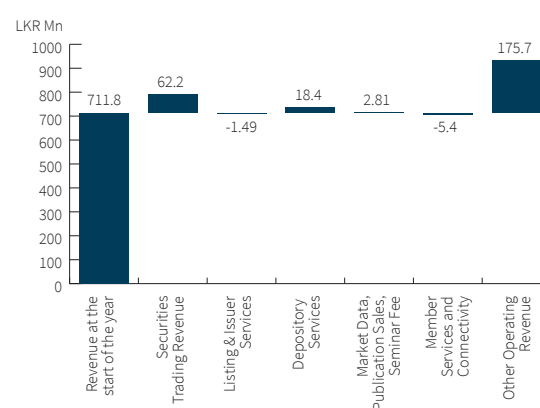
Profitability



Accumulated funds representing the financial capital generated by CSE over the years, increased by 3% in 2017 as the year marked a turnaround of two consecutive loss-making periods with profits of LKR 69 Mn. Performance was driven by rebound in market performance that enabled an increase in trading, post trade and market data segments of CSE. Significant growth in other incomes further supported our performance driven by growth in interest incomes and gains on short term available for sales assets. During the year, we engaged in several investor forums and awareness programs to expand our reach across multiple investor segments

Group Income

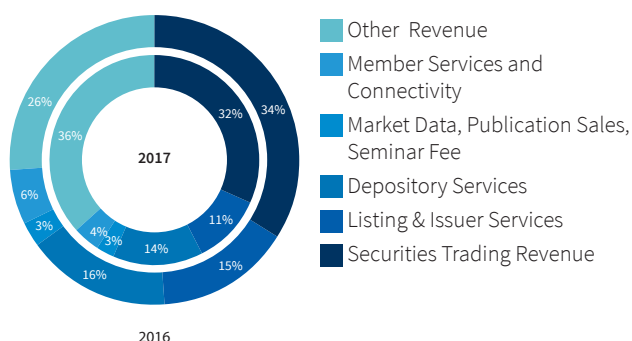
Drivers of Group Income in 2017



Group income increased by 35% to LKR 964 Mn in 2017 supported by the increase in trading and depository fees and net gains on disposal of available for sale assets. Excluding net gains of LKR 129 Mn, group income improved by 22% to LKR 834 Mn.

- Group revenues amounted to LKR 557 Mn representing a 16% growth driven by trading and post trade segments which was

supported by rebound in market performance. Trading revenues accounted for 31% of group income and increased by 25% to LKR 307 Mn as investor forums held during the year enabled an increase in foreign investor participation to 47% of market turnover compared to 42% in 2016. However, revenues from listing and issuer services were impacted by the decline in new listings of both debt and equity although right issues improved. Resultantly listing related revenues remained in line with last year.



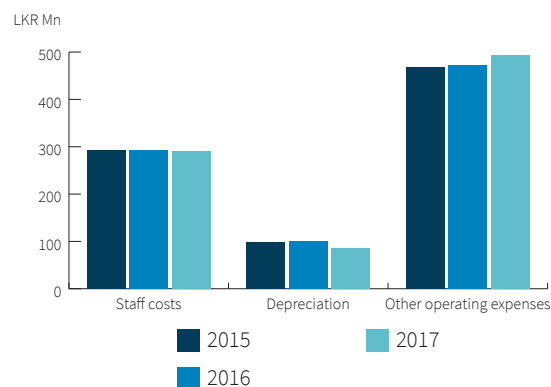
- Other income of LKR 406 Mn was driven by net gains on disposal of Available for sale assets (AFS) and interest incomes though dividend incomes from unit trust declined. Net gains on disposals of AFS increased to LKR 129 Mn in comparison to LKR 31 Mn in 2016. Interest income also significantly increased to LKR 210 Mn (LKR 86 Mn in 2016) as we expanded our fixed deposit investments in line with rising market interest rates.

Costs

Operating costs remained in line with last year at LKR 870 Mn as we focused on doing more with less through enhancements in productivity.

- Staff costs accounting for 33% of operating costs remained in line with 2016 as the increase in staff welfare costs was offset by the decline in terminal benefits.
- Other operating expenses increased by 5% to LKR 494 Mn accounting for 57% of operating costs. Growth was driven by increasing investor education and road show expenses of LKR 41 Mn, NBT and disallowed VAT expenses and cost of incentive scheme for Brokers Back office.
- Depreciation expenses accounting for 10% of operating expenses declined by (14%) in 2017.

Operating Expenses

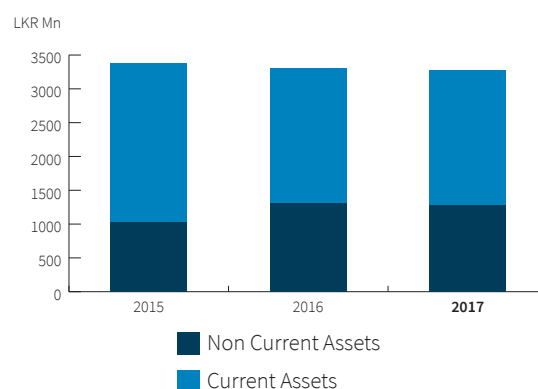


Taxes: Income taxes increased to LKR 23 Mn due to increase in income.

Profit for the Year

Profit before taxation of LKR 93 Mn marked a recovery of two preceding loss-making period, driven by growth in incomes. Profit after tax amounted to LKR 69 Mn compared to a loss of LKR 156 Mn in 2016.

Assets



Statement of financial position

Total Assets

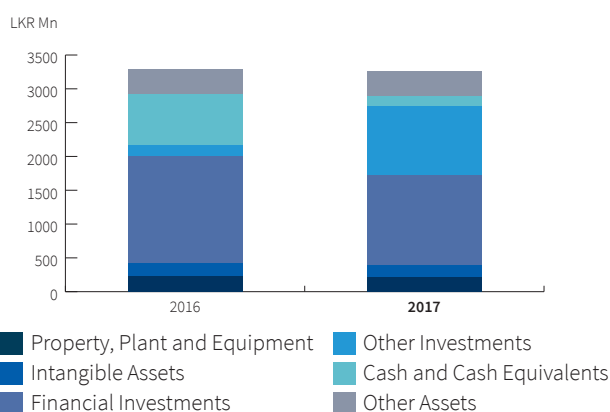
Total Assets remained in line with last year at LKR 3,265 Mn although asset composition changed in line with active treasury management initiatives reflective of increasing market interest rates.

Financial Capital contd...

Current Assets

Accounting for 61% of total assets, current assets remained at LKR 1,986 Mn in 2017 although the composition changed significantly during the year as we strategically re-aligned the investment portfolios in response to the upward trend in interest rates. Accordingly, exposure to short term money market funds, treasury bills repos and overnight Repos declined, and funds were re-directed to fixed deposits as reflected in the phenomenal growth of other investments to LKR 1,031 Mn compared to LKR 152 Mn in 2016. Available for sale financial assets declined by (32%) on sale of investments. Cash and cash equivalents significantly declined to LKR 139 Mn compared to LKR 758 Mn in 2016 on maturity of treasury bills repos worth LKR 565 Mn. These funds were redirected towards other investments consisting of fixed deposits which accounted for 32% of assets at the close of 2017. Bank overdrafts reduced to LKR 8.5 Mn in 2017 compared to LKR 16 Mn last year.

Asset Composition



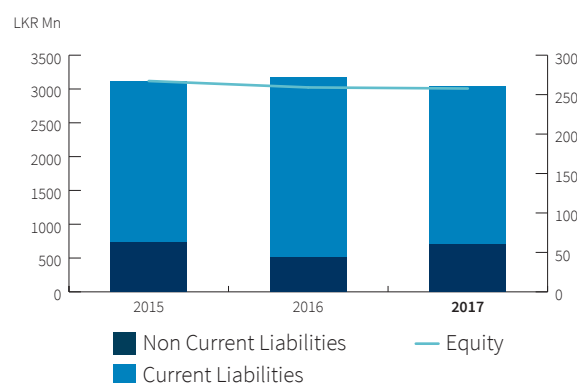
Non- Current Assets

Non- current assets declined by 2.8% to LKR 1,279 Mn during the year due to declining property, plant and equipment (PPE) and intangible assets. PPE, intangible assets and capital work in progress declined by (9%) to LKR 398 Mn and accounted for 12% of assets. Capital expenditure of LKR 53 Mn was incurred in 2017 compared to LKR 37 Mn in 2016 with a significant portion incurred on ATS related purchases.

Liabilities

Total liabilities of LKR 261 Mn declined by (4.1%) in 2017 with a decline in Broker deposits and Bank overdrafts. Long- term retirement benefit obligations and other payables increased in 2017.

Equity and Liabilities



Equity/ Net Assets

Equity remained at LKR 3,004 Mn in line with last year. Accumulated funds accounted for 97% of equity and increased by 2% with a net profit of LKR 69 Mn.

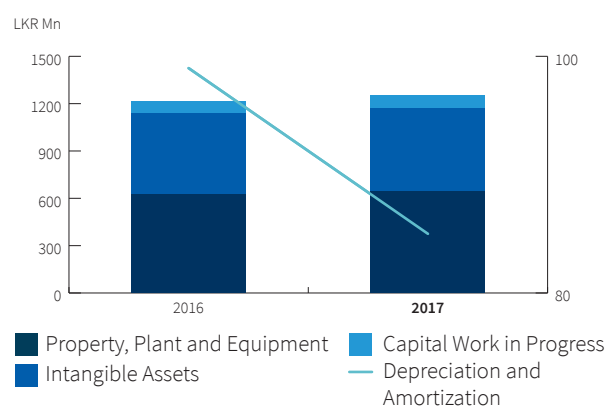
Cash Flows

Cash from operating activities improved during the year with a rebound in profitability that reduced operating cash outflows to (LKR 57 Mn) in 2017 compared to (LKR 159 Mn) in 2016 as working capital requirements increased during the year. Cash outflows were seen from investing activities with the re-alignment of investment portfolios as market interest rates increased. Investment in fixed deposits amounted to LKR 975 Mn in 2017 (LKR 150 Mn in 2016) and was primarily funded by the proceeds on maturity of short term treasury bills repos of LKR 565 Mn. Resultantly, Cash and cash equivalents significantly declined to LKR 131 Mn in 2017 compared to LKR 741 Mn in 2016.

Manufactured Capital

Represents a core part of our operations that forms the market infrastructure connecting all stakeholders. Manufactured capital forms the platform that delivers our envisaged roles and objectives. Cost of manufactured capital amounted to LKR 1,251 Mn, 3% increase as capital expenditure of LKR 53 Mn (LKR 37 Mn in 2016) was incurred on exchange infrastructure of which LKR 29 Mn represented ATS related purchases. Majority of ATS related purchases was on firewalls, replacement of ATS servers, storage capacity upgrades, ATS/CDS server upgrades and the investment in a business intelligence system. Net book value of manufactured capital amounted to LKR 398 Mn and represented 12% of total assets in 2017.

Cost of Manufactured Capital



Intangible assets consist of application software, CSE website and other softwares used in clearing, settlement, surveillance, etc.

Gross value of LKR 527 Mn

Net Book value of LKR 186 Mn

42% of manufactured capital

Computer

Gross value of LKR 414 Mn

Net Book value of LKR 60 Mn

33% of manufactured capital

Other Assets

Gross value of LKR 310 Mn

Net book value of LKR 152 Mn

25% of manufactured capital

Human Capital

Our employee cadre of 152 employees play a crucial role in the long-term vision of the CSE in becoming a world class organization. As such, we continuously focus on creating an environment that enhances performance of our knowledge-based workforce by recruiting, developing, engaging and retaining the right talent.

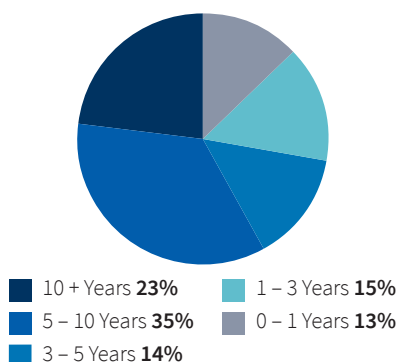
Our Team

We are a strong proponent of diversity and equal opportunity supporting building a team which is diverse in terms of age, gender, skills and experience. Female representation in our team is 42% while the country's average as of 2017 is at 35.85%¹. Our future performance entails innovative ideas, varied perceptions and a knowledge-based workforce driven by highly specialized skills capable of responding and adapting to our dynamic business environments. Thus, we continued to maintain a proportional mix of young as well as experienced employees forming 46% and 35% of our workforce in addition to maintaining good retention records to extend our workforce diversity by experience. In 2017, our retention rate was 92%.

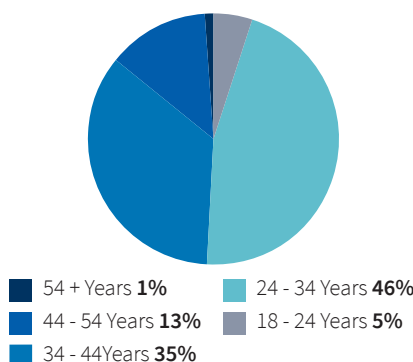


The Colombo Stock Exchange was recently awarded the ISO 9001: 2015 Quality Management System certificate for Human Resources by Bureau Veritas Certification Holding SAS – UK Branch, confirming that the CSE has implemented a quality management system for HR in which all processes and procedures have been carefully designed and quality-tested according to international standards.

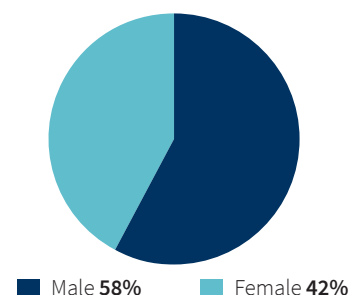
Employee Distribution by Years of Service



Employee Distribution by Age



Employee Distribution by Gender



¹ Quarterly Report of the Sri Lanka Labour Force Survey 3rd Quarter 2017

Employee Cadre	Training and Development	Deeper Engagement	Career Progression	Process Improvements	Value Addition in 2017
OUR GROWTH FORMULA IN 2017					
<ul style="list-style-type: none"> Size of cadre : 152 employees. Employee retention rate of 92% compared to 85% in 2016. Gender diversity with 42% of female employees and 58% Male employees. 	<p>Developing a learning organization</p> <p>Expenditure on training was LKR 5 Mn, 16% decline.</p> <p>Encourage innovative and creative thinking.</p> <p>Aided skill development in areas outside the job needs such as sports, HR, Communication and leadership.</p> <p>Focused on action-oriented learning and developments. During the year, six-month leadership roles were assigned to 5 high-potential employees.</p> <p>Received the HR IPM quiz award for the 3rd consecutive year and the Golden Gazel award by CSE toastmasters club.</p>	<p>Introduced one to one discussions with employees and employees feedback.</p> <p>Welfare events held every quarter.</p> <p>Adoption of an open communication policy across all employee categories.</p>	<p>All employees are included in the performance management system.</p> <p>Performing employees were selected for promotions and other career development initiatives.</p>	<p>Adopted ISO 9001 certification to improve service standards in HR</p> <p>Automated recruitment and selection process.</p> <p>Development of an operations tracker.</p> <p>Use of real time training analytics.</p>	<p>Enhanced Knowledge</p> <ul style="list-style-type: none"> Developed 152 number of employees through training programs. <p>Satisfied Workforce</p> <ul style="list-style-type: none"> There were no grievances reported in 2017. <p>Satisfied Workforce</p> <ul style="list-style-type: none"> Ten Promotions <p>Employee Performance</p> <ul style="list-style-type: none"> Revenue per employee increased to LKR 3.6 Mn (LKR 3.1 Mn in 2016).

Human Capital contd...

Activities during the year

Our focus is centered around enhancing employee performance being a key strength to the success of the CSE. During the year, we concentrated on five main areas as part of our commitment towards ongoing employee development including-



Enhancing open communication

With an open-door policy, we have established a culture that enables all employees to communicate freely with higher authorities at any level of the organization. A key initiative implemented during the year was the one to one discussions between Head of HR and staff members in addition to employee concerns being discussed in common quorums/focus groups.

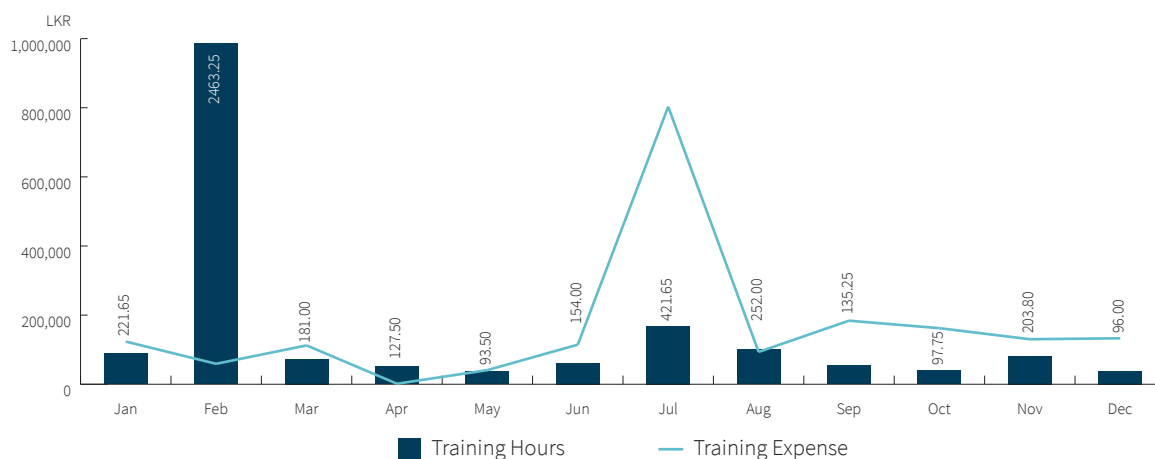
Improving HR service standards

We strive to maintain transparent HR practices abreast of global standards to support the CSE's vision to become a world class organization. Being, one of the few corporates to obtain the ISO 9001 certification for a Human Resources Function enables us to enhance and sustain service delivery standards to all stakeholders.

Building a learning organization

Ongoing talent development initiatives ensure that a diverse range of key skills such as leadership, technical and behavioral are continuously developed to maximize workforce contribution. Innovation and out of the box thinking is a company -wide practice that enables us to enhance our knowledge base. During the year, we introduced a new initiative named Insider Edge where a renowned individual from the industry is invited in to share their knowledge and experience. This served as a platform for employees to share knowledge and experiences with industry experts. In addition, we organized exchange related technical training programs conducted by Senior Officials of Bursa Malaysia one of the leading stock exchanges in the Asian Region.

Month-Wise Training Status



Training statistics

In 2017, training programs continued to cover nearly 100% of our workforce with a total of 4,466 training hours being spent by

employees. Being a strong proponent of equal opportunity, we ensured that our training coverage included a proportionate mix of both male and female gender.

	2016	2017
Total Training hours		
Male	3,380	3,007
Female	2,348	1,459
Total	5,728	4,466
Training expenditure		
Male	1,589,127	915,663
Female	1,403,498	1,057,021
Total	2,992,625	1,972,684
Number of employees trained		
Male	90	90
Female	63	62
Total	153	152
% of workforce	99%	99%
Average Training Hours per Employee		
Male	38	33
Female	37	24
Average training hours per employee	37	29
Average training man days per employee	4.68	3.67

Employee engagement

Engaging employees amidst an intense work environment is a primary focus. We have established systems to continuously engage employees which includes multiple initiatives relating to employee welfare, employee benefits, rewards and recognition.

Some of the engagement initiatives include:

- Hosted HR clinics with an open invitation to all staff to have open discussions with Head of HR on one-on-one clinic sessions.
- Mediums such as the quarterly issue of the company newsletter and the intranet platform
- Quarterly meetings with the CEO ensures that the staff is briefed on the progress of the company.



Human Capital contd...

Engagement events in 2017.

Star Performers	Welfare Events	IPM HR Quiz
First introduced in 2015, this event is organized to recognize the employees who have displayed exemplary performance in embodying the company values and recognizing them for their talents and special achievements in extracurricular activities.	Among many engagement activities were the welfare events that were held every quarter and included the New Year ceremony and breakfast table, Awurudu table and celebrations, Mobile NIC service, cancer awareness program, vesak dansal, annual internal quiz competition, annual sports day, and employee appreciation day.	CSE was able to grab a winning spot at the IPM HR Quiz for the 3rd consecutive year in 2017. Both teams from CSE obtained the joint winner award in the Insurance, Finance and Investment Category.

HR Clinics	Toastmasters
As a means of reaching out to employees and allowing them to voice their concerns and opinions, the HR Clinics were carried out once again. The approach which was slightly altered as oppose to previous years, offered an open invitation to all staff to meet the Head of HR for one-on-one clinic sessions.	The toastmasters club which begun its third year has been a great success amongst our engagement initiatives. The club has been able to form and groom many employees and help with communication and leadership development as well. We are proud to say that the CSE Toastmasters club has created many winners at both speech and evaluation contests, and subsequently earned itself the golden gavel award this year.



Star Performance



Sports Day



Ice Cream Dansala



IPM HR Quiz Winners

Creating a Conducive Performance Driven Culture

A knowledge-based workforce form a core strategic role in our day to day operations. Over the years we have introduced several means of career progression and include participation in leadership development programs, job rotations, lateral transfers and 'action-oriented learning' that assigns temporary leadership roles within the workplace. Employee performance is monitored using a KPI template with 100% of our workforce being included in the performance management system.

During the year

- six-month leadership roles were assigned to 5 high-potential employees
- 10 employees were promoted in 2017 in line with last year.
- Mentoring and coaching of 7 high potential employees.
- There were 5 job rotations.

Movements in our Employee Cadre

Talent Attraction

During the year new 20 employees were added to the total cadre. Given the need for highly specialized roles in capital markets, we continue to focus on a diverse range of competencies within our cadre. The key development in 2017 was the automation of the recruitment and resignation process.

Talent Retention

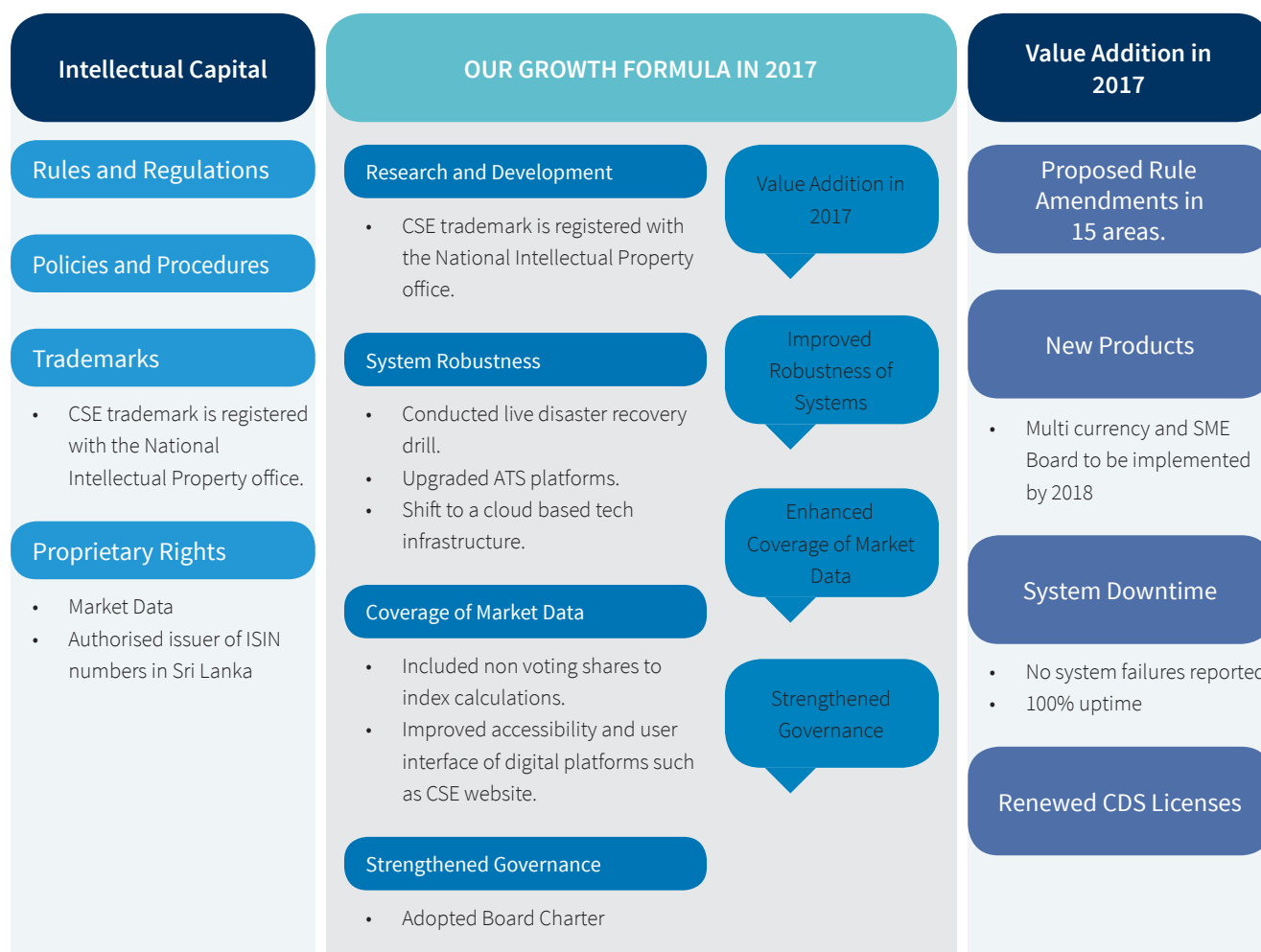
CSE has maintained a sound track record of employee retention with 23% of employees having above 10 years of experience and 35% between 5 to 10 years of experience. Employee turnover rate was 8.5% during the year.

Return to work after parental leave

	2015	2016	2017
Number of employees entitled for maternity leave	43	39	42
Number of employees who took maternity leave	5	4	3
Number of employees who returned to work after maternity leave	3	2	1
Number of employees who returned to work after maternity leave and stayed for 12 months	3	2	
Number of employees due to return to work after taking parental leave	2	2	2
Return to work rate	150%	100%	50%
Retention rate	150%	67%	50%

Intellectual Capital

Intellectual capital reflects the unique prepositions of our business model that is driven by our experience, knowledge, expertise and knowhows developed along our journey. Forming part of our competitive strengths, intellectual capital is one of the core drivers of investor confidence and market performance although a monetary value is not derivable given its nature.









Appendix

List of Member Firms





Members- Both Equity and Debt

Bartleet Religare Securities (Pvt) Ltd.  Level "G", "Bartleet House", 65, Braybrooke Place, Colombo 2.  +94 11 5 220 200  +94 11 2 434 985  info@bartleetstock.com  http://www.bartleetreligare.com  Mr. R. Muralidaran Managing Director	Acuity Stockbrokers (Pvt) Ltd.  No. 53, Dharmapala Mawatha, Colombo 3.  T+94 11 2 206 206  +94 11 2 206 298 / 9  sales@acuitystockbrokers.com  http://www.acuity.lk/  Mr. Prashan Fernando Director / CEO	John Keells Stock Brokers (Pvt) Ltd.  186, Vauxhall Street, Colombo 2.  +94 11 2 306 250  +94 11 2 342 068  jkstock@keells.com  http://www.jksb.com/  Mr. Tivanka Ratnayake Chief Executive Officer
Asha Phillip Securities Ltd.  No. 321, Galle Road, 2nd Floor, Lakshmans Building, Colombo 03.  +94 11 2 429 100  +94 11 2 429 199  apsl@ashaphillip.net  http://www.ashaphillip.net/  Mr. Dimuthu Abeysekera Director / CEO	Assetline Securities (Pvt) Ltd.  No.120, 120A, Pannipitiya Road, Battaramulla.  +94 11 4 700 100  +94 11 4 700 101, +94 11 4 700 112  info@assetline.lk  http://assetline.lk/product/stock-broking/  Mr. Kishan Vairavanathan Managing Director / CEO	Somerville Stockbrokers (Pvt) Ltd.  1A, Park Way, Park Road Colombo 5.  +94 11 2 502 852 / +94 11 2 502 854/  +94 11 2 502 858 / +94 11 2 502 862  +94 11 2502596  ssb-web@sltnet.lk  Ms. Shalini Dias Director / CEO
J B Securities (Pvt) Ltd.  150, St. Joseph Street, Colombo 14.  +94 11 2 490 900  +94 11 2 430070  jbs@jb.lk  https://www.jbs.lk/  Mr. Murtaza Jafferjee Chief Executive Officer	Lanka Securities (Pvt) Ltd.  228/1, Galle Road, Colombo 04.  +94 11 4 706 757, 2 554 942  +94 11 4 706 767  lankasec@sltnet.lk  http://www.lsl.lk/  Mr. Kosala Gamage Managing Director / CEO	Asia Securities (Pvt) Ltd.  2nd Floor, No 176/1 - 2/1, Thimbirigasyaya Road, Colombo 05.  +94 11 7 722 000  +94 11 2584864  marketinfo@asiasecurities.lk  http://asiasecurities.net/  Mr. Sabri Marikar Chief Executive Officer
Nation Lanka Equities (Pvt) Ltd.  44, Guildford Crescent, Colombo - 07.  +94 777630624/ 773030885  +94 11 2 688 899  info@nlequities.com  http://www.nlequities.com/  Mr. Ajahn Punchihewa Director/ Chief Executive Officer	Capital Trust Securities (Pvt) Ltd.  42, Mohamed Macan Markar Mawatha, Colombo 3.  +94 11 2 174 174, +94 11 2 174 175  +94 11 2 174 173  inquiries@capitaltrust.lk  http://www.capitaltrust.lk/  Mr. Tushan Wickramasinghe Managing Director	S C Securities (Pvt) Ltd.  5th Floor, 26 B, Alwis Place, Colombo 3.  +94 11 4 711 000 / +94 11 47 11 001  +94 11 2 394 405  itdivision@sampathsecurities.lk  http://www.sampathsecurities.lk/  Mr. Ruwan Wanniarachchi Acting Chief Executive Officer

Appendix contd...

CT CLSA Securities (Pvt) Ltd.	
	4-14, Majestic City, 10, Station Road, Colombo 4.
	+94 11 2 552 290 - 4
	+94 11 2 552 289
	info@ctcls.lk
	http://www.ctcls.lk/
	Mr. Kanishka Hewage Chief Executive Officer







First Capital Equities (Pvt) Ltd.	
	No. 2, Deal Place, Colombo 03.
	+94 11 2639898
	+94 11 5 736 264
	equity@firstcapital.lk
	http://www.firstcapital.lk/
	Mr. Jaliya Wijeratne Chief Executive Officer


NDB Securities (Private) Ltd.	
	Level 2, NDB Capital Building, No. 135, Bauddhaloka Mawatha, Colombo 4.
	+94 11 2 314 170 to 2 314 178, +94 11 2 131 000
	+94 11 2 314 181
	mail@ndbs.lk
	http://www.ndbs.lk/
	Mrs. Prasansini Mendis Chief Executive Officer

Trading Members - Both Equity and Debt

Claridge Stockbrokers (Pvt) Ltd.	
	No. 97, Ananda Rajakaruna Mawatha, Colombo 10.
	+94 11 2 689 248
	+94 11 2 689 250
	csb@mackwoods.com
	
	Mr. P. N. A. Epa Chief Executive Officer


Navara Securities (Pvt) Ltd.	
	No. 12B Gregory's Road, Colombo 7.
	+94 11 2 358 700 / 20
	+94 11 5 005 551
	info@navarasecurities.lk
	www.navarasecurities.lk
	Mr. Vedisa Jayasankha Alahendra Chief Executive Officer

Softlogic Stockbrokers (Pvt) Ltd.	
	No.06, 37th Lane, Queens Road, Colombo 03.
	+94 11 7 277 000
	+94 11 7 277 099
	ssb.inquiry@softlogic.lk
	www.softlogicequity.lk
	Mr. Dihan Dedigama Chief Executive Officer

Taprobane Securities (Pvt) Ltd.	
	2nd Floor, No. 10, Gothami Road, Colombo 08.
	+94 11 5 328 200, +94 11 5 328 100
	+94 11 5 328 177
	contact@taprobane.lk
	www.taprobane.lk
	Mr. Niranjana Niles Chief Executive Officer

Candor Equities Ltd.	
	Level 8, South Wing, Millennium House, 46/58 Nawam Mawatha, Colombo 02.
	+94 11 2 359 100
	+94 11 2 305 522
	info@candorh.com
	www.candor-holdings.com
	Mr. Ryan Perera Acting Chief Executive Officer

LOLC Securities Ltd.	
	No. 481, T.B. Jayah Mawatha, Colombo 10.
	+94 11 5 889 889
	+94 11 2 662 883
	info@lolcsecurities.com
	
	Mr. Sriyan Gurusinge Managing Director/CEO

Capital Alliance Securities (Pvt) Ltd.	
	Level 5, "Millennium House", 46/58 Nawam Mawatha, Colombo 2.
	+94 11 2 317 777
	+94 11 2 317 788
	info@cal.lk
	www.capitalalliance.lk
	Mr. Harinlal Aturupane Managing Director / CEO

SMB Securities (Pvt) Ltd.	
	No. 02, Gower Street, Colombo 5.
	+94 11 5 886971
	+ 94 11 2 550100
	info@smbsecurities.lk
	www.smbsecurities.lk
	Mr. N. N. Jayatillake Chief Executive Officer

First Guardian Equities (Pvt) Ltd.	
	32nd Floor, East Tower, World Trade Centre, Colombo 1.
	+94 11 5 884 400 (Hunting)
	+94 11 5 884 401
	info@firstguardianequities.com
	www.firstguardianequities.com
	Mr. Rohan Goonewardene Managing Director / CEO

Enterprise Ceylon Capital (Pvt) Ltd.

 26th Floor, East Tower, World Trade Center Echelon Square, Colombo 1

 +94 11 2372541

 +94 11 2372541

 info@ecc.lk

 www.ecc.lk

 Ms. Priyani Ratna-Gopal
Managing Director / CEO

TKS Securities (Pvt) Ltd.

 4th Floor, No. 245, Dharmapala Mawatha, Colombo 7.

 +94 11 7 857 799


 +94 11 7 857 857


 info@tks.lk


 www.tks.lk


 Mr. Tiong Yong Kang
Acting Chief Executive Officer


Richard Pieris Securities (Pvt) Ltd.


 No. 55/20, Vauxhall Lane, Colombo 02.

 +94 11 7 448 900 , +94 11 5 900 800


 +94 11 2 330 711


 rpfs@rpsecurities.com


 www.arpico.com/contents/services_stock_broking.php


 Reshan Kurukulasuriya
Acting Chief Executive Officer


Trading Members - Only Debt**First Capital Markets Ltd.**

 No. 2, Deal Place, Colombo 3.

 +94 11 2 639 898, +94 11 2 681 888

 +94 11 2 639 899, +94 11 2 576 866

 info@firstcapital.lk

 www.firstcapital.lk

 Mr. Dilshan Wirasekara
Deputy Chief Executive Officer

Capital Alliance Ltd.

 Level 5, "Millenium House" 46/58, Nawam Mawatha, Colombo 2.

 +94 11 2 317 777


 +94 11 2 317 788


 info@cal.lk





 Mr. Gihan Hemachandra
Chief Executive Officer


Wealthtrust Securities Ltd.


 No. 32, Dudley Senanayake Mawatha, Colombo 08.

 +94 11 2 675 091-4


 +94 11 2 689 605


 info@wealthtrust.lk





 Mr. D.H.B. Ranawana
Managing Director


NSB Fund Management Ltd.


 No 255, 1st Floor, NSB Head Office, Galle Road, Colombo 3.

 +94 11 2564601

 +94 11 2 574 387





 Mrs. G.V.A.D.D Silva
Chief Executive Officer

Financial Statements



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

The Board of Directors of the Colombo Stock Exchange (CSE) has pleasure in presenting their Annual Report to the Members, together with the audited consolidated Financial Statements and Auditors' Report on those Financial Statements for the financial year ended 31st December 2017.

This Annual Report on the affairs of the Company contains the information required in terms of the Companies Act No. 07 of 2007.

The Financial Statements were reviewed and approved by the Board of Directors on 09th May 2018.

General

The Colombo Stock Exchange (CSE) is a company limited by guarantee, incorporated in Sri Lanka on 02nd December 1985, under the Companies Act No.17 of 1982 and is licensed by the Securities and Exchange Commission (SEC). The CSE was re-registered as per the Companies Act No.7 of 2007 on 13th May 2008 with GL 12 as the new number assigned to the Company.

The CSE is a mutual exchange and has fifteen Members & Sixteen Trading Members, of which Twenty Seven Members operate as Stockbrokers for both Equity & Debt and Four members are appointed by the CSE as Trading Members only for Debt. All Members are corporate entities. The CSE became the first South Asian member of the World Federation of Exchanges (WFE) in 1998. CSE is also a member of the South Asian Federation of Exchanges (SAFE) and Member of Association of National Numbering Agencies (ANNA). The fully-owned subsidiary, Central Depository Systems (Pvt) Ltd is a Member of Asia-Pacific Central Securities Depository Group (ACG).

The policy making body of the CSE is the Board of Directors composed of nine members. Five Directors are elected by the fifteen Members, while Government on the recommendation of Securities Exchange Commission appoint four.

The CSE Secretariat, headed by the Chief Executive Officer is responsible for the operations of the CSE, and is accountable to the Board of Directors.

Vision, Mission and Corporate Conduct

The Vision and Mission statements are given on Page 6 of the annual report. The business activities of the group are conducted in keeping with the highest level of ethical standards in achieving its Vision and Mission.

Principal Activities

The principal activity of the Company is the operation of a Stock Exchange. The fully-owned subsidiary, Central Depository Systems (Pvt) Ltd. (CDS) acts as a depository for listed securities. CSE Clear (Pvt) Limited (CSE Clear) which is also a fully owned subsidiary of CSE was incorporated on 28th March 2016. The CSE Clear is anticipated

to carry out clearing and settlement functions as the Central Counter Party (CCP).

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

Review of Operation

A review of the activities of the CSE during the year is contained in the Chairman's Statement on pages 22 to 25 and the Chief Executive Officer's Review on pages 26 to 29 and the Operational Review on pages 39 to 88 the Annual Report 2017. These reports form an integral part of the Annual Report.

Future Developments

An overview of the future development of the CSE is given in the Chairman's Statement on pages 22 to 25 and the Chief Executive Officer's Review on pages 26 to 29 and the Operational Review on pages 39 to 88 the Annual Report 2017. These reports form an integral part of the Annual Report.

Financial Statements

The Financial Statement of the Company and its subsidiary have been prepared in accordance with Sri Lanka Accounting Standard (SLFRS & LKASs) laid down by the institute of Chartered Accountants of Sri Lanka and complying with the requirements of the Companies Act No. 07 of 2007.

The Financial Statement of the Company and its subsidiary for the year ended 31st December 2017, duly signed by the Head of Finance & Administration and two of the Directors of the Company on pages 100 to 142 are an integral part of the annual report of the Board of Directors.

Directors' Responsibility for Financial Reporting

The Statement of Directors' Responsibility for the Financial Reporting given on page 96 forms an integral part of the Annual Report of the Board of Directors.

Auditor's Report

Messrs KPMG the Auditors of the Company carried out the audit on the Consolidated Financial Statements for the year ended 31st December 2017 and their report on those statements which forms an integral part of the Report of the Board of Directors, on page 99 of this Annual Report.

Significant Accounting Policies

The significant accounting policies adopted in preparation of the Financial Statements are given on pages 105 to 112. There have been no changes in the accounting policies adopted by the company and its subsidiary, during the year under review.

Annual Report of the Board of Directors on the Affairs of the Company contd...

Going Concern

The Board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Therefore, we continue to adopt the “going-concern” basis in preparing these Financial Statements.

Income

The income of the Group for 2017 was Rs.964.20Mn (2016: Rs 711.84Mn) while the Company's income was Rs.795.25Mn (2016: Rs 613.25Mn). An analysis of the income is given in Note 04 & 05 to the financial statements.

Financial Results and Appropriations

The Group has recorded a Profit before tax of Rs.93.69Mn (Loss before tax of Rs.152.14Mn in 2016) and Profit after tax of Rs.69.99Mn (Loss after tax of Rs.156.87Mn in 2016) for the year 2017. The Company has recorded a Profit before tax of Rs.36.98Mn (Loss before tax of Rs.139.19Mn in 2016) and Profit after tax of Rs.19.10Mn (Loss after tax of Rs.141.41Mn in 2016) for the year 2017.

The Group's total other comprehensive expense for the year 2017 was Rs.88.50Mn (total other comprehensive income of Rs.62.05Mn in 2016) while the Company has recorded a total other comprehensive expense of Rs.68.71Mn for the year 2017 (total other comprehensive income of Rs.47.41Mn in 2016).

Taxation

The income tax rate applicable on the Company and the subsidiary company is 28% (2016 –28%).

Dividend

The Board of Directors of the CSE has not recommended a Dividend in compliance with the Companies Act No. 07 of 2007 & Articles of Association of the CSE.

Reserves

A summary of the consolidated reserves is given below.

As at 31st December	2017	2016
	Rs. 000	Rs. 000
Accumulated Fund	2,904,291	2,841,750
Available for Sale Reserve	397	81,456
Capital Reserve	99,975	99,975
Total	3,004,663	3,023,181

Capital Expenditure and Capital Commitments

The total capital expenditure on acquisition of property, plant and equipment and intangible assets of the Group amounted to Rs.53Mn (2016: Rs.38 Mn). Details of property & equipment are given in Note 09 and 10 to the financial statements. The capital expenditure approved

and contracted for and not contracted for as at Balance Sheet date is given in Note 27 to the financial statements.

Property & Equipment

Details of property, plant and equipment are given in Note 09 to the financial statements.

Donations

During the year Company made donations amounting to Rs.362,603/- (Rs.476,082 in 2016).

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.

Outstanding Litigation

In the opinion of the Directors and the Company's Lawyers, pending litigation against the Company disclosed in Note 26 of the Financial Statements will not have a material impact on the financial position of the Company or its future operations.

Events after the Reporting Date

Events after the Reporting Date has been disclosed in Note 30 of the Financial Statements.

Board of Directors

The following Directors held office as at the Statement of Financial Position date:

Name of the Director

Mr. Ray Abeywardena (Chairman)
 Mr. Dakshitha T. W. Thalagodapitiya
 Ms. M.A.D.S Jeeva Shirajanie Niriella
 Mr. Dumith Fernando (Appointed to the Board on 13th June 2017)
 Mr. Anton Godfrey
 Mr. A. Shanil Fernando
 Mr. Dilshan Wirasekara (Appointed to the Board on 21st November 2017)

During the year Mr. C.V Kulatilaka retired in terms of Article 50 of the Articles of Association on 26th May 2017, Mr. M.R. Prelis resigned on 01st June 2017, Mr.A.C. Seneviratne resigned on 21st November 2017 and Mr. M.Y. Aravinda Perera resigned on 07th December 2017.

Mr. Ray Abeywardena retires by rotation at the conclusion of the Annual General Meeting in terms of Article 50 of the Articles of Association, and being eligible and offering himself for re-election.

Mr. Dumith Fernando retires by rotation at the conclusion of the Annual General Meeting in terms of Article 50 of the Articles of Association, and being eligible and offering himself for re-election.

The details of the Directors' meetings which comprise Board meetings, Risk and Audit Committee meetings, HR Committee meetings, Dispute Resolution Committee meetings, Arbitration and Disciplinary Committee meetings, Rules Committee meetings, Regulatory Affairs Committee meetings and Market Development Committee meetings and the attendance of Directors at these meetings are given on page 55 of the Annual Report.

Board Sub Committee

The composition of the Board sub committees, comprising Non-Executive Directors is provided on pages 53 to 54.

The report of the Board Risk and Audit Committee given on pages 97 to 98.

Directors' Interest Register

The CSE maintains a Directors' Interests Register in compliance with the provision of the Companies Act No. 7 of 2007. The Directors of the CSE have disclosed their interests in other companies to the Board and those interests are recorded in the Interests Register conforming to the provisions of the Companies Act No.7 of 2007. The particulars of those entries are set out on Note 29 to the Financial Statements and form an integral part of the Annual Report of the Board of Directors.

Related Party Transactions

The Directors have also disclosed transactions if any, that could be classified as related party transactions in terms of LKAS 24 "Related Party Disclosures" which is adopted in the preparation of the financial statements. Those transactions disclosed by the Directors are given in Note 29 to the financial statements forming part of the Annual Report of the Board of Directors.

Directors' Remuneration

In compliance with the provisions of the Articles of Association of the CSE, the CSE has not made any payments on account of Directors' remuneration other than payment pertaining to meet out of pocket expenses for attending Board meetings and other Board Sub Committee meetings as given in Note 29 to the financial statements.

Environmental Protection

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

Risk Management and Internal Control

Risk Management

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company.

Internal Control

Strong internal controls are integral to the sound management of the Company, hence the Board committed to maintain strict financial,

operational and risk management controls over all its activities including safeguard the assets of the Company and prevent and detect frauds.

There is an ongoing process for identifying, recording, evaluating and managing the risks that are faced by the Company, and the Directors have reviewed this process, through the Board Risk and Audit Committee including internal reviews, internal audits and system audits.

Corporate Governance

The Directors and the Management of the CSE have placed emphasis on conforming to the best corporate governance practices and procedures. A separate report on Corporate Governance is given on pages 51 to 60 in the Annual Report.

Auditors

The Company's Auditor's during the period under review were Messrs KPMG, Chartered Accountants. Audit Fee and reimbursement of expenses paid to KPMG during the year under review by the Company and its subsidiary amounted to Rs. 908,000 (Rs. 866,250 in 2016). Further Rs.555,367 (Rs.648,063 in 2016) was paid on account of tax related services. The details of their remuneration are given in Note 7 to the Financial Statements.

As far as the Directors are aware the Auditors do not have any interest with the CSE or its subsidiary other than those disclosed above.

The Auditors have expressed their willingness to continue in office. A resolution to re appoint the Auditors and authorize the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Notice of Meeting

The 33rd Annual General Meeting of the CSE will be held on 29th June 2018 at 5.00 p.m. at the Colombo Stock Exchange, Auditorium, 4-1, West Block, World Trade Center, Colombo 01.

Acknowledgement of the Contents of the Report

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

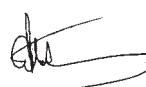
For and on behalf of the Board of Directors.



Chairman



Director



Corporate services (Private) Limited

Secretaries

09th May 2018
Colombo

Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to Financial Statements, is set out in the Report of the Auditors' on the Annual Report.

As per the provisions of the Companies Act No. 7 of 2007 the Directors are required to prepare Financial Statements for each financial year and place them before a General Meeting. The Financial Statements comprise the Statement of Financial Position as at 31st December 2017, and the Statement of Comprehensive Income, Statement of changes in Equity and Cash flows for the year then ended and Notes thereto.

The Financial Statements of the Company and its Subsidiary give a true and fair view of:

the state of affairs of the Company and its Subsidiary as at the Statement of Financial Position date and the Profit or Loss of the Company and its Subsidiary for the financial year ended on the Statement of Financial Position date.

The Directors have ensured that, in preparing these Financial Statements:

1. The appropriate accounting policies have been selected and applied in a consistent manner.

Material departures, if any have been disclosed and explained;

2. All applicable accounting standards as relevant have been followed;
3. Judgments and estimates have been made which are reasonable and prudent.

The Directors confirm that the Consolidated Financial Statements of the CSE and its Subsidiary CDS for the year ended 31st December 2017 presented in this Annual Report have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRS), Companies Act No: 7 of 2007 and Sri Lanka Accounting and Auditing Standards Act No: 15 of 1995.

The Directors have adopted the going concern basis in preparing the Financial Statements. The Directors are of the view that the CSE & CDS have adequate resources to continue in operation.

The Directors have taken reasonable steps to safeguard the assets of the CSE and its subsidiary CDS and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view of preventing and detecting fraud and other irregularities. Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy.

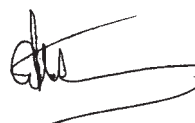
Directors are required to prepare the Financial Statements and to provide the Company's External Auditors, Messrs KPMG, with every opportunity to carry out any reviews and tests that were considered appropriate and necessary for expressing their independent audit opinion on the Financial Statements.

The financial statements of the Company and its Subsidiary have been certified by the Company's Head of Finance & Administration, the officer responsible for their preparation, as required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. Also the financial statements of the Company and its Subsidiary have been signed by two Directors on 09th May 2018 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act No.7 of 2007.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the CSE and its subsidiary CDS as at the Statement of Financial Position date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board



Corporate Services (Private) Limited
Secretaries

09th May 2018
Colombo.

Risk and Audit Committee Report

Composition of the Committee

The Risk and Audit Committee of the Colombo Stock Exchange (CSE) comprises of 3 appointed Directors and 1 elected Director.

The members of the Risk and Audit Committee appointed by the Board are;

Mr. Dumith Fernando - Chairman

Mr. D.T.W. Thalgodapitiya

Mr. Shanil Fernando

Ms. M.A.D.S. Jeeva Shirajanie Niriella

All four members of the Risk and Audit Committee are Non-Executive Directors.

The Chief Executive Officer, Chief Regulatory Officer, Chief Information Officer, Head of Enterprise Risk Management, Head of Finance & Administration, Head of Internal Audit, other relevant Senior Management members and External Auditors & Internal Auditors attend the meetings of the Risk and Audit Committee on invitation.

Responsibilities and Duties of the Committee

The responsibilities and duties of the Committee were based on the Terms of Reference (TOR) adopted by the Company in terms of best practices. The TOR as approved by the Board of Directors, include the following functions:

- To ensure that adequate and efficient processes are in place to identify, report and monitor risks.
- To benchmark risk management exposure of the CSE against other exchanges
- To advise the Board on the risk profile and appetite of the Company and as part of this process, to oversee the risk assurance within the CSE.
- To act on behalf of the Board of Directors to ensure that appropriate mechanisms are in place with respect to risk identification, risk assessment, risk assurance and overall risk management.
- To review significant accounting and reporting issues, including complex or unusual transactions, recent professional and regulatory pronouncements, and understand their impact on financial statements of the Company.
- To review the effectiveness of the Company's internal control systems.
- To monitor and review the effectiveness of the Company's internal audit function, in the context of the overall financial control and risk management system of the Company.

- To assess independence and objectivity of the external auditor.
- To make recommendations to the Board of Directors on the appointment, reappointment and removal of the CSE's external auditor.

Meetings of the Committee

During the year, twelve Risk and Audit Committee meetings were held to discuss reports on Enterprise Risk Management, Budgets, and Investments, reports of the Internal and External Auditors and Annual/Quarterly accounts. The Company Secretary functions as the Secretary to the Risk and Audit Committee. Minutes of each committee meeting were recorded and submitted for confirmation at the next committee meeting and subsequently presented to the Board for ratification.

Risk Management

The Committee is tasked with the monitoring the effectiveness and implementation of the Enterprise Risk Management (ERM) Policy and Framework in the CSE.

The Committee reviewed the Annual update to the ERM Framework and ERM Policy. The Committee recommended that the risks be categorized broadly as Strategic Risk, Operational Risk, Financial Risk and Compliance Risk to be in line with the practices followed by other Regional Exchanges. The Committee also reviewed the appropriateness of the three new risks; Competition Risk, Cyber Security Risk and Changes to regulations, which were to be included in the CSE's Organizational Risk Matrix. The Committee also reviewed the quarterly updates to the ERM Framework and discussed the effectiveness of the risk treatment measures and the progress of the action plans which were proposed to mitigate the exposure of the Organizational Risks.

The Committee reviewed an independent risk assessment carried out by the Secretariat on all Broker Firms, taking into consideration the business practices and the financial performance of the Broker Firms. Based on the said risk assessment, the committee recommended certain amendments to the CSE Stockbroker Rules, enforcement actions and policy changes for risk mitigation.

Integrity of financial statements

The Committee reviewed the appropriateness of the accounting policies used and the financial statements of the group to assess their integrity and compliance with Accounting Standards. The Committee reviewed and discussed with the management, the quarterly financial statements and recommended the same for approval of the Board. In order to ensure effectiveness of the Financial Reporting Systems that are in place and reliability of the information provided, at the request of the Committee, the Internal Auditor performed a review on each quarterly financial statement.

Risk and Audit Committee Report contd...

Internal Controls

The Committee reviewed the effectiveness of the Group's internal control systems and suggested, where necessary, appropriate remedial measures.

External Audit

The independence of the External Auditor was evaluated by the Committee and the Committee also reviewed the non-audit services provided by the Auditors to ensure that the provision of such services does not impair the External Auditors' independence. The Committee met with the External Auditor during the year to discuss their audit approach and procedures, including matters relating to the scope of the audit and Auditor's independence. The Risk and Audit Committee reviewed the Consolidated Financial Statements audited by Messrs. KPMG for the financial year ended 31st December 2017 and approved the Financial Statements for submission to the Board. The Committee also reviewed and approved the Letter of Representation to be given to the External Auditors for the year 2017.

The Risk and Audit Committee has recommended for approval at the Annual General Meeting, the re-appointment of the external Auditor, Messrs. KPMG and for the Board of Directors to fix the Auditors' remuneration.

Internal Audit

The Internal Audit Charter governing the Mission, Purpose, Responsibilities, Scope and Accountability of the Internal Audit Division was presented to the Risk and Audit Committee for approval at the Risk and Audit Committee Meeting during January 2017.

The Purpose of the Internal Audit Division as highlighted in the Internal Audit Charter is to add Value in all of the following areas:

- Overall Risk Management Process
- Strengthen the Internal Controls in all areas
- Ensure Compliance with Policies, Procedures and Regulations
- Recommend opportunities for Process Improvement and enhancing Efficiency
- Recommending opportunities for Cost Minimization
- Recommending Revenue Maximization and Diversification opportunities
- Enhancing System Controls
- Recommending Controls to mitigate Fraud Risks, if any

In-line with the above requirements, an internal audit plan comprising areas chosen for Audit was developed, approved by the Risk and Audit Committee and implemented. Proper Policies, Procedures and Controls were recommended for implementation at the review of each audit area. The findings of the internal auditor together with management comments and agreed action plans were reviewed by the Committee during the year and approved for implementation.

On behalf of the Risk and Audit Committee;



Dumith Fernando

Chairman – Risk and Audit Committee

Colombo

09th May 2018

Independent Auditors' Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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Sri Lanka.

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Fax : + 94 - 11 244 5872
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+ 94 - 11 254 1249
+ 94 - 11 230 7345
Internet : www.lk.kpmg.com

TO THE MEMBERS OF COLOMBO STOCK EXCHANGE

Report on the Financial Statements

We have audited the accompanying financial statements of Colombo Stock Exchange, ("the Company"), and the consolidated financial statements of the Company and its Subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and 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 ("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 control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 consolidated financial statements give a true and fair view of the financial position of the Group 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. 07 of 2007, we state the following:

- a) The basis of opinion and 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,
 - The financial statements of the Company, give a true and fair view of its financial position as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 7 of 2007.

CHARTERED ACCOUNTANTS

Colombo
09th May 2018

UK/MS

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA		

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December,	Note	Group		Company	
		2017	2016	2017	2016
		Rs.	Rs.	Rs.	Rs.
Revenue	4	557,827,192	481,837,126	432,029,560	373,506,109
Other Income	5	406,373,677	230,006,628	363,224,881	239,748,589
		964,200,869	711,843,754	795,254,441	613,254,698
Staff Cost	6	(291,130,904)	(291,686,821)	(268,409,160)	(270,728,245)
Depreciation & Amortization		(85,295,230)	(99,687,749)	(85,208,734)	(99,601,041)
Other Operating Expenses	7	(494,078,732)	(472,610,914)	(404,653,161)	(382,116,007)
Profit/(Loss) before Taxation		93,696,003	(152,141,730)	36,983,386	(139,190,594)
Income Tax Expense	8	(23,705,409)	(4,731,721)	(17,878,430)	(2,226,963)
Profit/(Loss) for the year		69,990,594	(156,873,451)	19,104,956	(141,417,557)
Other Comprehensive Income					
Item that will never be reclassified to Profit or Loss					
Actuarial (Loss)/Gains on defined benefit plans		(7,450,118)	24,708,137	(6,320,361)	21,904,272
Item that are or may be reclassified to Profit or Loss					
Net Change in Fair Value of Available-for- Sale Financial Assets		48,822,356	68,848,394	24,154,943	49,843,464
Net Change in Fair Value of Available-for- Sale Financial Assets Reclassified to Profit or Loss		(129,881,138)	(31,498,622)	(86,554,455)	(24,335,926)
Total Other Comprehensive (Expense) / Income Net of Tax		(88,508,900)	62,057,909	(68,719,873)	47,411,810
Total Comprehensive Expense for the Year		(18,518,306)	(94,815,542)	(49,614,917)	(94,005,747)

The accounting policies and notes annexed form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Statement of Financial Position

As at 31 December,	Note	Group		Company	
		2017	2016	2017	2016
		Rs.	Rs.	Rs.	Rs.
ASSETS					
Non Current Assets					
Property and Equipment	09	134,242,170	154,852,171	134,242,126	154,852,127
Intangible Assets	10	186,492,942	207,264,072	186,247,241	206,931,875
Capital Work in Progress	11	78,095,511	73,569,797	78,095,511	73,569,797
Investments in Subsidiary	12	-	-	25,000	25,000
Financial Investments - Held to Maturity	13	779,968,652	779,979,389	779,968,652	779,979,389
Investments in LFSB	14	1,000,000	1,000,000	-	-
Settlement Guarantee Fund	15	100,000,000	100,000,000	100,000,000	100,000,000
Total Non Current Assets		1,279,799,275	1,316,665,429	1,278,578,530	1,315,358,188
Current Assets					
Inventories		2,122,519	4,777,083	2,026,035	4,656,537
Trade and Other Receivables	17	262,426,451	245,830,460	231,359,594	216,877,796
Tax Receivable		10,385,898	23,699,225	10,246,980	21,245,306
Financial Assets -Available-for-Sale	18	539,981,652	793,239,975	181,384,476	624,310,213
Other Investments	19	1,031,246,881	152,980,105	878,953,665	-
Cash and Cash Equivalents	20	139,777,313	758,146,752	139,001,786	558,111,222
Total Current Assets		1,985,940,714	1,978,673,600	1,442,972,536	1,425,201,074
Total Assets		3,265,739,989	3,295,339,029	2,721,551,066	2,740,559,262
EQUITY AND LIABILITIES					
Accumulated Fund		2,904,290,737	2,841,750,261	2,410,664,043	2,397,879,448
Other Reserves	21	100,371,858	181,430,640	126,365	62,525,877
Total Equity		3,004,662,595	3,023,180,901	2,410,790,408	2,460,405,325
Non Current Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	22	939,970	939,970	939,970	939,970
Retirement Benefit Obligation	23	58,896,598	43,230,230	58,896,598	43,230,230
Total Non Current Liabilities		59,836,568	44,170,200	59,836,568	44,170,200
Current Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	22	88,830,000	123,859,048	83,500,000	83,500,000
Other Payables	24	103,833,147	87,594,269	100,871,499	84,157,688
Amounts due to Related Company	25	-	-	58,045,786	51,791,438
Bank Overdraft	20	8,577,679	16,534,611	8,506,805	16,534,611
Total Current Liabilities		201,240,826	227,987,928	250,924,090	235,983,737
Total Equity and Liabilities		3,265,739,989	3,295,339,029	2,721,551,066	2,740,559,262

The accounting policies and notes annexed form an integral part of these Financial Statements.

These Financial Statements have been prepared and presented in compliance with the requirements of the Companies Act No.07 of 2007.



N A K K Nissanka

Head of Finance & Administration

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed on behalf of the Board;



Ray Abeywardena

Chairman



Dumith Fernando

Director

09th May 2018

Colombo.

Statement of Changes in Equity

GROUP	Accumulated Fund Rs.	Available-for- Sale Reserve Rs.	Capital Reserve Rs.	Total Equity Rs.
Balance as at 01 January 2016	2,973,915,575	44,105,868	99,975,000	3,117,996,443
Total Comprehensive Income				
Loss for the Year	(156,873,451)	-	-	(156,873,451)
Other Comprehensive Income				
Net Change in Fair Value of Available-for- Sale Financial Assets Reclassified to Profit or Loss	-	(31,498,622)	-	(31,498,622)
Actuarial Gain on Retirement Benefit Obligations	24,708,137	-	-	24,708,137
Net Change in Fair Value of Available-for- Sale Financial Assets	-	68,848,394	-	68,848,394
Total Other Comprehensive Income for the Year	24,708,137	37,349,772	-	62,057,909
Total Comprehensive Income / (Expense) for the Year	(132,165,314)	37,349,772	-	(94,815,542)
Balance as at 31 December 2016	2,841,750,261	81,455,640	99,975,000	3,023,180,901
Balance as at 01 January 2017	2,841,750,261	81,455,640	99,975,000	3,023,180,901
Total Comprehensive Income				
Profit for the Year	69,990,594	-	-	69,990,594
Other Comprehensive Income				
Net Change in Fair Value of Available-for- Sale Financial Assets Reclassified to Profit or Loss	-	(129,881,138)	-	(129,881,138)
Actuarial Gain on Retirement Benefit Obligations	(7,450,118)	-	-	(7,450,118)
Net Change in Fair Value of Available-for- Sale Financial Assets	-	48,822,356	-	48,822,356
Total Other Comprehensive Income for the Year	(7,450,118)	(81,058,782)	-	(88,508,900)
Total Comprehensive Income / (Expense) for the Year	62,540,476	(81,058,782)	-	(18,518,306)
Balance as at 31 December 2017	2,904,290,737	396,858	99,975,000	3,004,662,595

The accounting policies and notes annexed form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

COMPANY	Accumulated Fund Rs.	Available-for- Sale Reserve Rs.	Total Equity Rs.
Balance as at 01 January 2016	2,517,392,734	37,018,339	2,554,411,073
Total Comprehensive Income			
Loss for the Year	(141,417,557)	-	(141,417,557)
Other Comprehensive Income			
Net Change in Fair Value of Available-for- Sale Financial Assets Reclassified to Profit or Loss	-	(24,335,926)	(24,335,926)
Actuarial Gain on Retirement Benefit Obligations	21,904,272	-	21,904,272
Net Change in Fair Value of Available-for- Sale Financial Assets	-	49,843,464	49,843,464
Total Other Comprehensive Income for the Year	21,904,272	25,507,538	47,411,810
Total Comprehensive Income / (Expenses) for the Year	(119,513,285)	25,507,538	(94,005,747)
Balance as at 31 December 2016	2,397,879,448	62,525,877	2,460,405,325
Balance as at 01 January 2017	2,397,879,448	62,525,877	2,460,405,325
Total Comprehensive Income			
Profit for the Year	19,104,956	-	19,104,956
Other Comprehensive Income			
Net Change in Fair Value of Available-for- Sale Financial Assets Reclassified to Profit or Loss	-	(86,554,455)	(86,554,455)
Actuarial Gain on Retirement Benefit Obligations	(6,320,361)	-	(6,320,361)
Net Change in Fair Value of Available-for- Sale Financial Assets	-	24,154,943	24,154,943
Total Other Comprehensive Income for the Year	(6,320,361)	(62,399,512)	(68,719,873)
Total Comprehensive Income / (Expenses) for the Year	12,784,595	(62,399,512)	(49,614,917)
Balance as at 31 December 2017	2,410,664,043	126,365	2,410,790,408

The accounting policies and notes annexed form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Statement of Cash Flows

For the Year Ended 31 December,	Note	Group		Company	
		2017	2016	2017	2016
		Rs.	Rs.	Rs.	Rs.
Cash Flows from Operating Activities					
Profit/(Loss) before Taxation		93,696,003	(152,141,730)	36,983,386	(139,190,595)
Adjustments For :					
Depreciation / Amortization	09/10	85,020,872	99,687,749	85,020,872	99,601,041
Interest Income	05	(210,729,760)	(86,179,332)	(178,713,394)	(74,065,281)
Loss on Sale of Property & Equipment	05	9,384,858	4,027,041	9,384,858	4,027,041
Dividend Income	05	(6,881,961)	(63,128,668)	(6,881,961)	(59,071,279)
Gratuity Provision	23	10,343,001	11,502,074	9,274,858	10,419,181
Gratuity Provision - Transfer to / (Reversal from) Subsidiary	23	-	-	2,197,900	(1,720,972)
Provision / (Reversal) for Impairment of Trade receivables		983,551	1,380,314	938,776	1,032,365
Provision for Inventory		1,877,434	-	1,877,434	-
Operating Profit / (Loss) before Working Capital Changes		(16,306,002)	(184,852,552)	(39,917,271)	(158,968,499)
Decrease/ (Increase) in Inventories		777,130	(759,858)	753,068	(783,629)
(Increase) / Decrease in Trade and Other Receivables		(18,475,000)	23,713,402	(15,602,786)	18,758,993
Increase / (Decrease) in Other Payables		16,238,877	(1,223,619)	16,713,811	(2,514,254)
Increase / (Decrease) in Amounts due to Related Company		-	-	6,254,348	(69,648,532)
(Decrease) / Increase in Brokers' Deposit		(35,029,048)	9,779,048	-	1,750,000
Cash Generated from / (Used in) Operating Activities		(52,794,042)	(153,343,579)	(31,798,830)	(211,405,921)
Income Tax, ESC and Dividend Tax Paid		(2,772,972)	(300,000)	(2,452,183)	-
Gratuity Paid	23	(2,126,751)	(5,502,946)	(2,126,752)	(5,502,946)
Net Cash Generated from / (Used in) Operating Activities		(57,693,765)	(159,146,525)	(36,377,765)	(216,908,868)
Cash Flows from Investing Activities					
Interest Income	05	150,750,068	38,091,053	120,524,757	29,668,264
Purchase of Property & Equipment and Intangible Assets	09	(53,074,379)	(37,716,815)	(53,160,874)	(37,671,509)
Proceeds from Sale of Property & Equipment		49,780	677,276	49,780	677,277
Increase in Fixed Deposit		(825,000,000)	(150,000,000)	(825,000,000)	-
Increase in Corporate Debenture Investments		-	(550,000,000)	-	(550,000,000)
Dividend Income	05	6,881,961	63,128,668	6,881,961	59,071,279
(Increase) / Decrease in Investments in Unit Trusts		172,199,543	1,396,220,961	380,526,225	1,138,003,202
Capital Work in Progress	11	(4,525,714)	(17,152,177)	(4,525,714)	(17,152,177)
Net Cash Generated from / (Used in) Investing Activities		(552,718,741)	743,248,966	(374,703,865)	622,596,337
Cash Flows from Financing Activities					
		-	-	-	-
Net (Decrease) / Increase in Cash and Cash Equivalents		(610,412,507)	584,102,441	(411,081,631)	405,687,469
Cash and Cash Equivalents at beginning of the Year		741,612,141	157,509,700	541,576,611	135,889,142
Net Cash and Cash Equivalents at End of the Year	20	131,199,634	741,612,141	130,494,981	541,576,611
Analysis of Cash and Cash Equivalents at End of the year					
Cash in Hand		275,050	230,050	250,050	225,050
Cash at Bank		11,346,663	23,878,662	10,613,736	22,894,781
RTGS Account		17,600	17,600	-	-
Short Term investment in Treasury Bill -Repos		-	565,000,000	-	395,000,000
Short Term investment in Overnight Repos		128,138,000	169,020,439	128,138,000	139,991,391
Cash & Cash Equivalents		139,777,313	758,146,752	139,001,786	558,111,222
Bank Overdraft		(8,577,679)	(16,534,611)	(8,506,805)	(16,534,611)
Net Cash & Cash Equivalents at End of the Year		131,199,634	741,612,141	130,494,981	541,576,611

The accounting policies and notes annexed form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Notes to the Financial Statements

1. REPORTING ENTITY

1.1. Domicile and Legal Form

Colombo Stock Exchange is a Company Limited by Guarantee incorporated & domiciled in Sri Lanka. The registered office of the Company is located at 4 - 01, West Block, World Trade Center, Echelon Square, Colombo 01, and the principal place of business is also situated at the same place.

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2017 comprise the Company and Central Depository Systems (Private) Limited which was incorporated on 02 September 1991 as a wholly Owned subsidiary of Colombo Stock Exchange.

1.2. Principal Activities and Nature of Operations

The principal activity of the Company is the operation of a Stock Exchange. The subsidiary operates a clearing and settlement of securities system for equities traded in the Colombo Stock Exchange and acts as a depository for such securities.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The Consolidated Financial Statements which comprise the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements thereto have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No 07 of 2007.

The Financial Statements of Colombo Stock Exchange for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 9th May 2018.

2.2. Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the Available-for-sale Financial Asset which is measured at Fair value.

2.3. Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest rupee.

2.4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements requires 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by

Group entities, except for the new standards adopted from this year (see Note 3.12)

3.1. Basis of Consolidation

The Financial Statements of the Company and Group comprise the Financial Statements of the Company and its Subsidiary for the year ended 31 December 2017. The Financial Statements of the Company's Subsidiary for the purpose of consolidation is prepared for the same reporting year as that of Colombo Stock Exchange, using consistent accounting policies.

3.1.1. Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Notes to the Financial Statements contd...

3.1.2. Non-Controlling Interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.1.3. Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

3.1.4. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.1.5. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses resulting from transactions between the Group and its Associates are also eliminated in preparing the consolidated financial statements to the extent of the Group's interests in the Associates.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2. Foreign Currency Transactions

Transactions in foreign currencies are translated to Sri Lankan Rupees at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Reporting Date are translated to Sri Lankan Rupees at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognized in the profit or loss.

3.3. Financial Instruments

Classification and subsequent measurement of financial assets

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

- (i) Financial assets at fair value through profit or loss (FVTPL);
 - Financial assets - Held for trading or
 - Financial assets - Designated at fair value through profit or loss
- (ii) Loans and receivables (L&R);
- (iii) Financial assets - Held to maturity (HTM); or
- (iv) Available-for-sale (AFS) financial assets.

3.3.1. Non Derivative Financial Assets

The Group initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair

value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

- **Financial Assets at Fair Value through Profit or Loss**

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

Attributable transaction costs are recognized in profit or loss

as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognized in profit or loss.

• **Loans and Receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The losses arising from impairment are recognized in profit or loss.

• **Held to Maturity Financial Assets**

If the Group has the positive intent and ability to hold securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. The losses arising from impairment of such investments are recognized in profit or loss.

3.3.1. Non Derivative Financial Assets (Ctd.)

• **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by

the Group in the management of its short-term commitments.

• **Available for Sale Financial Assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income.

When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Classification and subsequent measurement of financial liabilities

At the inception the Company determines the classification of its financial liabilities. Accordingly financial liabilities are classified as:

- i) Financial liabilities at fair value through profit or loss (FVTPL)
 - Financial liabilities held for trading
 - Financial liabilities designated at fair value through profit or loss
- ii) Financial liabilities at amortized cost.

The subsequent measurement of financial liabilities depends on their classification

3.3.2. Non Derivative Financial Liabilities

All financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs.

Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, trade and other payables and brokers' liquidity deposits payables.

3.4. Property and Equipment

3.4.1. Recognition and Measurement

Property and equipment are stated at cost less accumulated depreciation and any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self – constructed assets includes the costs of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Notes to the Financial Statements contd...

Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within the "other income" in profit or loss.

3.4.2. Subsequent Costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day - to - day servicing of property and equipment are recognized in the profit or loss as incurred.

3.4.3. Depreciation

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives of the Property, Plant & Equipment of the Company as at 31st December 2017 are as follows:

Rate	
Furniture & Fittings	10 years
Hardware & Software	5 - 10 years
Office Equipment	5 years

Motor Vehicles	5 years
Telephones	4 years

The depreciation rates are determined separately for each significant part of an item of Property, Plant & Equipment and commence to depreciate 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 the management. Depreciation of an assets ceases at the earlier of the date that the assets is classified as held for sale or the date that the asset is derecognized.

3.4.4. Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred for system development.

3.5. Intangible Assets

Intangible Assets consist of application software used in trading, clearing, settlement, surveillance, accounting, mail systems and the web site of the Colombo Stock Exchange.

3.5.1. Basis of Recognition

An Intangible Asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably in accordance with the LKAS 38, Intangible Assets.

3.5.2. Subsequent Expenditure

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

3.5.3. Amortization

Intangible Assets are amortized on a straight-line basis to profit or loss, from the date when the asset is available for use, over the best estimate of its useful economic life.

3.5.4. Research and Development Costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

3.5.5. De recognition of Intangible Assets

Intangible assets are derecognized on disposal or when no future economic benefits are expected from their use. Gain or losses arising from de recognition of an intangible asset are measured as the difference between the net disposals

proceed and the carrying amount of the asset and are recognized in profit or loss.

3.6. Inventories

Inventories include stationeries, stamps and data wall spares and measured at the lower of cost and net realizable value.

3.7. Impairment of Assets

3.7.1. Non-derivative Financial Assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active Market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

- **Financial Assets Measured at Amortized Cost**

The Group considers evidence of impairment for financial assets measured at amortized cost (loans and receivables and

held-to-maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

- **Available-for-Sale Financial Assets**

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

3.7.2. Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to

determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

3.8. Employee Benefits

3.8.1. Short – Term Employee Benefits

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 plans if the Group 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.

3.8.2. Defined Contribution Plan – Employees' Provident Fund and Employees' Trust Fund

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contribution into separate

Notes to the Financial Statements contd...

entity and will have no legal or constructive obligation to pay further amounts.

All employees who are eligible for Employees' Provident Fund and Employees' Trust Fund are covered by relevant contributions to the defined contribution plans and are recognized as an expense in profit or loss when incurred.

(a) Employees' Provident Fund

The Company and employee contribute 12% and 8% respectively on the basic salary of each employee to the employees' approved provident fund.

(b) Employees' Trust Fund

The Company contributes 3% of the basic salary of each employee to the employee's trust fund.

3.8.3. Defined Benefits Plan – Gratuity

As required by LKAS -19 "Employee Benefits", which the Company has provided for gratuity liability based on projected unit credit method.

However under the Payment of Gratuity Act No.12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The Group recognizes all Actuarial Gains / (Losses) arising from Defined Benefit plans immediately in Other Comprehensive Income and Expenses related to Defined Benefit in employee benefits in profit or loss.

The liability is not externally funded.

3.9. Provisions

A provision is recognized if the Group has a present legal or constructive obligation as a result of a past event, and it is probable

that an outflow of economic benefits will be required to settle the obligation.

3.10. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured.

3.10.1. CSE & CDS Fees

CSE & CDS fees on securities traded on the stock exchange are recognized on a trade date basis.

3.10.2. Listing Fees

Annual listing fees are recognized on an accrual basis and charged annually from listed companies a fee of Rs.100,000/- or 0.003% of the market capitalization of the Listed Entity as at 31st December of the year immediately preceding, whichever is higher, subject to a maximum of Rs.2,000,000/-

3.10.3. Quotation Fees

The initial listing fee payable when the ordinary voting shares of an Entity are listed on the Exchange and recognized upon the listing of an applicant.

Additional listing fees are recognized for a further issue of Securities by way of rights issue of shares, issues of shares credited as fully paid-up by way of capitalization of reserves, issues of shares through private placements, scrip dividend, share swaps & ESOP as per listing rules.

3.10.4. Brokers' Fees

Monthly subscription fees from brokers are recognized on an accrual basis.

3.10.5. Charges for Computer Information

The CDS charge a fee on a pre-determined basis from listed companies for the service rendered pertaining to providing information and fees are recognized on an accrual basis.

3.10.6. Listed Company Fees

Listed Company Fee is charged based on the number of trades and Rs.15/- will be charged per trade, subject to a minimum charge of Rs.25,000/- and a maximum charge of Rs.750,000/- per annum.

3.10.7. Other Income

- Dividend from unit trust is recognized in profit or loss on an accrual basis when the Company's right to receive the dividend is established.
- Interest income is recognized in profit or loss as it accrues, using the effective interest method.
- Gain on disposal of property and equipment have been accounted for in profit or loss, after deducting from the net sales proceeds on disposal of the carrying amount of such assets.

3.11. Taxation

As per Sri Lanka Accounting Standard (LKAS 12) – "Income taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognized in the income statement.

3.11.1. Current Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the Reporting Date, and any adjustment to tax payable in respect of previous years.

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto.

The Company is Liable for income tax at the rate of 28% on the taxable profit.

3.11.2. Deferred Taxation

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets

and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.11.3. Other Tax Exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.11.3.1. Withholding Tax on Dividends Distributed by Subsidiary

Dividend distributed out of profit of the Subsidiary attracts 10% deduction at source and is not available for set off against the tax liability of the Colombo Stock Exchange. Thus the withholding tax deducted at source is added to the expense of the Subsidiary Company in the Group Financial Statements as a consolidation adjustment.

3.11.3.2. Economic Service Charge (ESC)

As per the provisions of Economic Service Charge Act No. 13 of 2006 and subsequent amendments

thereto, ESC is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed amount can be carried forward.

3.11.3.3. Value Added Tax (VAT)

Value Added Tax is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. VAT is payable at 15%.

3.11.3.4. Nation Building Tax (NBT)

As per the provisions of the Nation Building Tax Act, No. 9 of 2009 and the subsequent amendments thereto, Nation Building Tax should be payable at the rate of 2% with effect from 1 January 2011 on the liable turnover as per the relevant provisions of the Act.

3.12. Related party transactions

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged.

3.13. Statement of cash flow

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flow', whereby operating activities, investing activities and financing activities are separately recognised. Cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Notes to the Financial Statements contd...

3.14 New Accounting Standards Issued but not Effective

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standard which will become applicable for financial periods beginning on or after 1st January 2016. Accordingly, the Group has not applied the following new standards in preparing these consolidated financial statements.

SLFRS 15 is effective for annual reporting period beginning on or after 1st January 2018, with early adoption permitted.

3.14.3. SLFRS 16 – Leases

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On- Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On- Balance Sheet accounting model that is similar to current finance lease accounting. SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019. The impact on the implementation of the above standard has not been quantified yet.

3.14.1. SLFRS 9-Financial Instruments

SLFRS 9 – “Financial Instruments” replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets.

SLFRS 9 is effective for annual period beginning on or after 1st January 2018 with early adoption permitted.

The Group is assessing the potential impact on its Consolidated Financial Statements resulting from the of SLFRS 9. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

3.14.2. SLFRS 15 – Revenue Recognition from Customer Contracts

SLFRS 15 – “Revenue from Contracts with Customers” establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance LKAS 18 Revenue, LKAS 11 Construction Contracts.

	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
<i>For the Year Ended 31 December,</i>				
04 Revenue				
CSE & CDS Fees	396,616,978	316,437,752	307,813,100	245,570,065
Listing Fees	92,266,430	95,422,948	92,266,430	95,422,948
Quotation Fees	11,087,122	9,421,128	11,087,122	9,421,128
Brokers' Fees	19,694,909	21,852,968	19,694,908	21,852,968
Charges for Remote Data Link	1,168,000	1,239,000	1,168,000	1,239,000
Charges for Computer Information	20,238,850	17,754,130	-	-
Listed Company Fees	16,754,904	19,709,200	-	-
	557,827,192	481,837,126	432,029,560	373,506,109
05 Other Income				
Interest Income	210,729,760	86,179,332	178,713,394	74,065,281
Dividend Income - Unit Trusts	6,881,961	63,128,668	6,881,961	56,371,279
Dividend Income - CDS	-	-	-	2,700,000
CDS Rental Income	-	-	36,162,068	36,162,068
Management Fee	-	-	5,936,071	5,834,977
Profit/(Loss) on Disposal of Property & Equipment	(9,384,858)	(4,027,041)	(9,384,858)	(4,027,041)
Miscellaneous Income	68,265,676	53,227,047	58,361,789	44,306,099
Net Gain on Disposal of Available-For-Sale Financial Assets	129,881,138	31,498,622	86,554,455	24,335,926
	406,373,677	230,006,628	363,224,881	239,748,589

Miscellaneous Income comprise of net interest income from staff loan Rs.2,804,260 (Interest Income of Rs.8,805,260 and Interest Expense of Rs.6,001,000 in 2017) and net interest income of Rs.2,825,121 (Interest Income of Rs.8,654,837 and Interest Expense of Rs.5,829,716 in 2016).

	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
<i>For the Year Ended 31 December,</i>				
06 Staff Cost				
Salaries	263,711,331	262,967,508	244,034,615	244,559,538
Staff Bonus	-	1,535,423	-	1,535,423
Terminal Benefits (Gratuity)	10,343,001	11,502,074	9,274,858	10,419,181
Staff Welfare	9,738,289	8,627,470	8,554,122	7,865,945
Medical Expenses	4,791,529	4,838,899	4,259,827	4,409,764
Transport & Traveling	2,546,754	2,215,447	2,285,738	1,938,394
	291,130,904	291,686,821	268,409,160	270,728,245

The Number of Employees at the end of the Year 2017 were 152 (154 in 2016).

Notes to the Financial Statements contd...

For the Year Ended 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
07 Other Operating Expenses				
Rent	117,782,131	118,531,578	108,838,010	108,875,106
Administration Expenses	49,285,161	43,576,100	31,776,055	32,865,695
Data Communication Charges	22,943,216	34,688,348	22,943,216	27,558,612
CDS Statement Expenses	7,508,314	10,450,738	-	-
Stationery Expenses	1,516,524	1,351,481	924,088	999,523
Maintenance Expenses	115,583,975	126,208,361	93,394,100	100,646,722
Issuer Marketing Expenses	-	795,611	-	620,576
Donation	362,603	476,082	362,603	476,082
Training Expenses	5,476,789	6,571,274	5,077,146	6,090,486
Conference Expenses	3,743,977	4,824,665	3,157,356	4,495,770
Nation Building Tax & Disallowed VAT	46,653,396	31,633,603	31,475,724	19,183,468
Investor Education & Foreign Road Show Expenses	41,910,255	18,958,469	32,689,999	14,788,590
Publication & Website Expenses	10,267,392	16,056,161	7,981,488	12,474,952
Incentive Scheme for Brokers Back Office Systems	27,645,834	17,250,000	27,645,834	17,250,000
Directors' Expenses	9,909,000	11,507,000	9,909,000	11,507,000
Auditors' Remuneration	908,000	866,250	578,000	551,250
Fees Paid to Auditors for Non-Audit Services	555,367	648,063	444,070	419,036
Legal Fees	5,867,087	1,426,086	5,785,487	1,426,086
Professional Charges & Subscription	23,912,301	24,868,037	19,599,157	20,311,995
Risograph Expenses	16,857	-	-	-
Provision for Bad Debts	983,551	1,380,314	938,776	1,032,365
Other Project Cost	1,246,999	542,693	1,133,052	542,693
	494,078,732	472,610,914	404,653,161	382,116,007
08 Taxation				
08.1 Income tax Expense				
Current tax expense	23,705,409	4,431,721	17,878,430	2,226,963
	23,705,409	4,431,721	17,878,430	2,226,963
Taxes on dividends	-	300,000	-	-
	23,705,409	4,731,721	17,878,430	2,226,963

For the Year Ended 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
08.2 Reconciliation on Accounting Loss to Income Tax				
Accounting Profit/(Loss) before taxation	93,696,003	(152,141,730)	36,983,386	(139,190,594)
Adjustment on Disallowable Expenses	99,530,655	120,798,663	97,634,814	118,316,952
Adjustment on Allowable Expenses	(69,015,752)	(101,459,887)	(68,907,578)	(101,281,401)
Exempt Income	(217,243,362)	(174,916,216)	(173,916,679)	(160,996,131)
Income not form a part of total Statutory Income	-	-	-	(2,700,000)
Other Source of income	(130,249,496)	(24,350,114)	(98,233,130)	(12,236,063)
Losses from Business	(223,281,952)	(332,069,283)	(206,439,187)	(298,087,237)
Total Statutory Income	130,249,496	24,350,114	98,233,130	12,236,063
Tax Loss Utilized	(45,587,323)	(8,522,540)	(34,381,597)	(4,282,623)
Taxable Income	84,662,172	15,827,574	63,851,545	7,953,441
Income Tax at 28% (Note 8.3)	23,705,409	4,431,721	17,878,430	2,226,963
Income Tax on Current year Profit	23,705,409	4,431,721	17,878,430	2,226,963

08.3 Tax has been provided at the rate of 28% in respect of CSE & CDS for the Financial Year 2017 (28% in 2016).

As per the Inland Revenue Act No.10 of 2006 any person who derived income from the secondary market transactions in Government securities issued after or outstanding at 01 April 2002 would be entitled to a notional credit in relation to tax payable by such person. Accordingly, the net interest earned by the CSE for the year, has been grossed up in the Financial Statements and the resulting notional credit is Rs.4,356,610/- (Rs.2,040,920/- in 2016).

09 Property & Equipment

09.1 GROUP	Furniture & Fittings	Computers	Office Equipment	Motor Vehicles	Telephones	Total
Cost	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 01 January 2017	160,006,545	394,733,865	46,383,591	12,190,987	14,144,104	627,459,093
Additions	15,934,614	22,062,040	1,633,624	-	-	39,630,277
Transfers from Capital Work in Progress	-	-	-	-	-	-
Disposals	(17,749,733)	(2,808,311)	(681,593)	-	-	(21,239,637)
As at 31 December 2017	158,191,426	413,987,595	47,335,621	12,190,987	14,144,104	645,849,733
Accumulated Depreciation						
As at 01 January 2017	93,606,227	325,264,986	36,507,771	4,655,838	12,658,596	472,693,418
Charge for the year	10,355,308	31,306,124	5,822,836	2,383,300	851,576	50,719,144
Disposals	(8,326,697)	(2,796,711)	(681,590)	-	-	(11,804,998)
As at 31 December 2017	95,634,838	353,774,399	41,649,017	7,039,138	13,510,172	511,607,563
Net Book Value						
As at 31 December 2017	62,556,588	60,213,196	5,686,605	5,151,849	633,932	134,242,170
As at 31 December 2016	66,400,318	69,555,376	9,875,820	7,535,149	1,485,508	154,852,171

Notes to the Financial Statements contd...

09.1.1 Based on the assessment carried out internally, by the Board of Directors no provision was required for the potential impairment of fixed assets as at 31 December 2017.

09.1.2 Gross carrying amount of fully depreciated assets as at 31 December 2017 is Rs. 494,525,432.

09.1.3 There were no restrictions on the title of the Property and Equipment as at 31 December 2017.

09.1.4 There were no items of Property and Equipment pledge as security as at 31 December 2017.

09.2 COMPANY	Furniture & Fittings	Computers	Office Equipment	Motor Vehicles	Telephones	Total
Cost	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 01 January 2016	159,615,228	391,862,428	46,257,872	12,190,987	14,083,254	624,009,770
Additions	15,934,614	22,062,040	1,633,624	-	-	39,630,277
Transfers from Capital Work in Progress	-	-	-	-	-	-
Disposals	(17,749,733)	(2,808,311)	(681,593)	-	-	(21,239,637)
As at 31 December 2017	157,800,109	411,116,157	47,209,903	12,190,987	14,083,254	642,400,410
Accumulated Depreciation						
As at 01 January 2016	93,214,934	322,307,065	36,382,057	4,655,838	12,597,748	469,157,642
Charge for the year	10,355,308	31,392,621	5,822,836	2,383,300	851,576	50,805,640
Disposals	(8,326,697)	(2,796,711)	(681,590)	-	-	(11,804,998)
As at 31 December 2017	95,243,545	350,902,975	41,523,303	7,039,138	13,449,324	508,158,284
Net Book Value						
As at 31 December 2017	62,556,564	60,213,182	5,686,600	5,151,849	633,930	134,242,126
As at 31 December 2016	66,400,294	69,555,363	9,875,815	7,535,149	1,485,506	154,852,127

09.2.1 Based on the assessment carried out internally, by the Board of Directors no provision was required for the potential impairment of fixed assets as at 31 December 2017.

09.2.2 Gross carrying amount of fully depreciated assets as at 31 December 2017 is Rs. 497,974,711

09.2.3 There were no restrictions on the title of the Property and Equipment as at 31 December 2017.

09.2.4 There were no items of Property and Equipment pledge as security as at 31 December 2017.

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
10 Intangible Assets				
Cost				
Balance as at 01 January	514,411,057	492,624,868	513,978,362	492,237,479
Acquisition and Transfers during the year	13,530,598	21,786,189	13,530,598	21,740,883
Balance as at 31 December	527,941,655	514,411,057	527,508,960	513,978,362
Accumulated Amortization				
Balance as at 01 January	307,146,985	273,871,016	307,046,487	273,857,226
Charge for the year	34,301,728	33,275,969	34,215,232	33,189,261
Balance as at 31 December	341,448,713	307,146,985	341,261,719	307,046,487
Net Book Value	186,492,942	207,264,072	186,247,241	206,931,875

Intangible Assets consist of application software used in trading, clearing, settlement, surveillance, accounting, mail systems and the web site of the Colombo Stock Exchange.

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
11 Capital Work in Progress				
Balance as at 01 January	73,569,797	59,694,492	73,569,797	59,694,492
Incurred during the year	12,273,401	30,777,826	12,273,401	30,777,826
Transfers	(7,747,687)	(16,902,522)	(7,747,687)	(16,902,522)
Balance as at 31 December	78,095,511	73,569,797	78,095,511	73,569,797

The Capital Work in Progress includes Rs.49Mn for Central Counter Party (CCP) project which is in progress.

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
12 Investment in Subsidiary				
Central Depository Systems (Pvt) Ltd.				
(10,000,000 Ordinary Shares)	-	-	25,000	25,000
	-	-	25,000	25,000

Notes to the Financial Statements contd...

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
13 Financial Investments - Held to Maturity				
Investment in Listed Debenture of People's Leasing and Finance PLC	183,500,000	183,500,000	183,500,000	183,500,000
Investment in Listed Debenture of DFCC Bank PLC	200,000,000	200,000,000	200,000,000	200,000,000
Investment in Listed Debenture of HNB PLC	200,000,000	200,000,000	200,000,000	200,000,000
Investment in Listed Debenture of Sampath Bank PLC	150,000,000	150,000,000	150,000,000	150,000,000
	733,500,000	733,500,000	733,500,000	733,500,000
Interest Receivable	46,468,652	46,479,389	46,468,652	46,479,389
	779,968,652	779,979,389	779,968,652	779,979,389

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
14 Investment in LFSB				
Ordinary Shares	1,000,000	1,000,000	-	-
	1,000,000	1,000,000	-	-

This represents the 100,000 Ordinary Shares purchased from Lanka Financial Services Bureau Ltd (LFSB) by the Central Depository Systems (Pvt) Ltd. LFSB is the SWIFT Service Bureau for Sri Lanka which facilitates inter-bank transactions.

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
15 Settlement Guarantee Fund				
Settlement Guarantee Fund	100,000,000	100,000,000	100,000,000	100,000,000
	100,000,000	100,000,000	100,000,000	100,000,000

This fund was established as a Trust on 22 May 1988 to guarantee the settlement of trades between clearing members of the Central Depository System of the Colombo Stock Exchange and to provide for matters connected therewith and incidental thereto. Current trustees of the fund are Securities Exchange Commission of Sri Lanka (SEC) and Colombo Stock Exchange (CSE). The CSE has decided to transfer Rs. 100 Million to strengthen the Settlement Guarantee Fund subsequent to the fund meeting held on 20 December 2011 and transferred the funds on 18 January 2012.

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
16 Deferred Tax Assets				
Deferred Tax Liabilities	69,316,345	(72,089,842)	69,316,345	(72,089,842)
Deferred Tax Assets	(69,316,345)	72,089,842	(69,316,345)	72,089,842
	-	-	-	-

Deferred tax assets and liabilities are attributable to the following originations of temporary differences;

Property, equipment & intangible assets	69,316,345	72,089,842	69,316,345	72,089,842
Retirement Benefit Obligation	(16,491,047)	(12,104,464)	(16,491,047)	(12,104,464)
Brought Forward Tax Loss	(52,825,298)	(59,985,378)	(52,825,298)	(59,985,378)
Total Taxable Temporary Difference	-	-	-	-
Applicable Tax Rate	28%	28%	28%	28%
Deferred Tax Assets	-	-	-	-

Deferred Tax Assets arising from the unused tax losses has been recognized only to the extent of entity's taxable temporary differences. Hence, the full amount of differed tax asset arising from the unused tax loss has not been recognized in the Financial Statements in accordance with the LKAS 12 - "Income taxes" due to the unavailability of convincing other evidence that sufficient taxable profit will be available against which the unused tax loss can be utilized by the entity.

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
17 Trade & Other Receivables				
Trade Receivables	52,156,060	40,868,033	18,890,989	11,985,022
Provision for Impairment	(8,005,978)	(7,022,427)	(4,370,914)	(3,432,138)
	44,150,082	33,845,606	14,520,075	8,552,884
CSE & CDS Fees Receivable	1,850,536	3,982,995	1,439,306	3,097,880
Prepayments	63,267,113	38,947,049	63,069,116	38,494,939
Advance Payments	718,830	260,436	620,830	250,436
Refundable Deposits	49,208,320	54,715,771	49,208,320	54,715,771
Sundry Debtors	37,024,054	46,123,503	36,294,446	44,524,031
Other Receivable	269,628	269,628	269,628	269,628
Interest Receivable	79,506	974,962	79,506	261,717
Staff Loans	53,446,312	51,909,582	53,446,312	51,909,582
Prepaid Staff Cost	12,412,019	14,800,929	12,412,019	14,800,929
WHT Receivable	51	-	36	-
	262,426,451	245,830,460	231,359,594	216,877,796

Notes to the Financial Statements contd...

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
18 Financial Investments - Available-for-Sale				
CEYBANK - Savings Plus Money Market Fund	-	162,363,815	-	162,363,815
NDB Wealth - Eagle Money Plus Fund	208,917,524	242,126,233	124,420,613	242,126,233
JB Vantage - Money Market Fund	189,551,452	337,859,525	-	168,929,762
Guardian Acuity Money Market Fund	141,512,675	50,890,403	56,963,863	50,890,403
	539,981,652	793,239,975	181,384,476	624,310,213
Group	2017		2016	
	No. of Units	Rs.	No. of Units	Rs.
CSE				
CEYBANK - Savings Plus Money Market Fund	-	-	15,293,247	162,363,815
NDB Wealth - Money Plus Fund	7,237,081	124,420,612	15,691,202	242,126,233
JB Vantage - Money Market Fund	-	-	9,769,696	168,929,762
Guardian Acuity Money Market Fund	3,714,655	56,963,864	3,714,655	50,890,403
		181,384,476		624,310,213
CDS				
NDB wealth Money Plus Fund	4,914,869	84,496,912	-	-
JB Vantage - Money Market Fund	9,766,616	189,551,452	9,769,696	168,929,762
Guardian Acuity Money Market Fund	5,513,490	84,548,812	-	-
	-	358,597,176	-	168,929,762
Total	-	539,981,652	-	793,239,975

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
19 Other Investments				
Investment in Fixed Deposit	975,000,000	150,000,000	825,000,000	-
Interest Receivable	56,246,881	2,980,105	53,953,665	-
	1,031,246,881	152,980,105	878,953,665	-
20 Cash & Cash Equivalents				
Treasury Bill - Repos	-	565,000,000	-	395,000,000
Overnight Repos	128,138,000	169,020,439	128,138,000	139,991,391
Cash at Bank	11,346,663	23,878,662	10,613,736	22,894,781
RTGS Account	17,600	17,600	-	-
Cash in Hand	275,050	230,050	250,050	225,050
Favourable balance	139,777,313	758,146,752	139,001,786	558,111,222
Bank Overdraft	(8,577,679)	(16,534,611)	(8,506,805)	(16,534,611)
Cash & Cash Equivalents in the Statement of Cash Flows	131,199,634	741,612,141	130,494,981	541,576,611
21 Other Reserves				
Capital Reserve (Note 21.1)	99,975,000	99,975,000	-	-
Available-for-Sale Reserve	396,858	81,455,640	126,365	62,525,877
	100,371,858	181,430,640	126,365	62,525,877

21.1 Capital Reserve

This represents 4,997,500 Ordinary Shares issued by CDS on capitalisation of its Revenue Reserves in Year 2004 and the transfer of its Capital Redemption Reserve in Year 2009.

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
22 Broker Deposits In Lieu Of Bank Guarantee				
Non Current Liability				
Deposits for Computer Facility	111,670	111,670	111,670	111,670
Entrance Deposits	640,000	640,000	640,000	640,000
Deposits for Telephones	188,300	188,300	188,300	188,300
	939,970	939,970	939,970	939,970
Current Liability				
Broker Deposits (Note 22.1)	83,500,000	83,500,000	83,500,000	83,500,000
Dex Liquidity Deposits (Note 22.2)	5,330,000	11,330,000	-	-
15% Margin Deposit (Note 22.3)	-	29,029,048	-	-
	88,830,000	123,859,048	83,500,000	83,500,000

Notes to the Financial Statements contd...

- 22.1** This is the cash deposit maintained by broker firms as part of their Liquidity Requirement in terms of Section 03 of Member Regulations of the Colombo Stock Exchange.
- 22.2** This is the cash deposit maintained by broker firms as part of their Liquidity Requirement in terms of Section 18 of CDS Regulations of the Colombo Stock Exchange.
- 22.3** This is the cash deposit maintained by broker firms as part of their Liquidity Requirement in terms of Section 5 of CDS Regulations of the Colombo Stock Exchange.

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
23 Retirement Benefit Obligations				
Balance as at 01 January	43,230,230	61,939,239	43,230,230	61,939,239
Charge for the year	6,127,022	5,034,095	5,615,339	4,711,951
Interest for the year	4,215,978	6,467,979	3,659,518	5,707,230
Actuarial (Gains) / Losses recognized in OCI	7,450,118	(24,708,137)	6,320,361	(21,904,272)
Provision transferred to Subsidiary	-	-	2,197,900	(1,720,972)
Payments made during the year	(2,126,750)	(5,502,946)	(2,126,750)	(5,502,946)
Balance as at 31 December	58,896,598	43,230,230	58,896,598	43,230,230

As required by the Sri Lanka Accounting Standard LKAS 19 - "Employee Benefits", the company has provided gratuity liability based on the Projected Unit Credit Method.

The principal assumptions used to arrive above gratuity liability are as follows;

	2017	2016
Expected Annual Average Salary Increment	7%	4%
Discounting Rate / Interest Rate	10.50%	11.75%
Staff Turnover Factor	10%	15.30%

23.1 Sensitivity of Assumptions Employed on Gratuity Formula Method

Assumptions regarding discount rate and salary increment rate have a significant effect on the amounts recognised in profit or loss and statement of financial position.

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.

	Discount Rate	Salary Increases
Salary Increases	1%	1%
Effect on the Aggregate Service and Interest Cost	429,607	14,465
Effect on Defined Benefit Obligation	3,849,970	(3,487,411)

		Group		Company		
As at 31 December,		2017	2016	2017	2016	
		Rs.	Rs.	Rs.	Rs.	
24	Other Payables					
	Interest Payable to Brokers	2,056,437	1,905,746	2,056,425	1,892,336	
	Payments Received in Advance	1,162,765	1,907,328	1,131,995	1,895,065	
	Sundry Creditors & Accrued Expenses	100,613,945	83,781,195	97,683,079	80,370,287	
		103,833,147	87,594,269	100,871,499	84,157,688	
25	Amounts due to Related Company Relationship					
	Central Depository Systems (Pvt) Limited	Subsidiary	-	-	58,045,786	51,791,438
			-	-	58,045,786	51,791,438

26 Contingencies & Commitments

26.1 Litigation Against the CSE

- 1) Mr.I.B.Isaac (Plaintiff) claimed Rs.21,784,454.97 (Including consequential damages) from the CSE stating that the CSE has failed to properly execute duty, was negligent and failed to exercise due diligence (Prior to the announcement of 2006 bonus issue of Touchwood investments PLC) to safeguard Plaintiff's interest and thereby lead to cause direct loss and damage to the plaintiff.

On 17th October 2016, the District Court of Colombo pronounced the judgement in favour of the Plaintiff granting him the reliefs prayed under a,c and d of prayer to the plaint,namely,

- An amount of Rs. 11,784,454.97 with interest in respect of the losses made by him due to the investments in shares of Touchwood;
- The aggregate interest up until the settlement of the dues as prescribed above; and,
- Legal fees.

The CSE, on 09th December 2016,filed a petition of Appeal in the High Court of Civil Appeal of the Western Province praying to set aside the judgement of the District Court dated 17th October 2016.CSE await the Appeal to be listed for Argument in the High Court of Civil Appeal of the Western Province holden in Colombo.

Based on the legal advice, the directors do not expect outcome of the pending litigations to have material effect on the Statement of Financial Position.

26.2 Tax Assessments Against the CSE

The Department of Inland Revenue has issued assessment notices for income tax amounting to Rs. 16.1 million for the Year of Assessment 2005/2006, Rs.17.6 million for the Year of Assessment 2006/2007, Rs. 0.3 million for the Year of Assessment 2007/2008 and Rs.0.4 million for the Year of Assessment 2009/2010. In addition to the above the Department of Inland Revenue has issued taxes in default notice for income tax amounting to Rs. 2.84 million, Rs.0.04 million, Rs. 0.027 million & Rs. 4.5 million for the Year of Assessment 1997/1998, 1999/2000, 2003/2004, 2008/2009 respectively. The CSE has appealed to quash the income tax assessments issued by the Department of Inland Revenue. Based on the consultant opinion, Board of Directors of the company is of the view that, no liability would arise to the company since the said assessments are outside the scope of chargeability of taxation.

26.3 Tax Assessments Against the CDS

The Department of Inland Revenue has issued assessment notices for income tax amounting to Rs. 3.94 million for the Year of Assessment 2008/2009 and Rs.3.03 million for the Year of Assessment 2009/2010 respectively. The CDS has appealed to quash the income tax assessment issued by the Department of Inland Revenue. Based on the consultant opinion, Board of Directors of the company is of the view that, no liability would arise to the company since the said assessments are outside the scope of chargeability of taxation.

Notes to the Financial Statements contd...

27 Capital Commitments

The Group and the Company has following purchase commitments in the ordinary course of business as at 31 December as follows:

As at 31 December,	Group		Company	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
Property and Equipment				
- approved & contracted	30,140,745	23,945,128	30,140,745	23,945,128
	30,140,745	23,945,128	30,140,745	23,945,128

28 Financial Instruments

28.1 Financial Risk Management

Overview

The Group has exposure to the following risks from financial instruments:

- a) Credit Risk
- b) Liquidity Risk
- c) Market Risk
- d) Operational Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. In discharging its governance responsibility it operates through Risk & Audit Committee. The primary function of the Committee is to ensure the establishment of appropriate risk management framework within the Group. The Risk & Audit Committee is assisted in these functions by Internal Audit and the results are reported to the Risk & Audit Committee. The Risk & Audit Committee provides its assessment on the effectiveness of internal audit and external disclosure of accounting policies and financial reporting to the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group has developed an Enterprise Risk Management framework & policy and currently in the process of reviewing the framework.

(a) Credit Risk

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk primarily from investment in unit trust, investment in fixed deposit, staff loans receivable, trade and other receivables which are financial assets and cash and bank balances with financial institutions. Fact sheets of the unit trust are observed and reported to investment committee. Fixed deposit investments are in financial institutions which are having good credit ratings. Receivables are monitored to ensure that exposure to bad debts are minimised. Staff loans are given to permanent confirmed employees and are deducted from the salaries as per the terms of granting loans.

(b) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to honour its financial obligations as they fall due.

Finance division monitors the cash flow forecasts of the Group to ensure sufficient cash availability to meet operational needs. The Group is able to meet all working capital requirements with its short term investments in Overnight Repo and money market unit trusts. Brokers' Deposits in lieu of Bank Guarantee is the cash deposit maintained by broker firms as part of their Liquidity Requirement and have been invested in Overnight Repo investments in order to meet liquidity as and when required.

Surplus cash held over and above balance required for working capital management is invested in Overnight Repos and money market unit trusts.

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments.

	Carrying Amount (Rs.)	Total (Rs.)	03 Months or Less (Rs.)	03-12 Months (Rs.)	Over 01 Year (Rs.)
Non - Derivative Financial Assets					
Group					
31 December 2017					
Cash & Cash Equivalents	275,050	275,050	275,050	-	-
Balances with Banks & Financial Institutions	139,502,263	139,502,263	139,502,263	-	-
Financial Investments - Available-for-Sale	539,981,651	539,981,651	539,981,651	-	-
Investments in Corporate Debenture	779,968,652	779,968,652	-	-	779,968,652
Investments in LFSB	1,000,000	1,000,000	-	-	1,000,000
Other Investment	1,031,246,881	1,031,246,881	-	1,031,246,881	-
Trade and Other Receivables	262,426,451	262,426,451	262,426,451	-	-
	2,754,400,948	2,754,400,948	942,185,415	1,031,246,881	780,968,652
Financial Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	88,830,000	88,830,000	-	-	83,500,000
Trade Payables	103,833,148	103,833,148	103,833,148	-	-
Bank Overdraft	8,577,679	8,577,679	8,577,679	-	-
	201,240,826	201,240,826	112,410,826	-	83,500,000
Non - Derivative Financial Assets					
31 December 2016					
Cash & Cash Equivalents	230,050	230,050	230,050	-	-
Balances with Banks & Financial Institutions	757,916,702	757,916,702	757,916,702	-	-
Financial Investments - Available-for-Sale	793,239,975	793,239,975	793,239,975	-	-
Investments in Corporate Debenture	779,979,389	779,979,389	-	-	779,979,389
Investments in LFSB	1,000,000	1,000,000	-	-	1,000,000
Other Investment	152,980,105	152,980,105	-	152,980,105	-
Trade and Other Receivables	245,830,460	245,830,460	245,830,460	-	-
	2,731,176,681	2,731,176,681	1,797,217,187	152,980,105	780,979,389
Financial Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	124,799,018	124,799,018	41,299,018	-	83,500,000
Trade Payables	87,594,269	87,594,269	87,594,269	-	-
Bank Overdraft	16,534,611	16,534,611	16,534,611	-	-
	228,927,898	228,927,898	145,427,898	-	83,500,000

Notes to the Financial Statements contd...

28.1 Financial Risk Management (Contd...)

	Carrying Amount (Rs.)	Total (Rs.)	03 Months or Less (Rs.)	03-12 Months (Rs.)	Over 01 Year (Rs.)
Non - Derivative Financial Assets					
Company					
31 December 2017					
Cash in Hand	250,050	250,050	250,050	-	-
Balances with Banks & Financial Institutions	138,751,736	138,751,736	138,751,736	-	-
Financial Investments - Available-for-Sale	181,384,476	181,384,476	181,384,476	-	-
Investments in Corporate Debentures	779,968,652	779,968,652	-	-	779,968,652
Other Investment	878,953,665	878,953,665	-	878,953,665	-
Trade and Other Receivables	231,359,594	231,359,594	231,359,594	-	-
	2,210,668,173	2,210,668,173	551,745,856	878,953,665	779,968,652
Financial Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	83,500,000	83,500,000	-	-	83,500,000
Trade Payable	100,871,499	100,871,499	100,871,499	-	-
Bank Overdraft	8,506,805	8,506,805	8,506,805	-	-
	192,878,304	192,878,304	109,378,304	-	83,500,000
Non - Derivative Financial Assets					
Company					
31 December 2016					
Cash in Hand	225,050	225,050	225,050	-	-
Balances with Banks & Financial Institutions	757,916,702	757,916,702	757,916,702	-	-
Financial Investments - Available-for-Sale	624,310,213	624,310,213	624,310,213	-	-
Investments in Corporate Debentures	779,979,389	779,979,389	-	-	-
Trade and Other Receivables	216,877,796	216,877,796	-	-	-
	2,379,309,150	2,379,309,150	1,382,451,965	-	-
Financial Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	84,439,970	84,439,970	-	-	84,439,970
Trade Payable	84,157,688	84,157,688	84,157,688	-	-
Bank Overdraft	16,534,611	16,534,611	16,534,611	-	-
	185,132,269	185,132,269	100,692,299	-	84,439,970

(c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Group's income. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The CSE has placed a special emphasis on the effect of market risk on fixed income securities and investments. Further, a board approved investment policy and an investment procedure manual are in place at the group to mitigate the market risk. The Group has set up a risk management division.

Currency Risk

The Group is exposed to currency risk on purchasing of assets and obtaining of services that are denominated in a currency other than the respective functional currency of the Group. The currency in which transactions primarily are denominated in U.S. Dollars. The currency risk is limited by the short term nature of the period between the dates of the purchase and the settlement of the related liability.

However, the Group is not exposed to a significant currency risk due to the reason that there are no foreign currency exposures as at the reporting date.

Interest Rate Risk

Interest rate risk arises due to fluctuations in the interest rate resulting in adverse impact to future cash flows or the fair values of financial instruments of the Group.

The Group's approach in managing interest rate risk is to continuously monitor positions on a daily basis to a level that are viable and prudent. When analysing impacts of interest rate movements on profitability, Management resorted to the techniques of sensitivity analysis carried out on group financial assets and liabilities, taking into account various interest rate scenarios.

Given below is a sensitivity analysis carried out as at 31 December 2016 that demonstrates possible impact to Group profitability due to a given change in interest rates, keeping all other variables constant.

	Market Rates up by 1% Effect to the Interest Income	Market Rates drop by 1% Effect to the Interest Income
Effect on Profit or Loss	740,783	(740,783)

(d) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's involvement with financial instruments, including processes, personnel, technology, infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Group is in the process of developing the procedure manuals in order to strengthen the systems, processes and internal controls.

Notes to the Financial Statements contd...

28.2 Accounting Classification and Fair Values

GROUP			Held to	Loans and	Available for	Other	Total Carrying	
	Note		Maturity	Receivables	Sale	Financial	Amount	Fair Value
			Rs.	Rs.	Rs.	Liabilities	Rs.	Rs.
As at 31 December 2017								
Assets								
Cash in Hand	20	-	275,050	-	-	-	275,050	275,050
Balances with Banks & Financial Institutions	20	-	139,502,263	-	-	-	139,502,263	139,502,263
Financial Investments - Available-for-Sale	18	-	-	539,981,651	-	-	539,981,651	539,981,651
Investments in Corporate Debenture	13	779,968,652	-	-	-	-	779,968,652	779,968,652
Investment in Fixed Deposit	19	-	1,031,246,881	-	-	-	1,031,246,881	1,031,246,881
Investments in LFSB	14	-	-	1,000,000	-	-	1,000,000	1,000,000
Trade and Other Receivables	17	-	262,426,450	-	-	-	262,426,450	262,426,450
Total Financial Assets		779,968,652	1,433,450,644	540,981,651		-	2,754,400,947	2,754,400,947
Liabilities								
Due to Customers		-	-	-	-	1,941,734	1,941,734	1,941,734
Due to Brokers	22	-	-	-	-	91,826,407	91,826,407	91,826,407
Due to Banks	20	-	-	-	-	8,577,679	8,577,679	8,577,679
Other Financial Liabilities		-	-	-	-	99,834,977	99,834,977	99,834,977
Total Financial Liabilities		-	-	-	202,180,796	202,180,796	202,180,796	202,180,796
As at 31 December 2016								
Assets								
Cash in Hand	20	-	230,050	-	-	-	230,050	230,050
Balances with Banks & Financial Institutions	20	-	757,916,702	-	-	-	757,916,702	757,916,702
Financial Investments - Available-for-Sale	18	-	-	793,239,975	-	-	793,239,975	793,239,975
Investments in Corporate Debenture	13	779,979,389	-	-	-	-	779,979,389	779,979,389
Investment in Fixed Deposit	19	-	152,980,105	-	-	-	152,980,105	152,980,105
Investments in LFSB	14	-	-	1,000,000	-	-	1,000,000	1,000,000
Trade and Other Receivables	17	-	245,830,460	-	-	-	245,830,460	245,830,460
Total Financial Assets		779,979,389	1,156,957,317	794,239,975		-	2,731,176,681	2,731,176,681
Liabilities								
Due to Customers		-	-	-	-	2,367,790	2,367,790	2,367,790
Due to Brokers	22	-	-	-	-	126,704,764	126,704,764	126,704,764
Due to Banks	20	-	-	-	-	16,534,611	16,534,611	16,534,611
Other Financial Liabilities		-	-	-	-	83,320,734	83,320,734	83,320,734
Total Financial Liabilities		-	-	-	228,927,899	228,927,899	228,927,899	228,927,899

COMPANY	Note	Held to Maturity Rs.	Loans and Receivables Rs.	Available for Sale Rs.	Other Financial Liabilities Rs.	Total Carrying Amount Rs.	Fair Value Rs.
As at 31 December 2017							
Assets							
Cash in Hand	20	-	250,050	-	-	250,050	250,050
Balances with Banks & Financial Institutions	20	-	138,751,736	-	-	138,751,736	138,751,736
Financial Investments - Available-for-Sale	18	-	-	181,384,476	-	181,384,476	181,384,476
Investments in Corporate Debenture	13	779,968,652	-	-	-	779,968,652	779,968,652
Other Investments		-	878,953,665	-	-	878,953,665	878,953,665
Trade and Other Receivables	17	-	231,359,594	-	-	231,359,594	231,359,594
Total Financial Assets		779,968,652	1,249,315,045	181,384,476	-	2,210,668,173	2,210,668,173
Liabilities							
Due to Customers		-	-	-	1,212,126	1,212,126	1,212,126
Due to Brokers	22	-	-	-	86,496,395	86,496,395	86,496,395
Due to Banks	20	-	-	-	8,506,805	8,506,805	8,506,805
Due to Related Parties	25	-	-	-	58,045,786	58,045,786	58,045,786
Other Financial Liabilities		-	-	-	97,602,948	97,602,948	97,602,948
Total Financial Liabilities		-	-	-	251,864,060	251,864,060	251,864,060
As at 31 December 2016							
Assets							
Cash in Hand	20	-	225,050	-	-	225,050	225,050
Balances with Banks & Financial Institutions	20	-	557,886,172	-	-	557,886,172	557,886,172
Financial Investments - Available-for-Sale	18	-	-	624,310,213	-	624,310,213	624,310,213
Investments in Corporate Debenture	13	779,979,389	-	-	-	779,979,389	779,979,389
Trade and Other Receivables	17	-	216,877,796	-	-	216,877,796	216,877,796
Total Financial Assets		779,979,389	774,989,018	624,310,213	-	2,179,278,620	2,179,278,620
Liabilities							
Due to Customers		-	-	-	2,241,269	2,241,269	2,241,269
Due to Brokers	22	-	-	-	86,332,306	86,332,306	86,332,306
Due to Banks	20	-	-	-	16,534,611	16,534,611	16,534,611
Due to Related Parties	25	-	-	-	51,791,438	51,791,438	51,791,438
Other Financial Liabilities		-	-	-	80,024,083	80,024,083	80,024,083
Total Financial Liabilities		-	-	-	236,923,707	236,923,707	236,923,707

Notes to the Financial Statements contd...

28.3 Fair Values of Financial Instruments

28.3.1 Valuation Models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1:** Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using, quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs that have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

28.3.2 Financial instruments Measured at Fair Value – Fair Value Hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

GROUP	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
31 December 2017				
Financial Investments - Available-for-Sale	-	539,981,651	-	539,981,651
Total Financial Assets	-	539,981,651	-	539,981,651
Liabilities	-	-	-	-
31 December 2016				
Assets				
Financial Investments - Available-for-Sale	-	793,239,975	-	793,239,975
Total Financial Assets	-	793,239,975	-	793,239,975
Liabilities	-	-	-	-

Financial instruments Measured at Fair Value – Fair Value Hierarchy

COMPANY	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
31 December 2017				
Financial Investments - Available-for-Sale	-	181,384,476	-	181,384,476
Total Financial Assets	-	181,384,476	-	181,384,476
31 December 2016				
Financial Investments - Available-for-Sale	-	624,310,213	-	624,310,213
Total Financial Assets	-	624,310,213	-	624,310,213
Liabilities	-	-	-	-

Level 2 fair Value Measurements

28.3.3.1 Reconciliation

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 2 of the fair value hierarchy.

	Unit Trust Available for Sale	
	Group Rs.	Company Rs.
Balance at 01 January 2017	793,239,975	624,310,213
Total gains or losses:		
- in profit or loss	129,881,138	86,554,455
- in OCI	48,822,356	24,154,943
Purchases	1,054,683,547	357,878,331
Redemption	(1,356,764,227)	(824,959,010)
Balance at 31 December 2017	539,981,651	181,384,477

Total gains or losses for the year in the above table are presented in the statement of profit or loss and OCI as follows.

	Unit Trust Available for Sale	
	Group Rs.	Company Rs.
Total gains and losses recognised in profit or loss:		
Net trading income	129,881,138	86,554,455
Total gains and losses recognised in OCI:		
Net change in fair value of available-for-sale financial assets	48,822,356	24,154,943

Notes to the Financial Statements contd...

28.3.3.2 Unobservable Inputs Used in Measuring Fair Value

The fair value of Unit Trust investments are determined by the relevant Unit Trust Fund Management Company. The Unit Trust Fund Management Company provides the fair value of the Group's investment portfolio monthly.

Financial Instruments Not Measured at Fair Value

This table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

GROUP	Level 01 Rs.	Level 02 Rs.	Level 03 Rs.	Total Fair Values Rs.	Total Carrying Amount Rs.
31 December 2017					
Assets					
Cash & Cash Equivalents	-	-	250,050	250,050	250,050
Balances with Banks & Financial Institutions	-	-	138,769,336	138,769,336	138,769,336
Investments in LFSB	-	-	1,000,000	1,000,000	1,000,000
Other Receivables	-	-	262,426,451	262,426,451	262,426,451
Total Financial Assets	-	-	402,445,837	402,445,837	402,445,837
31 December 2017					
Liabilities					
Due to Customers	-	-	1,941,734	1,941,734	1,941,734
Due to Brokers	-	-	91,826,407	91,826,407	91,826,407
Due to Banks	-	-	8,577,679	8,577,679	8,577,679
Other Financial Liabilities	-	-	99,834,976	99,834,976	99,834,976
Total Financial Liabilities	-	-	202,180,796	202,180,796	202,180,796
31 December 2016					
Assets					
Cash & Cash Equivalents	-	-	230,050	230,050	230,050
Balances with Banks & Financial Institutions	-	-	757,916,702	757,916,702	757,916,702
Investments in LFSB	-	-	1,000,000	1,000,000	1,000,000
Other Receivables	-	-	245,830,460	245,830,460	245,830,460
Total Financial Assets	-	-	1,004,977,212	1,004,977,212	1,004,977,212
Liabilities					
Due to Customers	-	-	2,367,790	2,367,790	2,367,790
Due to Brokers	-	-	126,704,764	126,704,764	126,704,764
Due to Banks	-	-	16,534,611	16,534,611	16,534,611
Other Financial Liabilities	-	-	83,320,734	83,320,734	83,320,734
Total Financial Liabilities	-	-	228,927,899	228,927,899	228,927,899

28.3.3.3 Financial Instruments Not Measured at Fair Value

This table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

COMPANY	Level 01 Rs.	Level 02 Rs.	Level 03 Rs.	Total Fair Values Rs.	Total Carrying Amount Rs.
31 December 2017					
Assets					
Cash & Cash Equivalents	-	-	250,050	250,050	250,050
Balances with Banks & Financial Institutions	-	-	139,502,263	139,502,263	139,502,263
Other Receivables	-	-	262,426,451	262,426,451	262,426,451
Total Financial Assets	-	-	402,178,764	402,178,764	402,178,764
Liabilities					
Due to Customers	-	-	1,212,126	1,212,126	1,212,126
Due to Brokers	-	-	86,496,395	86,496,395	86,496,395
Due to Banks	-	-	8,506,805	8,506,805	8,506,805
Due to Related Parties	-	-	58,045,786	58,045,786	58,045,786
Other Financial Liabilities	-	-	97,602,948	97,602,948	97,602,948
Total Financial Liabilities	-	-	251,864,060	251,864,060	251,864,060
31 December 2016					
Assets					
Cash & Cash Equivalents	-	-	225,050	225,050	225,050
Balances with Banks & Financial Institutions	-	-	557,886,172	557,886,172	557,886,172
Other Receivables	-	-	216,877,796	216,877,796	216,877,796
Total Financial Assets	-	-	774,989,018	774,989,018	774,989,018
Liabilities					
Due to Customers	-	-	2,241,269	2,241,269	2,241,269
Due to Brokers	-	-	86,332,306	86,332,306	86,332,306
Due to Banks	-	-	16,534,611	16,534,611	16,534,611
Due to Related Parties	-	-	51,791,438	51,791,438	51,791,438
Other Financial Liabilities	-	-	80,024,083	80,024,083	80,024,083
Total Financial Liabilities	-	-	236,923,707	236,923,707	236,923,707

Assets for which Fair Value approximates Carrying Value

For Financial assets and Financial liabilities that have a short term maturity (original maturity less than a year), it is assumed that the carrying amount approximate their values.

Notes to the Financial Statements contd...

29 Related Party Disclosures

29.1 Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard (LKAS 24) "Related Party Disclosures", Key Management Personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors (including Executive and Non-Executive Directors) and Senior Management who can influence the planning & decision making process have been classified as Key Management Personnel of the Company.

Close Family Members (CFM) of the KMPs are those family members who may be expected to influence or be influenced by that KMPs in their dealing with the entity. They may include KMPs domestic partner and children of the KMPs domestic partner and dependents of the KMPs domestic partner.

CSE paid Rs.9,909,000 during the year as Directors' Expenses. (Rs. 11,507,000/- in 2016)

The Company has incurred following costs for the CEO, CRO, CIO, Senior Managers and Managers during the year.

	Company	
	2017	2016
	Amount Rs.	Amount Rs.
Short Term Employee Benefits	101,149,862	111,245,816
Long Term Employee Benefits	13,018,769	15,698,003

29.2 Transactions with Group Companies and Director Related Entities

Company	Relationship	Nature of Transaction	2017	2016
			Amount Rs.	Amount Rs.
a) Mr. Ray Abeywardena				
Acuity Stockbrokers (Pvt) Ltd	Chairman	CSE Member fee, data communication charges & other charges	1,614,771	1,417,703
		Member fee, data communication & other charges receivable	233,860	108,129
		Interest paid for Member Firms' liquidity deposit	289,823	262,943
		Member Firms' liquidity deposit & entrance deposit as at year end	3,540,000	3,540,000
		Interest payable for Member Firms' liquidity deposit as at year end	68,139	73,640
		Order Management systems & Broker Back office Systems - Subsidy	1,000,000	-
		Order Management systems & Broker Back office Systems - Subsidy Payable	83,333	-

Company	Relationship	Nature of Transaction	2017	2016
			Amount Rs.	Amount Rs.
		CDS Sale of CDS forms & Other CDS Charges	24,784	9,461
		Amount receivable on sale of CDS forms as at year end	5,134	-
		Interest paid for Member Firms' margin deposit	43,818	37,234
Lanka Ventures PLC	Director	CSE Annual listing fee received	117,347	113,265
		CDS Listed company fees	25,510	25,510
		Receipts for computer information & other CDS Charges	9,388	9,061
		Amount receivable for computer information provided as at year end	3,520	-
		Listed company fees receivable as at year end	25,510	25,510
Softlogic Life Insurance PLC	Director	CSE Annual listing fees	273,271	203,878
		CDS Listed Company fee	45,153	115,225
		Amount receivable for computer information provided as at year end	73,929	36,378
		Computer information & other CDS Charges	312,143	210,795
		Listed Company fee receivable as at year end	45,153	115,225
Acuity Securities Ltd	Chairman	CSE Member fee, data communication charges & other charges	425,112	717,656
		Member fee receivable as at year end	-	56,877
Guardian Acuity Asset Management Ltd	Director	CSE Investment in Unit Trust made during the year	109,262,863	50,000,000
		Redemption of Unit Trust made during the year	109,262,863	-
		Investment in Unit Trust as at year end	56,963,864	50,890,403
		CDS Investment in Unit Trust made during the year	167,023,451	-
		Redemption of Unit Trust made during the year	84,548,813	-
		Investment in Unit Trust as at year end	84,548,813	-
The Associated Newspapers of Ceylon Limited	Director	CSE Payment for Advertisement	163,276	-

Notes to the Financial Statements contd...

29.2 Transactions with Group Companies and Director Related Entities (Contd...)

Company	Relationship	Nature of Transaction	2017 Amount Rs.	2016 Amount Rs.
b) Mr. Vajira Kulatilaka (Director until 26th May 2017 (CSE) & 9th June 2017 (CDS))				
NDB Securities (Pvt) Ltd	Director	CSE Member fees, data communication charges & other charges.	380,856	1,123,783
		Interest paid for Member Firms' liquidity deposit	79,133	215,555
		Member Firms' liquidity deposit & entrance deposit receivable as at period end	2,290,000	2,290,000
		Interest payable for Member Firms' liquidity deposit as at period end	32,239	47,340
		Member fees and data communication charges receivable as at period end	-	168,434
		Order Management systems & Broker Back office Systems - Subsidy	375,000	525,000
		CDS Sale of CDS Forms	868	6,156
		Amount receivable for sale of CDS Forms	-	294
		Interest paid for Member Firms' margin deposit	89,216	68,549
NDB Wealth Management Ltd	Director	CSE Investment during the Period	124,304,134	-
		Redemptions during the Period	248,348,579	400,808,415
		Investment in Unit Trusts as at Period end	126,607,603	-
		Dividends received from Unit Trusts	-	8,474,658
		CDS Redemptions during the year	-	265,380,454
		Dividends received from Unit Trusts	-	6,757,389
Resus Energy PLC	Director	CSE Annual listing fee & Subscription for CSE Ticker data received	48,895	113,265
		Annual listing fee receivable as at period end	48,895	-
		CDS Listed Company fee	10,629	25,510
		Listed Company fee receivable as at period end	10,629	25,510
		Computer Information Charges	2,378	13,726
		Computer Information Charges Receivable as at year end	-	11
South Asia Federation of Exchanges	Chairman up to May 2017	CSE Annual Membership Fee	771,020	-
NDB Capital Holdings PLC	Director	CSE Reimbursement of Marketing Expense	-	35,893

Company	Relationship	Nature of Transaction	2017	2016	
			Amount Rs.	Amount Rs.	
c) Mr. M. R. Prelis (Director until 1st June 2017 (CSE) & 27th July 2017 (CDS))					
Capital Trust Securities (Pvt) Ltd.	Director	CSE	Member fee, data communication charges & other charges	1,101,326	2,407,764
			Member fee, data communication & other charges receivable	-	170,867
			Interest paid for Member Firms' liquidity deposit	147,760	187,558
			Member Firms' liquidity deposits & entrance deposit as at period end	3,540,000	3,540,000
			Interest payable for Member Firms' liquidity deposit as at period end	74,812	230,077
			Order Management systems & Broker Back office Systems - Subsidy	375,000	600,000
			Order Management systems & Broker Back office Systems - Subsidy payable	150,000	-
			Receipts for advertising on CSE Mobile apps	-	60,000
		CDS	Sale of CDS Forms	14,086	4,988
			Amount receivable for sale of CDS Forms	-	1,760
			Interest paid for Member Firms' margin deposit	31,432	3,165
Dialog Axiata PLC	Director	CSE	Annual listing fee & fee for high speed data signal fee	1,222,364	2,835,034
			Amount receivable for high speed data signal Income	97,789	141,582
			Payment made during the year for E1 link charges, mobile phone charges & broad band charges	543,721	1,228,986
			Amount payable for mobile phone charges as at period end	112,643	112,526
		CDS	Listed Company fee	51,045	96,903
			Listed Company fee receivable as at period end	51,045	96,903
			Computer Information Income & SMS Alert revenue share	1,227,267	2,038,625
			Amount receivable for Computer Information Income & SMS Alert revenue share	173,684	371,838

Notes to the Financial Statements contd...

29.2 Transactions with Group Companies and Director Related Entities (Contd...)

Company	Relationship	Nature of Transaction	2017 Amount Rs.	2016 Amount Rs.
d) Mr. A. C. Seneviratne (Director until 21st November 2017 (CSE))				
Nation Lanka Equities (Pvt) Ltd	Chairman	CSE Member fee, data communication charges & other charges	1,097,262	1,449,132
		Member fees and other charges receivable as at period end	836,495	183,331
		Interest paid for Member Firms' liquidity deposit	260,197	189,303
		Member Firms' liquidity deposit & entrance deposit as at period end	3,540,000	3,540,000
		Interest payable for Member Firms' liquidity deposit as at period end	38,513	73,640
		Order Management systems & Broker Back office Systems - Subsidy	890,110	525,000
		Order Management systems & Broker Back office Systems - Subsidy payable as at period end	400,000	-
		CDS Interest Payment on Marging Deposit Balances	-	2,476
		Sale of CDS forms	3,837	1,188
Anilana Hotels & Properties Ltd	Managing Director	CSE Annual listing fees received for the period	308,536	113,265
		CDS Listed Company fees	64,883	125,235
		Computer Information Charges	21,592	10,235
		Computer Information Charges Receivable as at year end	20,418	6,837
		Listed Company fee receivable as at year end	64,883	125,235

Company	Relationship	Nature of Transaction	2017 Amount Rs.	2016 Amount Rs.
e) Mr. A. Perera (Director until 7th December 2017 (CSE))				
S C Securities (Pvt) Ltd	Director until 8th December 2017	CSE Member fees, photocopy charges & data communication charges	1,058,900	1,548,026
		Member fees and other charges receivable as at period end	88,533	326,987
		Interest paid for Member Firms' liquidity deposit	347,019	200,405
		Member Firms' liquidity deposit & entrance deposit as at period end	1,790,000	1,790,000
		Interest payable for Member Firms' liquidity deposit as at period end	41,486	36,819
		Order Management systems & Broker Back office Systems - Subsidy	935,484	525,000
		Order Management systems & Broker Back office Systems - Subsidy payable as at period end	83,333	-
		CDS Sale of CDS Forms	14,475	4,190
		Amount Receivable for Sale of CDS Forms	7,939	792
Royal Ceramics Lanka PLC	Managing Director from 14th March 2017)	Interest paid for Member Firms' margin deposit	33,609	49,783
		Dex Liquidity deposit as at period end	120,000	120,000
		CDS Annual Listing Fee for the period	330,433	-
		CDS Charges for computer information	25,850	-
		CDS Service Charges	30,880	-
		Amount Receivable for computer information charges	16,071	-
		Amount Receivable for service charges	30,880	-
Siyapatha Finance Ltd	Chairman	CSE Annual listing fee	-	226,531
		Quotation fee and My CSE income	-	114,041
	CDS	Listed Company fee	-	25,510
		Listed Company fee receivable as at year end	-	25,510
		Computer Information Charges	-	15,400
		Computer Information Charges Receivable as at year end	-	6,395
		New Listing Fee	-	56,632

Notes to the Financial Statements contd...

29.2 Transactions with Group Companies and Director Related Entities (Contd...)

Company	Relationship	Nature of Transaction		2017	2016
				Amount Rs.	Amount Rs.
Sampath Bank PLC	Managing Director (Until 12/9/2016)	CSE	Annual listing fee	-	1,916,456
			Additional Listing fee	-	306,122
			Advertising on C.S.E banner	-	114,500
			Investment made during the year in overnight Repo	-	2,994,823,000
			Investment in overnight Repo - Closing Balance	-	15,152,000
			Interest earned from investments	-	905,141
			Interest receivable for investment in Overnight Repo	-	3,150
			Investment in Debenture	-	150,000,000
		CDS	Participants Fees	-	102,755
		Sale of CDS forms & Other CDS Charges	-	263,457	
		Listed Company fee	-	123,038	
		Listed Company fee receivable	-	123,038	
		Computer information charges	-	523,131	
Lanka Financial Services Bureau Ltd	Director (Until 12/9/2016)	CDS	Investment	-	1,000,000
			Dividend received during the year	-	27,000
			SWIFT connectivity charges	-	965,821
			Amount payable as monthly SWIFT connectivity charges	-	59,092
Mr. D. Wirasekara (From 21st November 2017 (CSE) & From 6th December 2017 (CDS))					
First Capital Holding PLC	Director/CEO	CSE	Annual Listing Fee	39,653	-
		CDS	Charges for computer information	1,995	-
			CDS Service Charges	18,196	-
			Amount Receivable for computer information charges	5,985	-
			Amount Receivable for service charges	213,658	-
First Capital Limited	Director/CEO	CSE	Member Fees and Photocopy Charges	58,685	-
			Amount Receivable for member fees and photocopy charges	29,349	-

Company	Relationship	Nature of Transaction	2017	2016
			Amount Rs.	Amount Rs.
First Capital Markets Limited	Director/CEO	CSE Member fees, photocopy charges & data WAN charges	152,063	-
		Amount receivable for Member fees, photocopy & data WAN charges	165,534	-
First Capital Equities (Pvt) Limited	Director	CSE Member fees, Data Link cost - IDC and WAN charges	123,358	-
		Interest paid for Member Firms' liquidity deposit	15,066	-
		Member Firms' liquidity deposit & entrance deposit as at year end	1,790,000	-
		Interest payable for Member Firms' liquidity deposit as at year end	34,069	-
		Order Management systems & Broker Back office Systems - Subsidy	166,666	-
		Order Management systems & Broker Back office Systems - Subsidy payable	83,333	-
		CDS Sale of CDS Forms	158	-
		Amount Receivable for Sale of CDS Forms	475	-
First Capital Treasuries PLC	Director/CEO	CSE Annual Listing Fee for the period	26,435	-
		CDS Charges for computer information	489	-
		CDS Service Charges for the period	2,126	-
		Amount Receivable for service charges and computer information charges	26,977	-
g) Mr. D. Fernando (From 26th May 2017 (CSE) & 05th July 2017 (CDS))				
Singer (Sri Lanka) PLC	Director	CSE Annual Listing Fee for the period	461,399	-
		CDS Charges for computer information, Direct Deposit Shares, New Listing Fee and Charges for mandatory and voluntary offers	231,002	-
		CDS Service Charges	27,235	-
		Amount Receivable for service charges and computer information charges	138,231	-

Notes to the Financial Statements contd...

29.2 Transactions with Group Companies and Director Related Entities (Contd...)

Company	Relationship	Nature of Transaction	2017	2016
			Amount Rs.	Amount Rs.
Asia Securities (Pvt) Ltd	Chairman	CSE Member fees, Data Communication charges, photocopy charges Data Link charges and WAN charges	624,566	-
		Amount Receivable for Member fees, Data Communication charges, photocopy charges Data Link charges and WAN charges	141,511	-
		Interest paid for Member Firms' liquidity deposit	184,749	-
		Member Firms' liquidity deposit & entrance deposit as at year end	3,540,000	-
		Interest payable for Member Firms' liquidity deposit as at year end	68,139	-
		Order Management systems & Broker Back office Systems - Subsidy	583,333	-
		Order Management systems & Broker Back office Systems - Subsidy payable	175,000	-
		Sponsorship - Invest Sri Lanka	2,000,000	-
		CDS Sale of CDS Forms	3,256	-
		Amount Receivable for Sale of CDS Forms	3,256	-
h) Central Depository Systems (Pvt) Ltd	Fully owned Subsidiary	Payment of interest for Member Firm's Margin Requirement	1,046,425	-
		Fund Transfer In	(618,212,048)	(461,604,931)
		Fund Transfer Out	457,003,891	390,898,384
		Expenses transferred	109,614,523	105,491,627
		Dividend Received	-	2,700,000
		Cheque received on behalf of CDS	(539,563)	(1,570,631)
		Cheque received on behalf of CSE	1,887,765	24,348,952
		Interest Expense	(790,935)	(780,960)
		CDS Rental Income & Management Fee	44,782,019	10,166,092

30 Events Occurring after the Reporting Period

There were no material events after the Reporting Period, which require adjustments to or disclosure in the Financial Statements.

31 Directors' Responsibility Statement

The Board of Directors of the Company is responsible for the preparation and fair presentation of these Financial Statements in accordance with LKASs and SLFRSs.

32 Comparative Figures

To facilitate comparison, relevant balances pertaining to the previous year have been reclassified to confirm to current year classification and presentation where necessary.

Notes

Notes

Notice of Meeting

The 33rd Annual General Meeting of the CSE will be held on 29th June 2018 at 5.00 pm at the Colombo Stock Exchange, Auditorium, 4-1, West Block, World Trade Center, Colombo 01 for the following purposes: -

AGENDA

1. To receive and consider the Annual Report of the Directors and Financial Statement of the Company for the year ended 31st December 2017 together with the Report of the Auditors thereon.
2. Election / Re-election of Directors
 - a) To re-elect Mr. Ray Abeywardena who retires in terms of Article 50 of the Articles of Association. (Mr. Ray Abeywardena being eligible is offering himself for re-election).
 - b) To re-elect Mr. Dumith Fernando who retires in terms of Article 50 of the Articles of Association. (Mr. Dumith Fernando being eligible is offering himself for re-election).
3. To re-appoint the retiring Auditors Messrs. KPMG, Chartered Accountants, as the Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting of the Company, to audit the Financial Statements of the Company for the ensuing year and authorize the Directors to determine their remuneration.
4. To authorize the Directors to determine donations for the year ending 31st December 2018 and up to the date of the next Annual General Meeting.

By order of the Board



Director

CORPORATE SERVICES (PRIVATE) LIMITED

Secretaries

COLOMBO STOCK EXCHANGE

At Colombo, on this 28th day of May 2018.

NOTE:

Any member entitled to attend and vote is entitled to appoint corporate representative instead (please see attached form of resolution).

Corporate Representation

COLOMBO STOCK EXCHANGE

In terms of Article 46 of the Articles of Association of the Colombo Stock Exchange a body corporate, which is a member of the Exchange, may by resolution of its Board authorize any such person to act as its representative at a general meeting of the Exchange.

Specimen Resolution

A certified true copy of a Resolution passed by the Board of Directors of on day of 2018.

IT IS HEREBY RESOLVED that pursuant to Article 46 of the Articles of Association of Colombo Stock Exchange to appoint (holder of National Identity Card No.) of to act as our representative, to vote for us and to speak on our behalf and to exercise the same powers on our behalf which we would exercise if we were individual Members of the Colombo Stock Exchange, at the Annual General Meeting of the Colombo Stock Exchange to be held on 2018, and at any adjournment thereof.

.....
Director

.....
Director/Secretary

NOTE:

A copy of the Board Resolution as set out above, certified as specified by the Articles of the Member Firm should be deposited at the Office of the Colombo Stock Exchange, 04 – 01, West Block, World Trade Centre, Echelon Square, Colombo 1, either before or at the time of the meeting.

Corporate Information

Name

Colombo Stock Exchange

Legal Status

A Company Incorporated in Sri Lanka and Limited by Guarantee

Company Registration Number

GL12

Subsidiary

Central Depository Systems (Private) Limited.

Registered Office

04-01, West Block, World Trade Center, Echelon Square, Colombo 1, Sri Lanka.

Secretaries

Corporate Services (Private) Limited

Auditors

KPMG

Lawyers

M/s Julius & Creasy, Attorneys-at-Law

M/s FJ and G de Saram, Attorneys-at-Law

Bankers/ Settlement Banks

Bank of Ceylon

Commercial Bank of Ceylon PLC

Sampath Bank PLC

Colombo Stock Exchange Contact

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Fax

Clearing and Settlement : +94 11 2440396

Finance : +94 11 2448921

Administration : +94 11 2325804

Information Technology : +94 11 2440162

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