



ANNUAL REPORT
2020

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Our Vision

To be Sri Lanka's No.1 Fintech Company

Our Mission

To provide innovative, cutting-edge and technologically driven financial solutions to all segments of society, creating long-term value for all stakeholders – from shareholders and partners to customers, employees and the entire economic and social fabric of the country, while upholding the high standards we have set for service excellence.

Our Core Values

- Create the Future
- Exceptional Performance
- Uncompromising Integrity
- One Team
- Champions of Change
- Service from the Heart

About Us

Dialog Finance PLC, is a subsidiary of Dialog Axiata PLC.

Registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011, Dialog Finance PLC offers an array of financial products which includes fixed and saving deposits, margin trading services, revolving loans, factoring, payment services and other financial facilities.

Fitch Ratings Lanka has rated Dialog Finance PLC a national long-term rating of 'AA(lka)' with a stable outlook; the highest rating thus far assigned in the industry.

Dialog Finance PLC is setting itself to be at the forefront of innovation in the finance industry in Sri Lanka and has a vision to propel the nation's finance technology to a level of advancement on par with the developed world. Dialog Finance PLC recognises the need to deliver convenient, accessible, and affordable financial tools to the unbanked and underbanked segments of society and continues steadfast with its unifying mission in introducing cutting edge technology to launch industry-leading products and services.

Financial Highlights

	Year ended 31 December 2020	9 months ended 31 December 2019	Change (%)
Operating results for the year / period (LKR' 000)			
Gross income	235,790	268,091	(12)
Total operating income	168,700	219,989	(23)
Impairment charges for loans and advances	63,339	105,901	(40)
Operating expenses	291,660	257,864	13
Operating loss before taxes on financial services	(186,299)	(143,776)	30
Loss for the year / period	(99,519)	(143,666)	(31)
Assets and liabilities (LKR' 000)			
Customer deposits	1,064,175	818,869	30
Loans and receivables	806,332	1,023,629	(21)
Total assets	3,227,222	2,384,082	35
Total liabilities	1,173,350	930,420	26
Shareholders' funds	2,053,872	1,453,662	41
Profitability ratios (%)			
Net interest margin	5.33	8.69	(3.36)
Return on assets (ROA)	(6.44)	(8.99)	2.55
Return on equity (ROE)	(4.83)	(14.35)	9.52
Investors' information (LKR)			
Market price	56.00	43.00	30
Net assets per share	18.88	15.92	19
Earnings per share	(0.98)	(1.61)	(39)
Regulatory ratios (%)			
Capital adequacy ratios			
Tier I (minimum ratio – 31 December 2020 – 6.5%, 31 December 2019 - 6.5%)	92.71	53.67	39.04
Tier I + Tier II (minimum ratio – 31 December 2020 – 10.5%, 31 December 2019 - 10.5%)	92.71	54.78	37.93
Other key indicators (%)			
Non performing loan ratio (gross)	8.3	34.27	(25.97)
Cost to income ratio	172.89	117.16	55.73
Fitch rating	AA (lka)	AA (lka)	



Chairperson's Message



My dear shareholders,

I am pleased to present the Annual Report and Financial Performance of Dialog Finance PLC for the year ended 31 December 2020.

2020 has been a challenging year for most companies in Sri Lanka and around the world as a result of the COVID-19 pandemic. Dialog Finance PLC was no exception, where the year brought with it many challenges which is reflected in your Company's performance. Total operating income of the Company was recorded at Rs. 168.7Mn, reflecting a decline of 38.5% Year on Year (YoY) compared to the corresponding period in the previous year due to the unfavourable economic environment, which affected lending activities and key revenue lines. Despite these challenges, lower impairment cost during the year coupled with positive tax impact improved our bottom line where the Net Loss of the Company reduced to Rs. 99.5Mn for the year ended 31 December 2020, relative to a Net Loss of LKR 143.7Mn recorded for the previous financial period. A detailed discussion of the business and financial performance of your Company is presented in the Management Discussion and Analysis Section of the Annual Report.

The onset of the COVID-19 pandemic which resulted in lockdowns and the implementation of macroprudential measures created a challenging business atmosphere. Many Sri Lankans are facing great uncertainty having suffered losses both financially due to the poor macroeconomic environment, as well as the health implications or loss of loved ones due to the pandemic. We grieve for all those who have been gravely affected by the pandemic.

The Financial Services sector including the Non-Bank Financial Institutions (NBFIs), played a key role in measures undertaken by the Government and the Central Bank of Sri Lanka (CBSL) to stimulate the economy and several relief measures were channelled through the sector to assist affected businesses and individuals. We are happy to report that your Company assisted in these relief measures as stipulated by the CBSL guidelines and even went over and above by providing additional relief measures to our loyal customers.

While acknowledging the current reality of the unprecedented challenges brought by COVID-19, we have also identified new opportunities which

"While acknowledging the current reality of the unprecedented challenges brought by COVID-19, we have also identified new opportunities which arose as a result of the pandemic in terms of the acceleration of the digitisation of financial services. This has strengthened our resolve to continue on our journey of introducing a suite of innovative Fintech solutions that will reach and empower the unbanked and underbanked communities in Sri Lanka."

arose as a result of the pandemic in terms of the acceleration of the digitisation of financial services. This has strengthened our resolve to continue on our journey of introducing a suite of innovative Fintech solutions that will reach and empower the unbanked and underbanked communities in Sri Lanka. Your Company once again affirms its commitment to work with the regulatory agencies which play a crucial role in facilitating and promoting Fintech initiatives and commends the efforts taken by the regulatory agencies so far in this regard.

Looking to the future, with the dawning of a new decade, we have seen positive sentiment brewing as a result of favourable developments, and we look forward to 2021 with renewed hope and an exciting future ahead in this 'New Normal'.

In closing, on behalf of your Company I would like to extend my heartfelt appreciation to the health care workers, the armed forces and other essential personnel who have been selfless in their efforts to combat the current pandemic. In addition, I wish

to extend my appreciation and gratitude to the Government of Sri Lanka, the Central Bank of Sri Lanka, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and other agencies that have collaborated and supported the efforts of your Company. We count on everyone's support to continue bringing great utility to all our stakeholders.

I would also like to extend my warmest compliments to Mr. Asanga Priyadarshana who while stepping down from his role as Director / Chief Executive Officer of Dialog Finance PLC, will remain a part of the Dialog family as he takes up a new role at Dialog Axiata PLC. I wish him all the very best in his new role. It gives me great pleasure to welcome Mr. Nazeem Mohamed, who has stepped into the role of the Chief Executive Officer and brings with him a wealth of experience from financial services and startups and Fintech industries, which would prove invaluable. I look forward to working with him and the management team in steering Dialog Finance into the new decade.

Finally, I would also like to take this opportunity to express my gratitude and to give recognition to the incredible team at Dialog Finance PLC for persistently putting in effort into their line of work despite the ongoing pandemic and at occasions going beyond the call of duty by providing uninterrupted service to our loyal customers in these trying times and always striving to reach the pinnacle of excellence. I also like to thank our valued shareholders, customers, and business partners for their continued support in our journey ahead.



Ms. Renuka Fernando
Chairperson

30 April 2021



Chief Executive Officer's Review



My dear shareholders,

The year under review was adversely impacted by an unforeseen and unprecedented challenge, the COVID-19 pandemic. As the pandemic continues to affect the lives of billions of people across the globe, on behalf of the Management, I would like to extend our sincerest condolences to the families and communities who suffered grave losses due to the pandemic.

While 2020 negatively impacted many aspects of society, the dawn of a new decade brings with it the hope for a new beginning as we are seeing positive sentiment brewing as a result of favourable developments. Despite the challenges, the entire team at Dialog Finance continued to uphold the utmost adherence to health and safety precautions established by the authorities while diligently maintaining the highest quality of service for our customers. When providing financial assistance and relief to segments affected by the pandemic, your Company has remained committed to supporting businesses and individuals by providing the necessary relief measures in line with the guidelines issued by the Central Bank of Sri Lanka. Other additional relief measures, including grace periods for loan repayment and flexible loan settlement plans, have also been

granted to our customers, keeping in line with national efforts to overcome the difficulties brought by the pandemic.

Transforming Dialog Finance into a FinTech Organization

The unprecedented challenges brought by the pandemic has also presented opportunities as we move forward towards the 'New Normal'. Your Company's extensive investments in FinTech and human capital over the past few years have enabled it to introduce innovative financial products that promote convenience while ensuring the highest level of consumer satisfaction. During the year under review, Dialog Finance became the payment service provider for Dialog Axiata PLC's Genie mobile application, which provides digital solutions for the financial needs of customers. The services of the Genie app was further enhanced with the launch of the digital savings feature offered by your Company, which enables customers to open saving accounts and perform transactions digitally.

We commend the progressive initiatives taken by the Central Bank of Sri Lanka during the year under review to promote digital financial services and increase financial inclusion in Sri Lanka. Such initiatives

Chief Executive Officer's Review

include the enablement of non-face-to-face customer identification and verification using an electronic interface provided by the Department for Registration of Persons and the launching of the "National Lanka QR Initiative" together with the financial institutions to increase public awareness and encourage the use of Lanka QR services across the country. These initiatives strengthen the execution of our vision to deliver innovative and inclusive FinTech solutions across Sri Lanka.

Operating Income Performance Remains Subdued on the Backdrop of COVID-19

The 2020 financial year represents the first twelve months performance of Dialog Finance with the change in the Company's balance sheet date from 31 March to 31 December in the prior year, bringing it in line with the financial year of its parent Company, Dialog Axiata PLC. Your Company reported an operating income of Rs. 168.7 Mn for the year ended 31 December 2020, which represents a decline of 38.5% Year-on-Year (YoY) compared to the corresponding period of the previous year due to the adverse impact of the COVID-19 pandemic and weakened economic outlook.

The pandemic, as well as the macroprudential measures put in place in response to it coupled with the economic downturn, had an adverse impact on the earnings of your Company. Notwithstanding these challenges, the Net Loss of the Company reduced to LKR 99.5Mn for the year ended 31 December 2020, relative to a Net Loss of Rs. 143.7Mn for the previous financial period. This improvement was driven by lower impairment cost as well as positive impact stemming from taxes.

To further diversify its product portfolio, your Company launched new loan products during the period under review by leveraging Dialog's extensive distribution network. The transfer of the device finance portfolio, to Telecard (Private) Limited, a fully-owned subsidiary of Dialog Broadband Networks (Private) Limited, was completed with effect from 1st October 2020. This transfer strengthened the quality of the lending portfolio of the Company by substantially improving its non-performing loan ratio.

"While 2020 negatively impacted many aspects of society, the dawn of a new decade brings with it the hope for a new beginning as we are seeing positive sentiment brewing as a result of favourable developments."

In March 2021, Fitch Ratings affirmed Dialog Finance PLC's 'AA (lka)' rating with a stable outlook, and the Company continues to be the highest-rated finance Company in the country.

Outlook

With the world having emerged through the worst of the pandemic, an economic recovery is expected to be ahead of us. We will, however, stay prudent and remain committed to expanding our product reach by leveraging on technology platforms, an extensive distribution network and customer base and upholding the quality of our assets. To soften the negative impact stemming from the COVID-19 pandemic and to mitigate further losses, your Company has implemented ambitious cost rescaling and rationalization measures in both operating and capital expenditure. We believe that these developments will serve to enhance the prosperity of the Company.

We will continue to drive financial inclusiveness and digital innovation to ensure that the needs of all our stakeholders are met through collaboration with shareholders and policymakers to ensure that we, as a Company, can make a speedy recovery and drive innovation in the financial services sector.

Appreciation

I extend my earnest appreciation to Mr. Asanga Priyadarshana, who stepped down as the Chief Executive Officer and Director of your Company on

"When providing financial assistance and relief to segments affected by the pandemic, your Company has remained committed to supporting businesses and individuals by providing the necessary relief measures in line with the guidelines issued by the Central Bank of Sri Lanka."

31 January 2021 and now functions as the Group Chief of Risk and Compliance at Dialog Axiata PLC. Mr. Asanga Priyadarshana has been with Dialog Finance since it began its journey as part of the Dialog Group in September 2017, and his valiant efforts have contributed immensely to the growth of your Company. I wish him all the very best in his future endeavours.

Furthermore, I would like to express my gratitude to the members of the Board of Directors for their continued leadership and expertise in leading the business through these trying times. I also take this opportunity to thank the Government of Sri Lanka, the Governor and staff of the Central Bank of Sri Lanka, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange, and all other stakeholders including health care workers, the armed forces and other essential personnel in helping us navigate through these challenging times. We are forever thankful to our loyal shareholders, customers and business associates for the support extended to Dialog Finance to fulfil all stakeholder objectives. I wish to commend my team for their contribution, commitment and dedication to providing uninterrupted service to our loyal customers in these trying times and helping us continue our journey in delivering FinTech solutions to a wide spectrum of consumers and businesses in Sri Lanka.

Given their earnest support, I have no doubt that we will come out of these trying times much stronger and continue our mission to uplift the lives of Sri Lankan communities. We look forward to making 2021 another productive year for the Company. Thank you for your support and confidence.



Nazeem Mohamed
Chief Executive Officer

30 April 2021

Board of Directors and Chief Executive Officer

Board of Directors



Ms. Renuka Fernando
Chairperson / Non-Independent,
Non-Executive Director



Mr. Supun Weerasinghe
Non-Independent,
Non-Executive Director



Mr. Sheyantha Abeykoon
Non-Independent,
Non-Executive Director



Mr. Priyan Edirisinghe
Independent,
Non-Executive Director



Mr. Roshan Hettiaratchi
Independent,
Non-Executive Director

Chief Executive Officer



Mr. Nazeem Mohamed
Chief Executive Officer

Board of Directors and Chief Executive Officer

Ms. Renuka Fernando

Chairperson / Non-Independent, Non-Executive Director

Ms. Renuka Fernando was appointed to the Board on 22 May 2020.

Ms. Fernando who currently serves as the Group Chief Digital Services Officer of Dialog Axiata PLC (Dialog), is a highly experienced, successful and well-regarded business leader who has very significant business experience spanning 39 years in the banking sector and vast expertise in growing and developing banking with a special focus on Digital Banking.

Prior to joining Dialog in April 2020, she headed Nations Trust Bank PLC (NTB) as the Director/Chief Executive Officer from 2012 and has played a pivotal role in bringing the organization to where it is today. During her stint with NTB she played many senior leadership roles including Deputy Chief Executive Officer, DGM – Retail & Consumer Banking and AGM – Corporate Financial Solutions. Prior to joining NTB, Ms. Fernando held the positions of Vice President / Head Global Transactional Services and Head of Consumer Banking at ABN AMRO Bank N.V, Sri Lanka. She has also worked at Banque Indosuez, Sri Lanka as Manager Corporate Banking and at Nederlandsche Middenstands Bank - Hong Kong.

In addition to playing key leadership roles in the corporate sector, Ms Fernando has also functioned as the Vice President – American Chamber of Commerce and has previously served as Director of Lanka Clear (Pvt) Ltd and Chairperson of the Sri Lanka Bankers Association.

Ms Fernando is an Associate of the Chartered Institute of Bankers, UK. She is also an alumni of the Advanced Management Program at Harvard Business School.

Mr. Supun Weerasinghe

Non-Independent, Non-Executive Director

Mr. Supun Weerasinghe was appointed to the Board on 9 November 2017.

Mr. Weerasinghe currently serves as the Group Chief Executive and as a Member of the Board of Dialog Axiata PLC (“Dialog”).

Mr. Weerasinghe commenced his career in Telecommunications at Dialog in 1999 and held multiple roles, such as Head of Strategy and CEO of the Mobile Business before being appointed as Group Chief Operating Officer of Dialog in 2010.

In 2013, he was seconded to Axiata Group Berhad (“Axiata”), in Malaysia as its Group Chief Strategy Officer. At Axiata, he also served as the Head of Network Transformation Strategic Business Unit under which he led Group Technology, Carrier Collaboration and the Axiata Intelligence Unit. From January 2014 to October 2016, he functioned as the CEO and Managing Director of Robi Axiata Limited in Bangladesh, the second largest mobile network provider in Bangladesh.

Mr. Weerasinghe serves on the Boards of subsidiary and associate companies of Dialog as well as UNGC Network Sri Lanka.

Mr. Weerasinghe is a Fellow Member of the Chartered Institute of Management Accountants, UK and holds a Bachelor of Science in Accountancy and Financial Management from the University of Sri Jayewardenepura, Sri Lanka. He also holds an MBA from the University of Western Sydney, Australia and is an alumnus of the Harvard Business School.

Board of Directors and Chief Executive Officer

Mr. Sheyantha Abeykoon

Non-Independent, Non-Executive Director

Mr. Sheyantha Abeykoon was appointed to the Board on 9 November 2017.

Mr. Abeykoon currently serves as the Chief Financial Officer of Axiata Digital Services Sdn Bhd, a wholly owned subsidiary of the Axiata Group Bhd (Axiata), based in Kuala Lumpur in Malaysia. He is also the Chief Executive Officer of Boost Holdings, a subsidiary of Axiata and the holding company of Aspirasi, a micro-enterprise and SME focused fintech service provider, Boost, one of the largest revolutionary e-wallet players in Malaysia and Apigate, Axiata's homegrown global Application Programming Interface platform that connects businesses to customers around the globe.

Prior to taking on this role Mr. Abeykoon served as the Chief Executive Officer of Digital Commerce Lanka (Private) Limited, the operator of wow.lk, the largest e-commerce portal in Sri Lanka. He also held many leadership positions in start-ups, ecommerce, financial services and fintech businesses.

Mr. Abeykoon is a former President of CFA Sri Lanka, a Member of the Rules Committee of the Colombo Stock Exchange and a Member of the National Council for Economic Development in Sri Lanka.

Mr. Abeykoon holds a BSc in Information Systems and Management from the University of London, is a Chartered Management Accountant (CIMA - UK) and a Chartered Financial Analyst (CFA - US). He holds a MBA in Finance from the Wharton School, University of Pennsylvania in the USA.

Mr. Priyan Edirisinghe

Independent, Non-Executive Director

Mr. Priyan Edirisinghe was appointed to the Board on 19 January 2016.

Mr. Edirisinghe is a Chartered Accountant with over 20 years experience in the private sector and in the professional practice. He is presently Senior Partner of Baker Tilly Edirisinghe & Co., Chartered Accountants, one of the top ten audit, tax and consulting firms in Sri Lanka.

He is a Fellow Member of Chartered Accountants of Sri Lanka (FCA), and Associate Member of the Chartered Institute of Marketing UK (ACIM). He also holds an MBA from the University of Southern Queensland, Australia.

Mr. Roshan Hettiaratchi

Independent, Non-Executive Director

Mr. Roshan Hettiaratchi was appointed to the Board on 9 February 2016.

Mr. Hettiaratchi is a leading legal professional in Sri Lanka having a wide Civil Law practice in the Original Courts and Appellate Courts, with a focus on Commercial Law. He also specializes in Investment Advisory, Corporate and Business Restructuring Services.

Mr. Hettiaratchi achieved a First Class Honours' from the Sri Lanka Law College before being called to the Bar in 1999. He also holds a Master's Degree in Intellectual Property and Information Technology Law from Murdoch University, Western Australia.

Due to his legal expertise, Mr. Hettiaratchi functions as a retained counsel for a number of private companies and holds directorships in several public and private companies.

Mr. Nazeem Mohamed

Chief Executive Officer

Mr Nazeem Mohamed was appointed as the Chief Executive Officer of the Company on 1st February 2021.

Mr Mohamed is a highly experienced fintech leader with a proven track record in business development & transformation, innovation with strong traits in business strategy, delivery, partnerships and financial product innovation with over 25 years in senior management roles across banking, financial services, startups and Fintech industries.

He has been leading Frimi by Nations Trust Bank PLC (NTB) as Senior Vice President and has played a pivotal role in building the first digital bank in Sri Lanka. He has also worked at UPay as the CEO, Global Payments- Sri Lanka & Maldives as Director /Country Head and at HSBC Sri Lanka & Maldives as Head of Cards Acceptance.

Mr. Mohamed holds an MBA from Cardiff Metropolitan University (UK).

Management Discussion and Analysis

Operating Environment

Macro-Economic overview

Amid the COVID-19 outbreak, the Sri Lankan economy recorded a negative growth of 3.6% in 2020 compared to growth of 2.3% recorded in 2019. The contraction in the overall economy was largely driven by the setbacks in industrial and service activities. The lockdown measures imposed from mid March 2020, impacted tourism, construction and transport sectors while subdued global demand due to the pandemic impacted the textile industry. The tourism industry in particular, was under significant pressure as it was just starting to recover from the impacts of the Easter Sunday attack in 2019.

Nevertheless, the economy began to recover during the second half of the year as a result of the Governments' timely intervention with the COVID-19 containment measures and the growth inducing fiscal and monetary policies. This was reflected by the rebound in GDP growth of 1.3% recorded in the third and fourth quarters compared to the negative GDP growth of 16.4% recorded in the second quarter of 2020.

Headline inflation measured by the year-on-year change in the Colombo Consumer Price Index (CCPI), remained broadly within the targeted range of 4% - 6% during the year resulting from subdued demand conditions and well anchored inflation expectation. Core inflation measured by the year-on-year change in the CCPI, remained at stable levels during the year, which is significantly lower than the previous year, due to the significant hike in house rentals recorded at the beginning of 2019. Headline inflation and core inflation stood at 4.2% and 3.5% respectively in December 2020.

Sri Lanka's external sector was significantly affected during the year, with the COVID-19 pandemic. However, policy measures enacted by the Government which included imposition of restrictions on non-essential merchandise imports and certain outward capital flows coupled with lower petroleum import expenditure and increase in workers' remittances helped to curtail the adverse impact on the external sector.

Even though both exports and imports contracted during the year, improvements in the trade account balances were reported as a result of contraction in imports outpacing the contraction in exports. However, the current account deficit widened significantly during the year compared to 2019, with the negative impact of the pandemic. On the backdrop of the measures taken by the Government to limit foreign exchange outflows, the overall depreciation of the Sri Lankan Rupee against the US Dollar was limited to 3.3% in 2020. However, depreciation pressure on the Sri Lankan Rupee was observed during December 2020.

Fiscal performance of 2020 deteriorated by lower revenue mobilization, increase in recurrent expenditure and the settlement of outstanding payments carried forward from the previous year. Despite these fiscal pressures, a range of fiscal measures were introduced during the year with the aim of providing support to businesses and individuals affected by the COVID-19 pandemic and stimulate economic activity. The deteriorating economic environment resulted in downgrading of the Sri Lanka's sovereign credit rating by Fitch Ratings, S&P Global Rating and Moody's Investor Services during the year.

The public debt levels are high, and overall debt portfolio indicates some important challenges. Expansion in the budget deficit and the depreciation of the exchange rate contributed to increase in public debt position during the year.

The Central Bank of Sri Lanka (CBSL) commenced monetary easing in 2019 and continued to ease monetary conditions during 2020 by adopting an extremely accommodative monetary policy stance with a view of supporting the flow of credit to the private sector and minimizing the economic impact of the COVID-19 outbreak. The measures adopted by the CBSL which included multiple reductions of the policy rates and the Statutory Reserve Ratio (SRR) during the year resulted in decline in market interest rates to support the expansion of private sector credit and provision of sufficient liquidity to the market. Further

Management Discussion and Analysis

introduction of concessional credit schemes and debt moratorium for businesses and individuals affected by the pandemic also contributed to improvement in private sector credit during second half of the year.

While significant challenges and uncertainties remain particularly with respect to containment of the pandemic locally and globally, the year 2021 is expected to show a more positive outlook in the economy, where the CBSL and International Monetary Funds (IMF) projects a GDP growth of 5% and 4% respectively for 2021.

Performance of NBFi Sector

The Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) which comprise the Non-Bank Financial Institutions (NBFi) sector faced a challenging operating environment for the 2nd consecutive year, this time in the wake of the COVID-19 outbreak. The NBFi sector performance deteriorated during the year, with negative growth in credit and deposit mobilization, contraction in asset base, declining profitability and increase in Non-Performing Advances (NPA). The slowdown in the sector was mainly contributed by restrictions on vehicle imports and low-income levels, reduction in debt repayment capacity resulting from negative performance in the economic activities.

- **Reach** – The NBFi sector consists of 41 LFCs and 3 SLCs at the end of 2020. It's enhanced services to customers and expanded branch network promoted financial inclusion in the country. The industry comprises of 1,517 branches as at December 2020. The technology-based products and services which had been on an uptrend in recent years received significant prominence in 2020 with the pandemic. Many NBFis moved towards increased digitalization with the use of technological solutions to deliver an uninterrupted service to customers during the year.
- **Asset Base** – The total asset base reduced by 2.2% YoY (Year-on-Year) to record at Rs. 1,401.6Bn due to the reduced loans and advances. The corresponding growth rate was 0.1% in 2019. The loans and advances portfolio declined by 5.7% YoY due to economic slowdown and restrictions on vehicle imports. 74.2% of the sector's asset base was made up of loans and advances of which 59.8% represented leasing with the rest comprising other secured loans.
- **Asset Quality and Profitability** – Asset quality of the sector deteriorated during the year. The Gross Non-performing advances (NPA) ratio increased to 13.9% as at end December 2020 compared to 10.6% recorded as at end December 2019. Slowdown in economic activities and declining lending activities contributed to the aforementioned deterioration. Net interest income of the sector recorded at Rs. 111.2Bn for the year ended 31 December 2020, representing a decline of 5.3% YoY. Net interest margin (net interest income as a percentage of average assets) recorded a decrease to record 7.1% in 2020 compared to 7.6% in 2019. On the back of reduced net interest income, non-interest income and higher loan loss provisions, Profit after Tax recorded a decline of 6.1% YoY to reach Rs. 13.7Bn for the year ended 31 December 2020.
- **Minimum Capital Requirement** – Despite the challenging operating environment, the total regulatory capital levels of the industry has improved by Rs. 36.9Bn during the year in comparison to the previous year due to the enhancement of minimum capital requirement by the CBSL. The sector's core capital ratio and total risk weighted capital ratio stood at 14.5% and 15.7% respectively in 2020. This was an increase of 3.5% and 3.2% respectively from the reported ratios in 2019. However, there are few companies which do not comply with the stipulated minimum capital requirements.
- **Liquidity** – The sector recorded an enhancement in the overall liquidity position well above the minimum regulatory levels, while few companies had requested for liquidity support from the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS) of the CBSL during the year, based on the predictions of possible future liquidity shortfall. The liquidity ratio (liquid assets on deposits and borrowing) reported at 13.0% as at end December 2020 in comparison to 11.3% as at end December 2019.

Management Discussion and Analysis

Supervisory and Regulatory Developments

The CBSL introduced the following policy measures and prudential regulations during 2020 to strengthen the supervisory and regulatory framework of non-bank financial institutions aiming at stability and soundness of the sector.

- Introduced the master plan for NBFIs sector to facilitate the development of strong NBFIs sector through consolidation.
- Prompt corrective action framework for LFCs was issued outlining minimum corrective actions applicable based on capital-based triggers.
- Amendments to the Direction on business expansion and operations by introducing further guidelines over opening of new branches, change of location of existing branches and defining the requirements for opening of business places other than fully fledged branches.
- The Direction on liquid assets to be maintained by LFCs was revised to provide relief to LFCs considering the slowdown of the market conditions due to the COVID-19 outbreak.
- By permitting non-face-to-face verifications to onboard customers, Financial Intelligence Unit issued guidelines for non-face-to-face customer identification and verification using electronic interface provided by the Department for Registration of Persons,
- The Direction on classification and measurement of credit facilities was issued.
- The Direction was issued on maximum percentage limits of share capital of LFCs which may be held by a Company, incorporated body or an Individual and it is effective from 01 January 2022

Recent Developments and Outlook

While the NBFIs faced an unprecedented challenge in 2020, the sector had been struggling with rising non-performing loans with poor asset quality, declining profitability due to muted loan growth and increasing operational inefficiencies, even before the pandemic. However, integral role of the LFCs and SLCs in the financial service sector and the economy remained intact due to their contribution to stimulate the economy and financial inclusion in the country by providing enhanced services through its extensive branch network.

While the CBSL reduced the liquid asset requirements and delayed the timelines for compliance with the enhanced minimum core capital requirements, given the challenges facing the NBFIs sector, the CBSL emphasized the importance of having a stable and resilient financial services sector to meet economic challenges. Hence the government budget for 2021 emphasized the need for a greater degree of consolidation of the NBFIs sector and proposed the master plan to the sector in November 2020. Hence, a series of mergers and acquisitions can be expected in the medium term for the sector.

Management Discussion and Analysis

Financial Review

This financial review provides an analysis of the Company's performance for the year ended 31 December 2020.

The Company changed its balance sheet date from 31 March to 31 December in the prior year, aligning the same with the financial year end of its parent, Dialog Axiata PLC. Accordingly, the financial statements for the period under review are presented for the year ended 31 December 2020 while comparative financial period remained nine months ended 31 December 2019 (wherever the reference is made as "financial period" the comparatives stated are for nine months).

Income Statement Analysis

Gross income

The Company recorded total interest income of Rs. 214.7Mn for the year ended 31 December 2020, demonstrating a decline of 14.7% YoY compared to Rs. 251.8Mn recorded for the corresponding period in the year 2019, in line with the slowdown of lending activities during the year.

Downstream of negative interest income performance, net interest income recorded a decline of 18.7%, compared to the corresponding period in the year 2019 (Rs. 181.5Mn).

Non-interest income declined significantly by 69.8% to be recorded at Rs. 21.1Mn for the year ended 31 December 2020. The contribution of non-interest income to total operating income declined to 12.5% in the current financial year compared to 31.8% in the previous financial period. This is attributed to a decline in facilitation fee income earned from device finance due to the discontinuation of device finance business.

On the back of reduction in interest and non-interest income, total operating income declined by 38.5% to reach Rs. 168.7Mn during the year under review compared to total operating income of Rs. 274.1Mn recorded in the corresponding period of 2019.

Net Interest Income (NII)

Net Interest Income recorded at Rs. 147.6Mn for the year ended 31 December 2020, declined by 18.7% compared to the corresponding period in the year 2019. Net interest margin of the Company stood at 5.3% for the financial year under review.

NII performance was impacted by slowdown of lending activities during 2020. Despite growth in margin trading receivables and enterprise loans, overall lending portfolio recorded a decline on a YoY basis.

Interest expense amounted to 31.2% of the interest income during the year under review compared to 27.9% in the corresponding period of 2019. Customer deposits increased by Rs. 245.3Mn (30.0%) resulting in a deposit base of Rs. 1,064.2Mn as at end of December 2020. The capital infusion made in June 2020 to raise Tier I Capital of Rs. 701.3Mn has made the Company less dependent on customer deposits in financing its loans, advances and financial investments during the year ended 31 December 2020.

Net fee and commission income

With the discontinuation of Device Finance business, net fee and commission income declined significantly by Rs. 58.1Mn compared to the previous financial period. The contribution of net fee and commission income to total operating income reduced to 1.2% in the current financial year compared to 27.3% in the previous financial period.

Impairment losses

Despite the adverse impact of COVID-19 on the credit recoveries of the Company, impairment losses for the year ended 31 December 2020 declined significantly by 40.2% compared to the previous financial period. Further, gross non-performing advances (NPA) ratio improved significantly to 8.3% as at end of December 2020 from 34.3% as at end of December 2019.

This is mainly contributed by the positive impact stemming from the discontinuation of Device Finance business and transfer of the device finance portfolio to Telearc (Private) Limited with effect from 1 October 2020.

Management Discussion and Analysis

The net NPA ratio was recorded at 1.3% as at 31 December 2020.

Operating expenses

Total operating expenses recorded a decline of 14.9% to reach Rs. 291.7Mn for the period under review compared to Rs. 342.8Mn for the corresponding period of 2019. Improvement in cost performance was consequent to aggressive cost management and rationalization initiatives which were resorted by the Company with respect to both operating and capital expenditure.

It is expected that the streamlining of processes continues to drive both service excellence and a leaner cost profile. Along with the development of business and intended higher growth in income will enable the Company to further reduce its cost to income ratio.

Taxation

The corporate tax rate applicable to the Company is 28%.

Based on the internal assessment carried out by the Company, deferred income tax asset of Rs. 123.8Mn was recognized as at end of 31 December 2020. Based on the future plans of the Company, deferred income tax assets are recognized for carried forward tax losses to the extent that the realisation of the related tax benefit through future taxable profits.

Profit after tax, return on assets (ROA) and return on equity (ROE)

On the back of cost control initiatives and deferred income tax assets, Net Loss of the Company reduced to Rs. 99.5Mn for the year ended 31 December 2020 relative to a Net Loss of Rs. 143.7Mn recorded for the previous financial period. The improved profitability improved Return on Assets (ROA) to 6.4% (negative) in 31 December 2020 compared to 9.0% (negative) in 31 December 2019. Return on Equity (ROE) improved to 4.8% (negative) in 31 December 2020 from 14.4% (negative) in 31 December 2019.

Analysis of Statement of Financial Position

Total assets

The total asset base of the Company reached Rs. 3.2Bn as at end of December 2020, recording a growth of Rs. 843.1Mn (35.4%). The growth in the asset base is mainly reflected in increase in financial placements with financial institutions and cash and cash equivalents by Rs. 1.0Bn. This will be utilised for lending in the future.

Loan growth

Gross loans and advances portfolio recorded a decline of 37.7% YoY whereas net loan and advances portfolio recorded a decline of 21.2% YoY. The loans and advances performance was impacted by discontinuation and transfer of Device Finance business and slowdown of lending activities during the year.

The net loan and advances portfolio of Rs. 806.3Mn as at 31 December 2020, represents 25.0% of the total assets and the ratio has reduced its significance from 42.9% as at 31 December 2019 due to increased financial investments. Cumulative impairment provision for loans and advances as a percentage of gross loan portfolio has reduced to 8.3% in 31 December 2020 from 27.4% in 31 December 2019, mainly due to the transfer of the device finance portfolio to Telecard (Private) Limited during the period under review.

Liabilities

Deposits made up 33.0% of the asset base as at 31 December 2020 compared to 34.3% as at 31 December 2019. The deposit base increased to Rs. 1,064.2Mn as of 31 December 2020 from Rs. 818.9Mn as of 31 December 2019.

Conscious efforts were made to slow-down deposit mobilisation activities during the year under review to shed high cost large deposits against the backdrop of recent capital infusions. However, the Company has the capacity and required infrastructure to accelerate deposit mobilisation, when the requirement arises to do so.

Management Discussion and Analysis

Shareholders' funds

The equity base of the Company recorded a net increase of LKR 600.2mn (41.3%) during the period under review due to raising of Tier I capital through the rights issue. The Tier I capital adequacy ratio (CAR) and total CAR recorded at 92.7% as at 31 December 2020, which were well above the CBSL's prescribed minimum thresholds. The Company is required to maintain Tier I CAR at 6.5% and total CAR at 10.5%.

In order to fall in line with regulatory requirements on minimum core capital, the Company raised Tier I capital amounted to Rs. 701.3Mn by way of a right issue in June 2020. Core capital of the Company recorded at Rs. 2,053.9Mn as at 31 December 2020 which was above the CBSL's prescribed minimum thresholds.

Liquidity

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

Net Asset value per share and earnings per share

Net Assets per share increased to Rs. 18.88 as at 31 December 2020 from Rs. 15.92 as at 31 December 2019 in parallel to the growth in financial investments. Earnings per share recorded at Rs. 0.98 (negative) for the year ended 31 December 2020 relative to Rs. 1.61 (negative) reported for the period ended 31 December 2019.

Performance of the share

The Company's share price as at 31 December 2020 stood at Rs. 56.00 with an increase of Rs. 13.00 or 30% compared to the closing price of Rs. 43.00 as at 31 December 2019. The share price fluctuated between Rs. 30.00 at the lowest and Rs. 61.00 at the highest during the period under review.

Future impact of COVID 19 on the financial condition

COVID-19 pandemic has resulted in a substantive shift in management's focus towards ensuring the continued safety of people, uninterrupted services to customers, compliance with guidelines issued by various government authorities and continuity of business operations in line with our re-assessed business continuity plan.

The pandemic and the associated developments impact the business operations of the Company, our customers and staff due to restrictions on movement and economic slowdown. The Company remains committed to support the personal and corporate customers and adheres to the guidelines and directions issued by the Government and CBSL, when providing financial support and relief to sectors of the economy impacted by the pandemic. The aforesaid relief measures and related restrictions have an adverse impact on the earnings and expected credit losses on loans and advances of the Company.

Current unprecedented situation is yet evolving and the future impact will heavily depend on the complete removal of restrictions and time taken for economic activity to rebound to pre COVID-19 levels.

The Company has resorted to aggressive cost rescaling and rationalisation initiatives both in operating and capital expenditure to soften the impact on the business. The Company also expects growth opportunities relating to Fin-Tech business, resulting from individuals and businesses shifting financial activities on to digital platforms.

Corporate Governance

Introduction

Corporate Governance is the mechanism by which companies are directed and controlled. The Board of Directors is responsible for the governance of the Company and has placed considerable emphasis on developing rules, structures and processes to ensure integrity and transparency in all dealings of the Company.

This statement describes the application of the Corporate Governance practices within the Company during the year under review.

The Corporate Governance compliance has been set out in the Corporate Governance checklist of this report. The Board has obtained a factual finding report on the compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and the Listing Rules of the Colombo Stock Exchange (CSE) as amended.

Board of Directors

The Company's business and operations are managed under the supervision of the Board. The responsibilities of the Board include providing strategic guidance and evaluating, reviewing and approving corporate strategy and the performance objectives of the Company; effectively reviewing and constructively challenging management performance in meeting the agreed goals, monitoring the reporting of performance and ensuring that the necessary financial and human resources are in place for the Company to meet its objectives, approving and monitoring financial and other reporting practices adopted by the Company; and ensuring good governance and overseeing the risk management of the Company.

Composition

The composition of the Board of Directors as at 31 December 2020 was as follows:

Name of Director	Position	Date of Appointment
Renuka Fernando (Chairperson)	Non-Independent, Non-Executive	22 May 2020
Supun Weerasinghe	Non-Independent, Non-Executive	9 November 2017

Name of Director	Position	Date of Appointment
Priyan Edirisinghe	Independent, Non-Executive	19 January 2016
Roshaan Hettiaratchi	Independent, Non-Executive	9 February 2016
Sheyantha Abeykoon	Non-Independent, Non-Executive	9 November 2017
Asanga Priyadarshana (resigned w.e.f. 31 January 2021)	Non-Independent, Executive	6 April 2018

Dr Hans Wijayasuriya stepped down from the Board as Chairman and Ms Renuka Fernando was appointed in place thereof with effect from 22 May 2020.

The profiles of each Director are given on pages 10 to 11.

As at 31 December 2020, the Board comprised of six (6) Directors, of which five (5) were Non-Executive Directors and one (01) was an Executive Director, who was also the Chief Executive Officer of the Company during the period under review. The Non-Executive Directors collectively provide a considerable depth of knowledge gained from their experiences and have necessary skills to bring an objective judgment to bear on issues of strategy, performance and resources.

The Board has determined that two (2) of the Non-Executive Directors are 'independent' as per the criteria set out in the Listing Rules of the CSE. The other three (3) Non-Executive Directors and Executive Director are considered Non-Independent as they are nominees of Dialog Axiata PLC, the major shareholder of the Company. The composition satisfies the requirements of the Listing Rules of the CSE and the Finance Companies (Corporate Governance) Direction No. 3 of 2008 as amended.

Corporate Governance

Board Meeting and Attendance

The Board meets once a month unless the business exigencies demand the convening of special board meetings. Accordingly, twelve (12) Board meetings were held during the year under review. Members of the management and external advisors were invited as and when required to attend Board meetings to present proposals and provide further clarity to the Board.

The attendance of Directors at the aforesaid meetings is set out in the table below:

Name of Director	Attendance
Dr. Hans Wijayasuriya (resigned w.e.f. 22 May 2020)	3/5
Ms. Renuka Fernando (appointed w.e.f. 22 May 2020)	7/7
Mr. Supun Weerasinghe	12/12
Mr. Roshan Hettiarachchi	10/12
Mr. Priyan Edirisinghe	12/12
Mr. Sheyantha Abeykoon	10/12
Mr. Asanga Priyadarshana (resigned w.e.f. 31 January 2021)	12/12

Delegation of Authority and Board Committees

The Board has delegated authority to its Board Committees and Management.

In compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 as amended by the Central Bank of Sri Lanka and the Listing Rules of the CSE, the Board is supported by the following Board Committees:-

- Audit Committee
- Related Party Transactions Review Committee
- Integrated Risk Management Committee
- Nominating and Remuneration Committee

All Board Committees have written Terms of Reference approved by the Board, and the Board receives reports of their proceedings and deliberations. Matters which Committees have no authority to decide on, are reserved for the Board and recommendations are made to the Board for deliberation and approval.

The reports of the above Committees for the year under review are set out in pages 46 to 53.

In addition to the aforesaid Committees, the Company has established Management Committees for recoveries, credit, assets and liability management to regulate the relevant areas thereby ensuring that decision-making is on a participatory basis.

The Management

The day-to-day operations of the Company are entrusted to the Corporate and Senior Management Team headed by the Chief Executive Officer. The Team ensures that risk and opportunities are identified and steps are taken to achieve targets within defined time frame and budgets.

Access to Information

To enable the Board to make informed decisions, the Board is supplied with complete and adequate information in advance of each meeting, which includes an agenda, minutes, board papers with background or explanatory information, financial and operational performance reports. Any additional information may be requested for by any Director as and when required. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for compliance with Board procedures and applicable rules and regulations. The Directors have access to independent professional advice in the course of fulfilling their responsibilities, at the expense of the Company.

Financial Disclosure and Transparency

Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, the Companies Act No. 7 of 2007, the Finance Business Act No. 42 of 2011 and the directions and rules issued thereunder. The unaudited provisional quarterly statements of accounts are released to the CSE in compliance with the Listing Rules of the CSE. Messrs. PricewaterhouseCoopers served as the external auditors of the Company for the year under review.

The auditors act independently without intervention from the management or the board of the Company with regard to the financial statements of the Company. All the required information is provided for examination to the auditors.

Ethical Standards

The Company requires that all its employees maintain the highest standards of integrity in the performance of their duties and dealings on behalf of the Company. During the year the Company adopted

Corporate Governance

and implemented the Dialog Axiata Group Policy on Anti-Bribery and Anti-Corruption (“ABAC Policy”). The objective of the ABAC Policy is to ensure that the Company conducts business with zero tolerance of any forms of bribery and corruption in line with the Company’s core value of Uncompromising Integrity.

Remuneration

The remuneration of non-executive directors comprises a monthly fixed allowance and meeting allowances paid in accordance with the number of meetings attended during the period. The remuneration of the executive director, in his capacity of an employee, comprises of a salary and performance-related bonuses.

Statutory Payments

To the best of their knowledge and belief, the Directors are satisfied that all statutory payments due to the government, other regulatory institutions and in relation to the employees have been made.

Compliance with Central Bank Regulations

To the best of the knowledge and belief of the Directors, the Company has not engaged in any activity contravening applicable laws and regulations.

Except as set out in the corporate governance checklist, the Compliance Officer of the Company ensures that the Company is in compliance with the Directions, Rules, Determination, Notices and Guidelines issued to the Licensed Finance Companies, Public Listed Companies and generally in business activities undertaken by the Company.

Accountability and Disclosure

In the year under review, the members of the Board of Directors have reviewed in detail the annual financial statements in order to satisfy themselves that they present a true and fair view of the affairs of the Company. A summary of Directors’ Responsibilities in respect of finance statements are given on page 62.

Respect for the Rights of Shareholders

The Company is bound to safeguard the rights of all shareholders and secure equal treatment to all shareholders. The Company provides its annual financial statements within the mandatory period to all shareholders and the unaudited provisional financial statements are released to the CSE in accordance with the Listing Rules of CSE. All shares carry equal voting rights and the shareholders are informed of the Annual General Meeting before the mandatory period.

The Company communicates with the shareholders through the following means of communication:-

1. Annual General Meeting (AGM)

The AGM is the main event for the shareholders to meet with the Board which allows reasonable opportunity for informed shareholders to communicate their views on various matters affecting the Company and the forthcoming AGM will be used to effectively communicate with shareholders. The AGM is also attended by the Senior Management and External Auditors.

2. Announcements to the Colombo Stock Exchange (CSE)

Quarterly financial results and other announcements of importance are promptly disclosed to the CSE in compliance with the Listing Rules of the CSE.

3. Company Website

Information on the Company’s performance, financial information, latest news and other corporate information is made available on the Company’s website at <https://www.dialogfinance.lk>

4. Major Transactions

There were no transactions during the period under review, deemed as a “major transaction” in terms of the definition stipulated in the Companies Act, No. 7 of 2007 which required shareholder approval.

Corporate Governance

Adherence with the principles of Finance Companies (Corporate Governance) Direction No. 03 of 2008, No. 04 of 2008 and No. 06 of 2013 issued under Finance Business Act No. 42 of 2011 is tabulated below.

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
2. The Responsibilities of the Board of Directors			
2 (1) (a)	Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company.	Complied	The Board of Directors ("the Board") approved strategic objectives of the Company contained in the Business Plan for 2020 and the Board has also approved corporate values which were communicated to the Company.
2 (1) (b)	Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years.	Complied	The Business Plan for 2020, inclusive of the business strategy for the next three years, was approved by the Board of Directors.
2(1)(c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Complied	The Integrated Risk Management Committee monitors risks in all areas and appraises the Board of the risk status of the Company. The Board ensures that necessary systems are in place to manage risks.
2(1)(d)	Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Complied	The Board has approved a communication policy for the Company.
2(1)(e)	Reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems.	Complied	The Internal Audit carries out regular reviews on the adequacy and integrity of the Company's systems and information. The Audit Committee monitors and assesses the effectiveness of the internal audit, internal control and risk management and financial reporting and reports its findings to the Board.
2(1)(f)	Identifying and designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.	Complied	The Company has duly appointed Key Management Persons (KMP) for the Company.

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Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
2(1)(g)	Defining the areas of authority and key responsibilities for the Board and for the key management personnel.	Complied	The areas of authority of the KMP have been defined and approved by the Board. The Articles of Association of the Company has defined the responsibilities of the Board further to the responsibilities set out in the CBSL Corporate Governance Direction.
2(1)(h)	Ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy.	Complied	The Board is apprised of the affairs of the Company by KMPs on a monthly basis at the monthly Board Meetings.
2(1)(i)	Periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of directors and appointment of key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weakness and implementation of changes where necessary.	Complied	The Board periodically assesses the effectiveness of its governing practices. The Board has approved a policy for the selection, nomination and election of Directors whereas appointment of KMPs is in terms of the Corporate Governance Direction. The Board is also periodically apprised of any dealings with related parties and conflict of interests are managed accordingly.
2(1)(j)	Ensuring that the finance company has an appropriate succession plan for key management personnel.	Complied	The Company has an appropriate succession plan for KMPs.
2(1)(k)	Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied	The Board meets the KMPs periodically during the monthly Board Meetings to review policies, establish lines of communication and monitor progress towards corporate objectives.
2(1)(l)	Understanding the regulatory environment.	Complied	The Board is apprised of any new regulations and directions which impact the Company and the effect of such new regulations and directions on the Company. Further the Board is also apprised of the compliance status of the Company on a monthly basis.
2(1)(m)	Exercising due diligence in the hiring and oversight of external auditors.	Complied	The Audit Committee oversees the appointment of the external auditors taking into account relevant regulatory requirements.

Corporate Governance

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
2(2)	The Board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with the applicable requirements of the Corporate Governance Direction.	Complied	The Chairperson and the CEO of the Company are appointed, subject to the approval of the Central Bank of Sri Lanka (CBSL), and in accordance with the terms of the Companies Act No. 7 of 2007.
2(3)	There shall be a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance company.	Complied	The members of the Board are afforded the opportunity to obtain independent professional advice from third party specialists in the area at the expense of the Company.
2(4)	A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda items at the Board meeting.	Complied	The Company Secretary obtains disclosures of Related Party Transactions from Directors annually and conflict of interest (if any) is managed based on this statement.
2(5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	Complied	The Board has a formal schedule of matters reserved to it.
2(6)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions (SNBFI) of the situation of the finance company prior to taking any decision or action.	Complied	No such situation has arisen during the year under review.

Corporate Governance

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
2(7)	The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with the Corporate Governance Direction.	Complied	This report addresses this requirement.
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually and maintain records of such assessments.	Complied	The Company Secretary carried out the self-assessment exercise for the Directors for the year.

3. Meeting of the Board

3(1)	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Complied	Board meetings were held at monthly intervals. The Company held 12 board meetings during the period under review.
3(2)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the financial company.	Complied	<p>The Company Secretary facilitates any requests made by the Directors at the meetings or otherwise and ensures that the said matters and proposals are included in the agenda for the next meeting for discussion.</p> <p>All members of the Board were given equal opportunities to include matters and proposals in the agenda and the procedures are in place for same.</p> <p>Monthly meetings are scheduled and informed to the Board prior to such meetings to enable submission of proposals to the agenda.</p>
3(3)	A notice of at least 7 days shall be given of a regular Board meeting to provide all directors and opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	Complied	Board meetings are scheduled in advance. Agenda and all board papers are shared with the Directors prior to the Board meetings.

Corporate Governance

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
3(4)	A director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meeting through an alternate director shall, however, be acceptable as attendance.	Complied	All Directors have attended at least two-thirds of the meetings during the period of 12 months immediately preceding December 2020. There has not been any instances during the period under review where any Directors have not attended three consecutive meetings.
3(5)	The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied	Ms. Viranthi Attygalle serves as the Company Secretary, handling the secretarial services to the Board and shareholder meetings and carries out other functions specified in related laws and regulations.
3(6)	If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function.	Complied	The Company Secretary in consultation with the CEO and the Chairperson prepares the agenda for the meetings and circulates same to the Directors.
3(7)	All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied	All directors have access to the Company Secretary.
3(8)	The company secretary shall maintain the minutes of Board and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied	The Company Secretary maintains the minutes of the Board meetings, which are available for inspection by any Director.
3(9)	Minutes of Board meetings shall be recorded in sufficient detail as per the detailed requirements of Paragraph 3(9) of the Corporate Governance Direction.	Complied	The Company Secretary records the proceedings of the meetings and the decisions taken thereon in sufficient detail.

Corporate Governance

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
4. The Board's Composition			
4(1)	The number of directors on the Board shall not be less than 5 & not more than 13.	Complied	The Board comprised of six (6) Directors as at 31 December 2020.
4(2)	The total period of service of a director other than a director who holds the position of chief executive officer or executive director shall not exceed nine years.	Complied	None of the Directors have exceeded nine (9) years of service on the Board.
4(3)	An employee of a finance company may be appointed, elected or nominated as a director of the finance company ('executive director') provided that the number of executive directors shall not exceed 1/2 of the number of directors of the Board. One of the executive directors shall be the chief executive officer of the company.	Complied	As at 31 December 2020, the Company had one (01) Executive Director who served as the CEO of the Company.
4(4)	The number of independent non-executive directors of the Board shall be at least 1/4 of the total number of directors. A non-executive director shall only be considered Independent provided that he meets the qualifications set out in 4(4)(a)-(f) of the Corporate Governance Direction.	Complied	Two (2) out of six (6) Directors are Independent Non-Executive Directors.
4(5)	In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.	Complied	No alternate Directors were appointed during the year under review.
4(6)	Non-executive directors shall have necessary skills and experience to bring an objective judgement to bear on issues of strategy, performance and resources.	Complied	All five (05) Non-Executive Directors possess adequate skills and experience to contribute to the Board in effectively discharging its obligations.

Corporate Governance

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
4(7)	A meeting of the Board shall not be duly constituted although the number of directors required to constitute the quorum at such meeting is present, unless at least 1/2 of the number of directors that constitute the quorum at such meeting are non-executive directors.	Complied	Five (5) out of the six (6) Directors of the Company were Non-Executive Directors during the year under review.
4(8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors in the annual corporate governance report.	Complied	The composition of the Board by category of Directors, including the names of the Chairperson, executive directors, non-executive directors and independent non-executive directors are disclosed in the Annual Report under Directors' profiles on pages 10 to 11.
4(9)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied	The Board has approved a policy which includes the formal and transparent procedure to be followed for new appointments and successions to the Board.
4(10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied	Ms. Renuka Fernando who was appointed to the Board with effect from 22 May 2020 was duly elected as a director of the Company by the shareholders at the Annual General Meeting held on 26 June 2020.
4(11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the SNBFI regarding the resignation of the director or removal and research for such resignation or removal, including information relating to the relevant director's disagreement with the Board, if any.	Complied	The Company obtained approval for the resignation of Dr. Hans Wijayasuriya as a director of the Company on 21 May 2020, and announced the resignation to the Colombo Stock Exchange on 25 May 2020.

Corporate Governance

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
5. Criteria to assess the fitness and propriety of Directors			
5(1)	A person over the age of 70 years but below 75 years, shall serve as a director of a finance company subject to the approval of the Monetary Board.	Complied	All Directors are below the age of 70 years.
5(2)	A director of a finance company shall not hold office as a director or any other equivalent position in more than 20 companies/ societies/ bodies corporate, including associate companies and subsidiaries of the finance company.	Complied	<p>During the year under review, other than Dr. Hans Wijayasuriya, none of the Directors held directorships of more than 20 companies.</p> <p>At the time, Dr. Wijayasuriya (who resigned in May 2020), served on the Boards of more than 20 companies in the capacity of a Nominee of Dialog Axiata PLC or Axiata Group Berhad arising from his position as the CEO – Telecommunications Business and Group Executive Vice President of Axiata Group Berhad.</p>
6. Delegation of Functions			
6(1)	The Board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied	The Board delegates its powers to the Board appointed committees or to any person it deems fit in accordance with the Articles of Association of the Company and Section 186 of the Companies Act No. 7 of 2007.
6(2)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied	The Board evaluates the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its functions.
7. The Chairman and Chief Executive Officer			
7(1)	The roles of the Chairman and CEO shall be separated and shall not be performed by the one and the same person.	Complied	The posts of the Chairperson and the CEO of the Company are separated in order to ensure the balance of power and authority.

Corporate Governance

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
7(2)	The Chairman shall be a non-executive director. In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director.	Complied	Chairperson is a Non-Independent, Non-Executive Director. Therefore Independent, Non-Executive Director, Mr. Priyan Edirisinghe has been designated as the Senior Director.
7(3)	The Board shall disclose in its corporate governance report, which shall be an integral part of the Annual Report, the name of the Chairman and CEO and the nature of relationship, if any, between the chairman and the CEO and the relationships among the members of Board.	Complied	There are no material relationships between the Chairperson/CEO and other members of the Board which will impair their respective roles.
7(4)	The Chairman shall: (a) provide leadership to the Board, (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by Board in a timely manner	Complied	The Chairperson provides leadership to the Board and ensures the Board works effectively and discharges its responsibilities. She also ensures that all key issues are discussed by the Board in a timely manner.
7(5)	The Chairman shall be primarily responsible for the preparation of the agenda of each Board meeting. The Chairman may delegate the function of preparing the agenda to the company secretary.	Complied	The Chairperson has delegated the function of preparing the Agenda to the Company Secretary, who carries out the function in consultation with the CEO and the Chairperson.
7(6)	The Chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied	All Directors were provided adequate notice of the issues arising at each Board meeting.
7(7)	The Chairman shall encourage each director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interest of the Company.	Complied	The Chairperson encourages each Director to actively contribute at the meetings and ensures that the Board acts in the best interest of the Company.
7(8)	The Chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	Complied	The Chairperson facilitates the effective contribution of Non-Executive Directors.

Corporate Governance

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
7(9)	The Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied	The Chairperson has not engaged in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.
7(10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied	The Chairperson ensures that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.
7(11)	The CEO shall function as the apex executive-in-charge of the day-to-day management of the finance company's operations and business.	Complied	The CEO functioned as the apex Executive-In-Charge of the day-to-day management of the Company.

8. Board Appointed Committees

8(1)	The Company shall at least have an Audit Committee and an Integrated Risk Management Committee. Each committee shall appoint a secretary under the supervision of the chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee at the Annual General Meeting (AGM).	Complied	<p>The following committees have been appointed by the Board and each such committee is required to report to the Board :</p> <ul style="list-style-type: none"> • Audit Committee • Nominating and Remuneration Committee • Related Party Transactions Review Committee and • Integrated Risk Management Committee <p>Recommendations of these committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the Board meetings. The Company has presented reports on the performance, duties and functions of each committee in the Annual Report.</p>
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8. (2) Audit Committee

8.2(a)	The chairman of the committee shall be a non-executive director who possesses qualifications & experience in accountancy &/or audit	Complied	Mr. Priyan Edirisinghe, an Independent Non-Executive Director of the Company acts as the Chairman of the Audit Committee. He is a Chartered Accountant and a Fellow Member of The Institute of Chartered Accountants of Sri Lanka (FCA).
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Corporate Governance

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
8.2(b)	The Board members appointed to the committee shall be non-executive directors.	Complied	All other members in the Committee are Non-Executive Directors.
8.2(c)	The committee shall make recommendations on matters in connection with; (i) the appointment of the External Auditors (ii) the implementation of the Central Bank Guidelines issued to auditors (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor.	Complied	The Audit Committee has recommended; The re-appointment of M/s. PricewaterhouseCoopers, Chartered Accountants as External Auditors for audit services; The implementation of guidelines issued by Central Bank of Sri Lanka to auditors from time to time. The application of Accounting Standards in consultation with the Head of Finance and External Auditors; The service period, audit fees, resignation or dismissal of an auditor, re-engaging the audit partner in line with the regulatory requirements. No resignation or dismissal of the Auditor has taken place during the year under review.
8.2(d)	The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices.	Complied	In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking account of the regulations and guidelines.
8.2(e)	Develop and implement a policy on the engagement of an External Auditor to provide non-audit services while considering; (i) Skills and experience of the Auditor (ii) Threat to the independence (iii) Fee for the non-audit services and independence	Complied	The Company has an Audit and Non-Audit Policy and Procedure approved by the Board.
8.2(f)	The committee shall determine the nature and the scope of the External Audit.	Complied	The Committee discusses and finalizes with external auditors, the nature and scope of the audit.
8.2(g)	The committee shall review the financial information of the Company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgements contained therein.	Complied	Quarterly Financial Statements as well as year-end Financial Statements are circulated to the Audit Committee and discussed prior to recommendation to Board for approval.

Corporate Governance

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
8.2(h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel.	Complied	Committee discussed and minute issues, problems and reservations arising from the interim and final audits and any matters relevant thereto.
8.2(i)	The committee shall review the external auditor's management letter and the management's response thereto.	Complied	Upon receipt of the management letter, the External Auditors are invited to make a presentation to the Audit Committee with the responses of the corporate management to discuss the significant findings which have arisen during the audit and instructions are given to Department Heads to take remedial actions, if necessary
8.2(j)	<ul style="list-style-type: none"> • Review of the Internal Audit Function • Review scope, function and resources • Review of Internal Audit Programme • Review of Internal Audit Department • Recommendations on Internal Audit functions • Appraise the resignation of senior staff of Internal Audit and any outsourced service providers • Independence of Internal Audit functions 	Complied	The Audit Committee has reviewed the information provided in the risk-based audit plan and concluded that the scope, functions and resources are sufficient to carry out its functions.
8.2(k)	Consideration about the internal investigations and Management's responses.	Complied	The need for an internal investigation on major findings has not arisen during the year.
8.2(l)	Attendees of Audit Committee meeting with corporate Management and External Auditors.	Complied	The Committee met twice during the year under review with the external auditors without the executive director being present.

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
8.2(m)	Explicit authority, adequate resources, access to information and obtain external professional advice wherever necessary.	Complied	<p>The committee has :</p> <ul style="list-style-type: none"> • Explicit authority to investigate any matter within its Terms of Reference; • The resources required to do so; • Full access to information; and • The authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.
8.2(n)	Regular meetings	Complied	The Committee met 10 times during the year under review.
8.2(o)	Disclosure in Annual Report	Complied	The Report of the Audit Committee includes the detailed activities, meetings held during the period under review and the Directors attendance at the Audit Committee Meetings.
8.2(p)	Meeting Minutes of the Audit Committee	Complied	The Company Secretary is the secretary of the Committee and records and maintain minutes of the meetings.
8.2(q)	Whistle Blowing Policy	Complied	The Company has a whistle blowing policy approved by the Board.
8.3 Integrated Risk Management Committee			
8.3(a)	The composition of IRMC	Complied	The Committee comprises of Three (03) Non-Executive Directors the Chief Executive Officer, Head of Finance and Head of Risk & Compliance.
8.3(b)	Periodical risk assessment	Complied	The Committee periodically assess all risks to the company on a monthly basis through appropriate risk indicators.
8.3(c)	Review the adequacy and effectiveness of Management level committees to manage risk	Complied	The effectiveness of management level committee ALCO is reviewed at IRMC meetings every quarter and decisions taken by ALCO are discussed and reviewed in detail.
8.3(d)	Corrective action to mitigate risk.	Complied	Prompt corrective actions are taken to mitigate the effects of risk higher than the level beyond the prudent levels decided by the committee.

Corporate Governance

Section	Guiding Principle	Compliance/ Non-compliance	Status of Compliance
8.3(e)	Frequency of meeting.	Complied	The Committee met six (6) times during the year under review.
8.3(f)	Actions against the officers responsible for failure to identify risks and take prompt corrective actions.	Complied	Committee refers such matters, if any, to the HR Department for necessary action.
8.3(g)	Risk assessment report to the Board.	Complied	Risk reports are tabled at each Board meeting.
8.3(h)	Establishment of a compliance function.	Complied	Committee established a compliance function to assess the finance company's compliance with laws regulations, directions, rules, regulatory, guidelines, internal controls and approved policies and a dedicated compliance officer has been appointed.

9. Related Party Transactions

9(2)	The board is responsible to take necessary steps to avoid any conflicts of interest that may arise from any transaction between the company and a 'related party', as specified in this rule.	Complied	The Board has approved a Related Party Transactions Policy through the board appointed Related Party Transactions Review Committee and has further taken steps to avoid any conflict of interests and favorable treatment when transacting with related parties as defined in this Direction.
9(4)	The board is responsible to ensure that the Company does not engage in transactions with a 'related party' in a manner that would grant such party 'more favorable treatment'.	Complied	The Board has appointed a Related Party Transactions Review Committee which has the delegated authority of the Board to review any transactions carried out with related parties and ensure that they are within the guidelines provided in this Direction.

10. Disclosures

10.1	Publish Interim and Annual Financial Statements based on applicable accounting standards and publish in Sinhala, Tamil and English newspapers.	Complied	Relevant Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and such statements are published in the newspapers, in all three languages.
10.2	The Board shall ensure that at least the required disclosures are made in the Annual Report.	Complied	The necessary disclosures have been made in the Annual Report as specified under the Corporate Governance Disclosures.

Corporate Governance

Adherence with the Corporate Governance requirements under Section 7.6 and 7.10 issued under the Listing Rules of the Colombo Stock Exchange.

Section	Disclosure Requirement	Compliance/ Non-compliance	Details
Contents of Annual Report			
7.6 (i) to (xvi)	Contents of the Annual report.	Complied	All relevant details required under this section have been included in the Annual Report. The Company further confirms that there have been no issues pertaining to employees and industrial relations of the Company.
Compliance			
7.10(b)	The Company shall comply with the Corporate Governance Rules set out in the Listing Rules and the annual report must contain relevant affirmative statements.	Complied	The Company has complied with the Corporate Governance Rules set out in the Listing Rules as captured under this checklist.
7.10.1 Non-Executive Directors			
7.10.1(a)	The board of directors of the Company shall include at least, <ul style="list-style-type: none"> - two non-executive directors; or - such number of non-executive directors equivalent to 1/3 of the total number of directors whichever is higher. 	Complied	The Board of Directors of the Company consisted of 5 Non-Executive Directors and 1 Executive Director during the period under review.
7.10.1(b)	The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	Complied	The Company has complied with this requirement.
7.10.2 Independent Directors			
7.10.2(a)	Where the constitution of the board of directors includes only two non-executive directors in terms of Rule 7.10.1.a above, both such non-executive directors shall be 'independent'. In all other instances two or 1/3 of non-executive directors appointed to the board of directors, whichever is higher shall be 'independent'.	Complied	The Board consists of Two (02) Independent Directors who are Non-Executive Directors whereas Four (04) Directors are Non-Independent Directors.
7.10.2(b)	The board shall require each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.	Complied	The Board of Directors have submitted their declarations with respect to their independence / non independence as required under this Rule.

Section	Disclosure Requirement	Compliance/ Non-compliance	Details
7.10.3 Disclosures Relating to Directors			
7.10.3(a)	The board set out in the annual report the names of directors determined to be 'independent'	Complied	The composition of the Board by category of Directors, including the names of the Chairperson, executive directors, non-executive directors and independent non-executive directors are disclosed in the Annual Report under Directors' profiles on pages 10 to 11.
7.10.3(b)	If in the opinion of the board a director is 'independent' despite not qualifying under the criteria set out, the board shall specify the criteria not met and the basis for its determination in the annual report.	Complied	The Directors who are declared as Independent meet the qualifying criteria of this Rule.
7.10.3(c)	The board shall publish a brief resume of each director in the annual report including his/her expertise in relevant functional areas.	Complied	A brief resume of each Director has been set out in the Annual Report under Directors' profiles on pages 10 to 11.
7.10.3(d)	On appointment of a new director to the board the Company shall provide a brief resume of the director to the Exchange including his/her name, whether independent or non-independent and expertise in relevant functional area.	Complied	The Company has provided the relevant information to the Exchange as required under this Rule at the time of appointing the relevant Directors.
7.10.4 Criteria For Defining 'Independence'			
	Subject to Rule 7.10.3 (a) and (b), a non-executive director shall not be considered independent if he/she does not meet the specifications set out in Section 7.10.4.	Complied	The Non-Executive Directors declared as Independent meet the specifications set out in Section 7.10.4
7.10.5 Remuneration Committee			
7.10.5(a), (b)	The Company shall have a remuneration committee in conformity with the specifications set out in Section 7.10.5	Complied	The Company has a Nominating and Remuneration Committee appointed by the Board in conformity with the specification set under this Rule.
7.10.6 Audit Committee			
7.10.6(a), (b)	The Company shall have an audit committee in conformity with the specifications set out in Section 7.10.6	Complied	The Company has an Audit Committee appointed by the Board in conformity with the specifications set out under this Rule.

Corporate Governance Disclosures

Disclosures as per Section 10(2) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 as amended issued by the Central Bank of Sri Lanka.

Section	Disclosure Requirement	Compliance/ Non-compliance	Details
10.2 Disclosures made in the Annual Report			
10.2(a)	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards & regulatory requirements, inclusive of specific disclosures.	Compiled	This is been disclosed in the "Annual Report of the Board of Directors on the state of affairs of the Company" appearing on pages 54 to 59 of the Annual Report. (Annual Report of the Board of Directors for the year ended 31 December 2020)
10.2(b)	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, & that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles & regulatory requirements.	Compiled	Effectiveness of the Company's internal control mechanism has been certified by the Directors on pages 60 and 61 of the Annual Report under the heading "Directors' Statement on Internal Controls over Financial Reporting"
10.2(c)	The external auditors certification on the effectiveness of the internal control mechanism referred to in Paragraph 10.2(b) above in respect of any statements prepared or published from the date of the Direction.	Complied.	The Auditors' certification on the effectiveness of the internal control mechanism has been obtained.
10.2(d)	Details of directors, including names, transactions with the Company.	Compiled	The names of the Directors are set out on pages 9 to 11 of the Annual Report.
10.2(e)	Fees/ remuneration paid by the Company to the directors in aggregate.	Compiled	The fees & remuneration paid to Directors are disclosed in Note 41 c) on page 120 of the Annual Report.
10.2(f)	Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds.	Compiled	Please refer Note 41 to the Financial Statements.

Corporate Governance

Section	Disclosure Requirement	Compliance/ Non-compliance	Details
10.2(g)	Aggregate values of remuneration paid by the Company to its KMPs & the aggregate values of the transactions of the Company with its KMPs during the financial year.	Complied	Please refer Note 41 to the Financial Statements.
10.2(h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.	Complied	This Corporate Governance report and checklist addresses this requirement.
10.2(i)	A statement of the regulatory and supervisory concerns on lapses in the Company's risk management, or non-compliance with the Act and rules and directions that have been communicated by the Director DSNBFI, if so directed by the Monetary Board to be disclosed to the Public, together with the measures taken by the Company to address such concerns.	Complied	All relevant disclosures have been duly made as stipulated under this report.
10.2(j)	The external auditor's certification of the compliance with the Corporate Governance Directions in the annual corporate governance reports published.	Complied	The Board has obtained a factual finding report from the External Auditors over the compliance with Corporate Governance Directions.

Corporate Governance

Disclosures as per Section 168 issued by the Companies Act No.07 of 2007

Section	Rule	Reference
168.1(a)	any change to the Company during the accounting period in the nature of the business of the company or any of its subsidiaries or the classes of business in which the company has an interest, whether as a shareholder of another company or otherwise.	Refer page 54.
168.1(b)	include financial statements for the accounting period completed and signed in accordance with section 151.	Refer pages 68 to 137.
168.1(c)	where an auditor has been appointed by the Company, include that auditor's report on the financial statements and any group financial statements.	Refer pages 63 to 67.
168.1(d)	describe any change in accounting policies made during the accounting period.	Refer Note 4 to the Financial Statements given pages 75 to 77.
168.1(e)	state particulars of entries in the interests register made during the accounting period.	<p>The Company maintains the Directors' Interest Register as required under the provisions of Section 168 (1) (e) of the Companies Act No.7 of 2007.</p> <p>These interests have been recorded in the Interest Register which is available for inspection in terms of the Act. The Directors have no direct or indirect interest in a contract or a proposed contract with the Company other than those disclosed.</p>
168.1(f)	state the remuneration and other benefits of directors during the accounting period.	Refer Note 41 to the Financial Statements.
168.1(g)	state the total amount of donations made by the Company during the accounting period.	Refer page 58.
168.1(h)	state the names of the persons holding office as directors of the Company as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the Company during the accounting period.	Refer page 57.
168.1(i)	state the amounts payable by the Company to the person or firm holding office as auditor of the company as audit fees and as a separate item, fees payable by the Company for other services provided by that person or firm.	Refer page 59.
168.1(j)	state the particulars of any relationship (other than that of auditor) which the auditor has with or any interests which the auditor has in, the proposed company or any of its subsidiaries.	Refer page 59.
168.1(k)	The disclosure required by 168.1(j) be signed on behalf of the Board by two directors of the Company.	Refer page 69 of Balance Sheet.

Risk Management

1. Overview

Risk Management is a vital component of Dialog Finance PLC's ('the Company') corporate governance strategy. The business objective of the Company is to provide fintech products in the Sri Lankan market. Hence, in an ever changing technological and operating environment, it is critical to have a sound and effective Risk Management framework in the Company. The Business strategy of the Company is developed and implemented taking into consideration the risk impact and mitigation actions for each strategy.

The Company uses its robust risk management framework to identify and mitigate the risk impact to the Company. The risk management framework is developed based on the "three lines of defence" model. It is also important to take note that risk incidents can provide opportunity for the Company which is considered a positive impact.

Further, an effective Risk Management framework is essential to protect the interest of the depositors, shareholders, and other stakeholders.

The year under review was a challenging period for financial institutions in the country due to the economic impact caused by the COVID-19 pandemic.

The significant risk incidents both globally and domestically are discussed below.

1.1 Overview of domestic and global risk incident

1.1.1 Domestic risk events

Whilst the country was recovering after the Easter Sunday catastrophe and currency crisis in 2019, with the newly elected government offering tax reliefs to the people and corporates, the COVID-19 pandemic that hit the globe resulted in this recovery process being slowed and causing further vulnerabilities in key sectors of the country. The tourism sector, garment exports sector and transport sector were significantly impacted with declining revenue from tourism and loss of employment/ businesses. The Gross Domestic Product (GDP) of Sri Lanka contracted by 3.6% in

2020 whilst the unemployment rate increased to 5.8% in the 3rd quarter of 2020. Challenges were faced by the country to borrow in the international market due to downgrading of sovereign rating of Sri Lanka by rating agencies. The stock market came under severe pressure at the onset of the pandemic, resulting in trading being halted to curb panic selling.

1.1.2 Global risk events

Global economy shrunk in 2020 due to the catastrophic effect of the COVID-19 pandemic. The world GDP contracted by 3.9% in 2020 and oil prices collapsed in April 2020 due to reduced economic activity. The world recession was greater than the global financial crisis in 2008. The prices of risky assets plummeted while investors sought refuge in safe haven assets, in global financial markets. Tension between US and China resulted in trade war between the countries.

1.2 Overview of Licensed Finance Companies (LFC)

The License Finance Companies (LFC) which were in a volatile position even before 2019, became more vulnerable as a result of the pandemic. The Loan books of the LFC sector contracted and depicted an increase in the non-performing loans despite the loan moratorium granted (Source: Financial system stability report 2020)

Due to the product proposition (fintech products), the Company was able to withstand the headwinds caused by the economic downturn in 2020.

In 2020

- a) GDP of SL contracted by 3.6%
- b) World GDP contracted by 3.9%
- c) SL Inflation CCPI improved from 6.2% in February 2020 to 4.2% in December 2020.
- d) Unemployment in Q3, 2020 increased to 5.8%

Table 1

Risk Management

2. Risk Governance

2.1 Risk Governance Structure

The following diagram stipulates the Risk Governance structure in the Company.

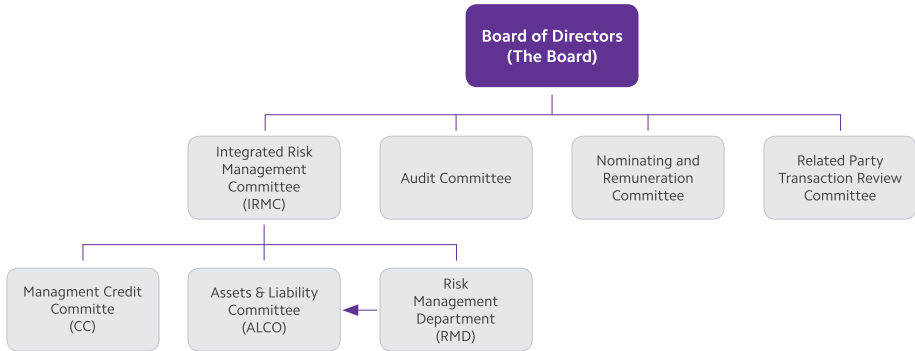


Figure 1

The Board of Directors ('the Board') has the overall responsibility to ensure that an effective Risk Management framework is in place and the implementation of appropriate systems to manage the risks prudently. The Board ensures that the Company implements a robust Risk Management process and mechanism to identify risks and mitigate the impact from such risks affecting the organization. The Board has entrusted this responsibility to the Integrated Risk Management Committee (IRMC). The IRMC is responsible in ensuring to the Board that the Company had established a Risk Management Policy and a Risk Management framework is in place..

2.2 Integrated Risk Management Committee (IRMC)

The IRMC currently consists of 3 non-executive Directors (appointed by the Board), Chief Executive Officer and Key Management Personal from Risk Management and Compliance, Finance and Operations. The IRMC meets every quarter and there were 6 meetings held during the period under review.

The IRMC ensures that the Company implements an effective risk management framework, and that risk treatment is carried out on identified risks and that risk impact is maintained within the risk appetite of the Company.

The IRMC reviewed and approved the updated Risk Policy, Credit Policy and Asset and Liability Management Policy in 2020 whilst providing guidance to the Company on risk mitigating initiatives. The IRMC was apprised of the decisions taken in the Asset and Liability Committee and the Management Credit Committee.

2.3 Asset and Liability Committee (ALCO)

The ALCO is a management committee established under the IRMC. It reviews and manages all risk related to Assets and Liability of the Company. In the year under review, the ALCO had 12 meetings. The Chief Executive Officer is the Chairman of the ALCO which comprises 5 members of the Senior Management of the Company. Decisions made at ALCO meetings are apprised to the IRMC through the Head of Risk and Compliance.

Managing the cost of funds of the Company and ensuring that pricing reviews were carried out were some of the key decisions effected by the ALCO during the given period

Risk Management

2.4 Credit Committee

The Management Credit Committee was established during the latter part of 2020 in line with the Credit Policy. This Committee is chaired by the Chief Executive of the Company whilst the Head of Credit, Head of Business Development and Head of Recoveries were the approving members of the Committee. The Committee is responsible for the following:

- Acts as the first line of defence in credit
- Carries delegated power to assess and approve credit within the Board approved Credit Policy of the Company.
- Approves and monitors all credit products and programs and ensures that credit risk is managed within the risk appetite and business objectives of the Company.

Important credit decisions were apprised to the IRMC.

2.5 Risk Management Department (RMD)

The RMD functions independently and drives the risk management framework throughout the Company. It reports to the IRMC and ensures that identified risks are within the risk appetite of the Company and risk treatment is applied to mitigate the impact of risks. The RMD will also implement the Business Continuity Plan of the Company.

2.6 Risk Appetite

The Risk Appetite is set by the Board in line with the business objectives of the Company. The risk appetite will provide the acceptable level of risk that the Company is willing to take to achieve its business objectives and quantifiably expressed.

The performance of the risk limits set in the risk appetite is monitored by the RMD and reported to the Board via the risk assessment report on a monthly basis. The IRMC will review compliance to the risk appetite through the risk update provided on a quarterly basis.

3. Risk Management Framework and Principles

3.1 The Three Lines of Defence Model

The Company adopts the three lines of defence model in governing the responsibilities in managing risk incidents as outlined below in table 2,

Lines of Defence	Risk Control Function	Responsible person / Function
1 st Line of Defence	Each department within the Company will ensure that identifying, assessing, monitoring & reporting all risks associated within their respective area of responsibility	• Department Head / Internal Business functions
2 nd Line of Defence	Developing, implementing risk framework and monitoring activity will be carried out by Risk Management and Compliance Departments	• Head of Risk Management • RMD • ALCO • IRMC
3 rd Line of Defence	Ensuring that all internal controls implemented to mitigate risks are functioning accordingly by Internal Audit Function	• Head - Internal Audit (Outsourced) • Audit Committee (AC)

Table 2

Risk Management

3.2 Risk Policy and Risk Management Framework

The Risk policy and Risk Management framework is implemented by the RMD.

The policy and framework are developed in line with the guidelines provided by ISO 31000 – Risk Management and Axiata Group Enterprise Risk Management Framework.

3.2.1 Overview of the Risk Management Framework

The Risk Management framework involves a system of identifying risks, analysis of the risk in relation to its impact and likelihood, evaluating the risk, to identify and implement appropriate risk treatment and carrying out continuous follow up.

All risk incidents are recorded in the risk registers, monitored and reviewed on a continuous basis. The Company uses the Risk Register and the Risk Matrix as tools to implement its Risk Management Framework. The RMD carries out the Risk Assessment of the Company on a periodical basis which includes the review of internal controls.

Figure 2 provides an overview of the Risk Management Framework adopted by the Company.

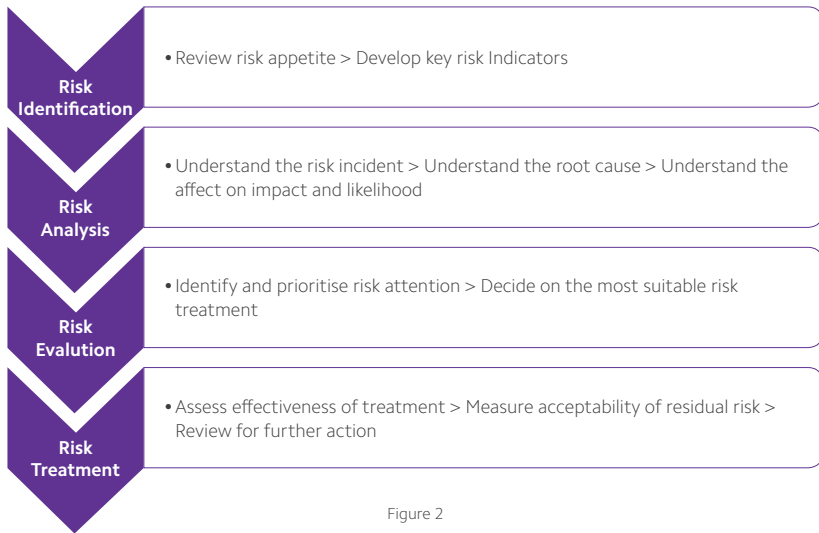


Figure 2

Key risks managed by the Company during the period under review are outlined below.

4. Credit Risk

The risk of financial loss arising due to the borrower or the counter party not meeting their financial commitments to the Company is known as Credit Risk.

The Company's credit portfolio consists of corporate and retail consumer customer segments. 70% of the loan book value consisted of the corporate segment as at 31 December 2020. During the year under review, the Company focused on managing any potential risks arising from the corporate segment of the portfolio due to the economic situation arising from COVID-19. Constant reviews of the corporate accounts were initiated including regular discussions with Relationship Managers of the corporates to ensure that the corporate customers were not affected by the pandemic. Hence, preventing any significant default customers from this segment. Certain businesses affected by the pandemic were offered moratorium in line with the relief measures of the Central Bank of Sri Lanka ('CBSL').

Further, all new corporate facilities are evaluated and screened through a stringent credit control process including the credit risk score being assigned to new applicants. High risk customer applications are not entertained and will be declined.

In addition, the consumer segment was provided with the moratorium mainly for leasing customers and individual borrowers affected by the pandemic. The Company also provided relief to this segment in providing penal interest waivers to encourage customers to pay off their due amounts.

The Company uses an inhouse developed business model for lending to the consumer segment which is developed using stringent selection criteria. The Company was able to manage and mitigate the risk by constantly reviewing the credit models used for granting lending limits for consumer loans, whilst also tightening the credit criteria for such loan applications based on such reviews.

The Company was also able to control the 6 months non-performing loan ratio to 8.3% as at 31 December 2020

4.1 Impairment Charges

The Company adopts the IFRS guidelines for impairment charges and they are calculated based on individual significant loans and collectively by grouping the loans. The individual loans are reviewed based on objective evidence and impairment is calculated based on the discounted cash flow model. Collective impairment charges are calculated by grouping the loans with similar loan characteristics.

5. Operational Risk

The losses arising due to the risk of failures of internal processes /systems and human errors or any external events is known as Operational Risk. In addition to financial losses, Operational Risk can result in reputational damage to the Company. Operational Risk can be controlled through effective internal controls and adequate training.

During the period under review, the Company's operational risk was controlled and was within acceptable level of the Risk appetite. There were no operational losses incurred during this period.

Effective internal controls were in place within the Company and each business unit is responsible in managing and mitigating Operational Risk in line with the three lines of defence model.

The Company has developed and implemented the Business Continuity Plan and an effective process of backing up of critical systems is in place and backup servers are located at different locations. The Information Security Policy was implemented by the Information Technology Department giving importance to customer data protection. Firewalls are in place and are being monitored for security threats.

In addition, the Risk Management Department carries out a quarterly assessment to identify any operational risks due to potential control lapses and measures are taken to rectify same.

In addition, the company engages Messrs. Moore Stephens Aiyar, Chartered Accountants as their internal auditors, and they provide an independent assurance on the effectiveness of the internal controls in the company to the Audit Committee.

Risk Management

6. Market Risk – Interest Rate Risk

Interest Rate risk is the financial loss incurred by the Company, due to interest rate gap between the interest rate paid to depositors of the Company and the interest rate earned by the Company from its borrowers.

The Company manages its Interest Rate risk by closely monitoring the interest gap on a regular basis and managing the pricing of the product proposition. The ALCO monitors the fluctuation in market rates and recommends pricing changes accordingly.

7. Liquidity Risk

Liquidity Risk is the risk associated with maintaining adequate levels of funding at reasonable cost for the Company.

This risk is mitigated by the ALCO decision on managing the liquidity position of the Company effectively and in line with Asset and Liability Management (ALM) Policy of the Company.

During the period under review, the Company derived its funding through equity and deposits only. There were no external borrowings made by the Company. The funding mix of the Company as at 31 December 2020 is given in figure 3 below.

Funding Mix as at 31 December 2020

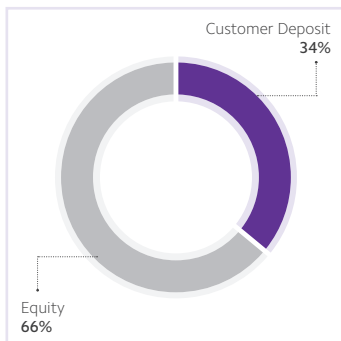


Figure 3

During the period under review, the Company was able to manage Liquidity risk effectively through ALCO decisions and by maintaining the cost of funds at reasonable rates despite challenges during the year with constant changes in the deposit interest rates.

The ALCO provides the approval for the appropriate funding mix to be maintained and the Company had not encountered funding related issues in the given period.

The Company maintained the liquid assets above the minimum requirement of the CBSL.

8. Compliance Risk

Risk arising from non-compliance to rules and regulations in the Country in which the company is established is referred to as Compliance Risk.

The Company complied with all CBSL requirements during the year under review. Table 3 below provides the compliance with key prudent requirements of the CBSL

CBSL Requirements	Company position as of 31 December 2020
a) Maintenance of Core Capital above 2Bn as of 31 December 2020	The Core Capital was Rs. 2.05Bn
b) Capital Adequacy Ratio (CAR) to be above 14%	CAR is 92.71%.
c) Minimum required amount of liquid asset	Complied, available Liquid Asset Rs. 1.89Bn
d) Single and Group borrower limits	Complied

Table 3

In addition, the Compliance Officer of the Company updates the Board on compliance with Anti Money Laundering and Terrorist Financing (AML/TF) regulations and provides a summary of the Company risk status on AML/TF risks.

Audit Committee Report

The Audit Committee (The Committee) is a formally constituted sub-committee of the Board of Directors (the Board). It reports to and is accountable to the Board.

Composition of the Committee

The Committee comprises of three (3) Non-Executive Directors, of whom two (2) are independent directors. The profiles of the members are given on pages 10 to 11.

The members of the Committee as at 31 December 2020 were:

1. Mr. Priyan Edirisinghe – Independent, Non-Executive Director (Chairman)
2. Mr. Roshaan Hettiaratchi – Independent, Non-Executive Director
3. Mr. Supun Weerasinghe - Non-Independent, Non-Executive Director

The Chairman of the Committee, Mr. Priyan Edirisinghe, is a Fellow Member of Institute of The Chartered Accountants of Sri Lanka.

The Company Secretary functions as the secretary to the Committee.

Meetings

The Committee held ten (10) meetings during the Year Ended 31 December 2020. The details of the attendance of the Committee members at these meetings are given below.

Name of Member	Attendance
Mr. Priyan Edirisinghe – Chairman	10/10
Mr. Roshaan Hettiaratchi	8/10
Mr. Supun Weerasinghe	4/10

The representatives of the Company's external auditors, Messrs. PricewaterhouseCoopers participated in three (3) meetings by invitation, and the representatives of Messrs. Moore Stephens Aiyar, Chartered Accountants, internal auditors of

the Company participated in three (3) meetings by invitation during the year ended 31 December 2020. The Chief Executive Officer and Head of Finance attended the meetings by invitation. The Senior Management of the Company too participated in the meetings from time to time on need basis.

During the year ended 31 December 2020, the Audit Committee and the Audit Partner of PricewaterhouseCoopers met twice without members of the Key Management Personnel of the Company, in order to facilitate confidential discussions between the two parties.

The Terms of Reference

The Committee has written Terms of Reference (ToR) and is empowered to examine any matters relating to the financial affairs of the Company and its internal and external audits. The ToR is regularly reviewed to ensure new developments relating to committee functions are addressed.

Functions of the Committee

The composition, roles and functions of the Committee are regulated by the Finance Companies (Corporate Governance) Direction No. 3 of 2008 on Directions, Rules, Determinations, Notices and Guidelines applicable to Licensed Finance Companies issued by the Central Bank of Sri Lanka and the Listing Rules issued by the Colombo Stock Exchange.

The Committee assists the Board in general oversight of financial reporting, internal controls and the functions relating to internal and external audits.

Activities for the year ended 31 December 2020

1. Financial Reporting

The Committee assisted the Board to effectively carry out its supervisory responsibilities by reviewing accounting and financial information of the Company, in order to monitor the integrity of its financial statements, annual report, accounts and periodical reports prepared for disclosure requirements.

Audit Committee Report

- The Committee reviewed the interim and annual financial statements including the acceptability and appropriateness of accounting policies, reasonableness of significant estimates and judgements.
- The Committee monitored the progress of implementation of SLFRS 9 on “Financial Instruments” which became effective from 1 January 2018. Development of relevant accounting policies, documentation of impairment methodology, classification of financial assets and measurements in line with the business model, development of Expected Credit Loss (ECL) model (which replaced the LKAS 39 – incurred loss model) and impact on retained earnings due to adoption of SLFRS 9 are amongst the series of activities pertaining to same. The external auditors independently validated the transition to SLFRS 9 and its impact on the Company’s financial statements during the period end audit.
- The Committee reviewed the policy decisions relating to the adoption of Sri Lanka Accounting Standards (SLFRSs / LKASs) applicable to the Company and will continue to monitor the compliance with relevant accounting standards.

2. Internal Controls over Financial Reporting

The Company is required to comply with Section 10 2) b) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and assess the effectiveness of internal control over financial reporting as at 31 December 2020.

The Statement of internal control over financial reporting is reviewed by the Committee prior to endorsement by the Board.

The Committee is satisfied that the financial reporting system is effectively designed to provide accurate, appropriate and timely information to the Board, regulatory authorities and management and the adequacy, efficiency and effectiveness of risk management measures, internal controls and governance processes are adequate to avoid, mitigate and transfer current and evolving risks.

3. Internal Audit

The Internal Audit function of the Company is outsourced to Messrs. Moore Stephens Aiyar, Chartered Accountants with due consideration to the level of independence, objectivity and proficiency of internal auditors in discharging the duties assigned, having identified its importance as “third line of defense” in adding value and improving operations through systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and internal controls.

The Committee continued to fulfill its mandate as per the ToR which is to review the adequacy of the scope and functions of the internal audit prior to commencement of the annual audit plan.

The Committee reviewed the findings by internal auditors during the period under review and the same was made available to the external auditors as well.

4. External Audit

Overseeing the appointment, compensation, resignation and dismissal of the external auditors is vested with the Committee. The functions are inclusive of the review of the external audit function, its costs and effectiveness and monitoring the external auditors’ independence to ensure that the engagement of the audit partner shall not exceed five (5) years and that the audit partner is not re-engaged for audit before the expiry of three (3) years from the date of completion of the previous term.

The following were among the activities carried out by the Committee during the year ended 31 December 2020.

- Discussion with external auditors on the scope of the audit, audit approach and procedures
- Review of the Management Letter along with the responses provided
- Two (2) meetings were held with the external auditors without the presence of Key Management Personnel of the Company in order to identify any incidents which require the notice of the Committee

Audit Committee Report

- Evaluation of external auditors based on the audit deliverables and the quality assurance initiatives and recommendations
- Review of the letter of representation provided by the Management to the external auditors.

Messrs. PricewaterhouseCoopers, Chartered Accountants were re-appointed as the external auditors of the Company at the Annual General Meeting held on 26 June 2020.

The independence and objectivity of the external auditors were reviewed by the Committee, which held the view that the services outside the scope of the statutory audit provided by the external auditors have not impaired their independence.

Having reviewed the effectiveness of the external auditors, the Committee has recommended to the Board, the appointment of PricewaterhouseCoopers as the external auditors of the Company for the financial year ending 31 December 2021, subject to the approval of Shareholders at the Annual General Meeting.

5. Annual Corporate Governance Report

The Company is required to comply with Section 10 2) j) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and publish an Annual Corporate Governance Report for the year ended 31 December 2020.

The findings of the Corporate Governance report were reviewed by the Committee and is consistent with the matters disclosed in the report on pages 21 to 39.

Reporting to the Board

The proceedings of the meetings of the Committee with adequate details of matters discussed are regularly reported to the Board.

Professional Advice

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

Conclusion

The Committee is satisfied that the Company's accounting policies, internal controls and risk management processes are adequate to provide reasonable assurance that the financial affairs of the Company are managed in accordance with accepted accounting standards.

On behalf of the Audit Committeee



Mr. Priyan Edirisinghe
Chairman – Audit Committee

30 April 2021

Nominating and Remuneration Committee Report

The Nominating and Remuneration Committee ('the Committee') is a formally constituted sub-committee of the Board of Directors ('the Board'). It reports to and is accountable to the Board.

Role of the Committee

The Committee reviews all significant human resource policies and initiatives. The Committee deliberates and recommends to the Board, annual increments and bonus plans of the Company based on corporate and individual performance. The Committee also reviews salary structures and terms and conditions of services to ensure compatibility with the market.

Further, the Committee selects, evaluates, and recommends to the Board, qualified individuals for election or appointment to the Board and to the senior management team.

Composition

The Committee comprises of three (3) non-executive directors, of whom a majority are independent directors. The Committee is chaired by Mr. Roshaan Hettiaratchi, who is an Attorney-at-Law and was appointed as the Chairman of the Committee on 29 August 2019.

The composition meets the requirements stipulated in the Listing Rules of the Colombo Stock Exchange. The Company Secretary functions as the Secretary to the Committee.

The Members of the Committee as at 31 December 2020 were:

1. Mr. Roshaan Hettiaratchi - Independent, Non- Executive Director (Chairman)
2. Mr. Priyan Edirisinghe – Independent, Non-Executive Director
3. Mr. Supun Weerasinghe – Non-Independent, Non- Executive Director

Meetings

The Committee held five (5) meetings during the period under review. The meeting attendance of the members is set out in the table below:

Name of Member	Attendance
Mr. Roshaan Hettiaratchi – Chairman	4/5
Mr. Priyan Edirisinghe	5/5
Mr. Supun Weerasinghe	1/5

The Chief Executive Officer attended the committee meetings by invitation.

The Board is apprised of the significant issues discussed, recommended and approved by the Committee and considers and adopts, if thought fit, the recommendations of the Committee.

Summary of Principal Activities of the Committee During the Period

- Approval of the disbursement of the Corporate Performance Bonus for 2019
- Approval of changes to the Board
- Approval for the appointment of Key Management Personnel
- Approval for the commission structure for sales relationship officers for the Retailer Assistance Scheme
- Approval of the organization structure and Key Management Personnel of the Company

Conclusion

The Committee is satisfied with the remuneration policies and practices of the Company carried out during the period under review.

On behalf of the Nominating and Remuneration Committee.



Mr. Roshaan Hettiaratchi

Chairman – Nominating and Remuneration Committee

30 April 2021

Related Party Transactions Review Committee Report

The Related Party Transactions Review Committee ('the Committee') was established by the Board of Directors ('the Board') in terms of the Listing Rules of the Colombo Stock Exchange ('the Rules') and the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka ('the Code'). The Committee is a formally constituted sub-committee of the Board and reports to the Board.

Composition

The Committee consists of the following members whose profiles are given on pages 10 to 11. The composition below is in compliance with the provisions of the Rules regarding the composition of the Committee.

1. Mr. Priyan Edirisinghe – Independent, Non-Executive Director (Chairman)
2. Mr. Roshaan Hettiaratchi – Independent, Non-Executive Director
3. Mr. Supun Weerasinghe - Non-Independent, Non-Executive Director

The Company Secretary functions as the Secretary to the Committee.

Meetings

The Committee held 9 meetings during the year ended 31 December 2020. Details of attendance of the members at these meetings are given below.

Name of Member	Attendance
Mr. Priyan Edirisinghe – Chairman	9/9
Mr. Roshaan Hettiaratchi	8/9
Mr. Supun Weerasinghe	1/9

Terms of Reference

The role and functions of the Committee are regulated by the Code and the Rules. The Terms of Reference (ToR) of the Committee was formulated and approved by the Board on 16 June 2016. The ToR was revised by the Committee on 26 September 2019.

Role and Responsibilities

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

1. Formulate and review the 'Related Party Transactions Policy' consistent with the provisions of the Code and the Rules for adoption by the Board.
2. Review all proposed Related Party Transactions (RPTs) in compliance with the provisions of the Code and the Rules.
3. Advise the Board on making immediate market disclosures and disclosures in the annual report where necessary, in respect of RPTs, in compliance with the provisions of the Code and the Rules, Procedures and Directives/ Guidelines adopted.
4. Ensure that Procedures/ Directives/ Guidelines are issued to compel all RPTs to be referred to the Committee for review.

The primary objective of the Committee is to ensure good corporate governance within the Company through;

- Avoiding favorable treatments to Related Parties in granting credit facilities, offering interest rates for deposits, providing and obtaining financial and non-financial services.
- Implementing regulations relating to RPTs issued by the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.
- Ensuring that the interests of shareholders are considered by a listed entity when entering RPTs.
- Ensuring that there are appropriate safeguards in place to prevent the Directors, the Chief Executive Officer or Substantial Shareholders taking unfair advantage of their positions.

Related Party Transactions Review Committee Report

Related Party Transactions for the year ended 31 December 2020 of related parties (as defined in LKAS 24 - 'Related parties Disclosures') with the Company are set out in Note 41 to the financial statements.

Activities during the year ended 31 December 2020

- Declarations were obtained from each Director/ Key Management Personnel of the Company for the purpose of identifying parties related to them.
- All recurrent RPTs are submitted by Management on a quarterly basis to the RPTRC for consideration and review.
- Recurrent and non-recurrent RPTs were reviewed and approved by the Committee prior to the transaction being entered into or if the transaction is expressed to be conditional on such review, prior to the completion of the transaction and the recommendation communicated to the Board for consideration.

The Company is satisfied that all RPTs reviewed by the Committee during the year ended 31 December 2020 were in compliance with the Rules.

Related party transaction principles were at arm's length terms and not prejudicial to the interest of the Company and its minority shareholders and the observation of the Committee have been duly communicated to the Board.

On behalf of the Related Party Transactions Review Committee



Mr. Priyan Edirisinghe

Chairman – Related Party Transaction Review Committee

30 April 2021

Integrated Risk Management Committee Report

Role of the Committee

The Integrated Risk Management Committee ('The Committee') is a formally constituted sub-committee of the Board of Directors ('the Board'). It reports to and is accountable to the Board.

The primary role of the Committee is to assess all risks, i.e., credit, market, liquidity, operational and strategic risks of the Company monthly through appropriate risk indicators and management information. The Committee reviews the adequacy of management level committees such as the Asset-Liability Committee (ALCO) and the Management Credit Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.

The Terms of Reference of the Committee, as formulated by the Board, is reviewed and the effectiveness of the Committee is evaluated annually by each member of the Committee.

Composition

The Committee comprises of three (03) non-executive directors, of whom a majority are independent directors and 3 Ex-officio members. The Committee is chaired by Mr. Roshaan Hettiaratchi. The composition meets the requirements stipulated in the financial regulations issued by Central Bank of Sri Lanka ('the CBSL'). The Company Secretary functions as the Secretary to the Committee.

The members of the Committee as at 31 December 2020 were:

1. Mr. Roshaan Hettiaratchi - Independent, Non - Executive Director (Chairman)
2. Mr. Priyan Edirisinghe - Independent, Non - Executive Director
3. Mr. Supun Weerasinghe – Non-Independent, Non - Executive Director
4. Mr. Asanga Priyadarshana – Non - Independent, Executive Director (Chief Executive Officer)
5. Ms. Yasoda Sewwandi – Head of Finance - *Ex-Officio*
6. Mr. Thissil Vincent – Head of Risk Management - *Ex-Officio*

Meetings

The Committee held 6 meetings (4 quarterly meetings and 2 additional meetings) during the financial year under review. The meeting attendance of the members are set out in the table below;

Name of Member	Attendance
Mr. Roshaan Hettiaratchi	6/6
Mr. Priyan Edirisinghe	6/6
Mr. Supun Weerasinghe	0/6
Mr. Asanga Priyadarshana	6/6
Ms. Hasuni Gayasha (former Head of Finance) – up to 30.09.2020	3/3
Ms. Yasoda Sewwandi – from 01.10.2020	3/3
Mr. Thissil Vincent	6/6

The Head of Operations, Manager Recoveries and Manager – Legal, Regulatory & Compliance attended these meetings by invitation.

The Board is apprised of the significant issues deliberated, considered and the recommendations adopted by the Committee.

Summary of Principal Activities of the Committee during the Period

During the year under review, the Committee attended to the following principal activities:

- Directed the Company on proactive measures to be taken with regard to credit risks arising due to the economic challenges during the year.
- Reviewed and approved the Risk Policy, Credit Policy and Asset & Liability Management Policy of the Company.
- Assessed risks affecting the Company i.e., Compliance risk, Credit risk, Operations risk and Money Laundering risk and made recommendations to the Management on mitigating the impact of the same.

Integrated Risk Management Committee Report

- Assessed the impact of the moratoriums provided to customers during the year under review and advised the Management on ensuring that the moratoriums were provided to deserving customers.
- Reviewed the decisions taken by the ALCO on a quarterly basis and evaluated the performance of the ALCO. Further, ensured that the Company had sufficient liquidity and did not encounter liquidity risk during the year under review.
- Provided guidance to the Company on ensuring that the new loans that were provided were within the risk appetite of the Company and ensured that the credit risk was minimized through a quality recovery mechanism.
- Directed the Company on meeting the CBSL Core Capital requirement by 1 January 2021.

The following include other key routine activities carried out by the Committee during the year under review:

- a) Ensured that the reported risks were within the risk appetite of the Company as per the Risk Policy of the Company

- b) Reviewed the financial performance of the Company
- c) Reviewed the list of top depositors and borrowers of the Company

Conclusion

The Committee is satisfied that the overall Enterprise Risk Management framework adopted by the Company is in line with the Risk Policy of the Company and the financial regulations issued by the CBSL.

On behalf of the Integrated Risk Management Committee.



Mr. Roshan Hettiaratchi

Chairman – Integrated Risk Management Committee

30 April 2021

Annual Report of the Board of Directors for the Year ended 31 December 2020

The Board of Directors of Dialog Finance PLC (‘the Company’) is pleased to present its Annual Report on the State of Affairs of the Company for the year ended 31 December 2020, together with the audited financial statements of the Company.

This report contains the information required in terms of the Companies Act, No. 07 of 2007, Finance Business Act, No. 42 of 2011 and Directions issued there under and the Listing Rules of the Colombo Stock Exchange.

The Company

The Company bearing the registration No. PB 765 PQ, is a public limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at No. 475, Union Place, Colombo 02 and the principal place of business is located at No. 57 Srimath Anagarika Dharmapala Mawatha, Colombo 03.

The Company was incorporated on 25 November 1981, under the Companies Ordinance (Chapter 145), bearing the name Silvereen Finance Company Limited. The Company changed its name to People’s Merchant Finance Company Limited on 30 September 2009 and Capital Alliance Finance Limited on 16 September 2011. The Company was re-registered under the provisions of the Companies Act, No. 07 of 2007 on 22 November 2011 and was accordingly renamed as Capital Alliance Finance PLC. On 22 December 2015, the Company changed its name to Colombo Trust Finance PLC and following the acquisition by Dialog Axiata PLC, the Company changed its name to Dialog Finance PLC on 15 September 2018.

The Company is a Licensed Finance Company under the Finance Business Act, No. 42 of 2011 and the ordinary shares of the Company were listed on the Colombo Stock Exchange (“CSE”) on 4 October 2011.

Principal Business Activities

The Company provides a comprehensive range of financial services encompassing accepting deposits, margin trading facilities, debt factoring, leasing, revolving loans and business / personal loans.

Change of Balance Sheet Date

The Company changed its balance sheet date from 31 March to 31 December in the prior year, in order to align balance sheet date of the Company with that of its holding company, Dialog Axiata PLC.

Financial Statements

The financial statements of the Company as set out on pages 68 to 137, comprise of the statement of financial position, statement of profit or loss and comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements of the Company. They have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs & LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, in compliance with the requirements of the Companies Act, No. 07 of 2007 (“the Companies Act”) and the Finance Business Act, No. 42 of 2011.

The aforementioned financial statements for the year ended 31 December 2020 are duly signed by the Chief Executive Officer, Head of Finance and two other Directors of the Company.

Independent Auditor’s Report

The Independent Auditors of the Company are Messrs. PricewaterhouseCoopers (“PwC”), Chartered Accountants. PwC carried out the audit on the financial statements of the Company for the year ended 31 December 2020 and their report on the financial statements, is set out on pages 63 to 67.

Annual Report of the Board of Directors for the Year ended 31 December 2020

Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are given on pages 72 to 93.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the financial statements of the Company to reflect a true and fair view of its state of affairs. The Directors are of the view that these financial statements appearing on pages 68 to 137 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act, the Finance Business Act, No.42 of 2011 and amendments thereto and the Listing Rules of the Colombo Stock Exchange.

The detailed Statement of Directors' Responsibility for Financial Reporting is set out on page 62 of this Annual report.

Property, Plant and Equipment (PPE)

The details of property, plant & equipment are given on Note 27 to the financial statements.

[A]. Capital Expenditure

The total capital expenditure made on acquiring property, plant and equipment and intangible assets of the Company amounted to Rs. 72.50Mn (For the nine months ended 31 December 2019 – Rs. 75.37Mn) and the details are given in Notes 27 and 28 to the financial statements.

[B]. Capital Commitments

The capital expenditure approved and contracted for, as at the reporting date is given in Note 37 to the financial statements.

Market Value of Freehold Properties

The Directors are of the view that the carrying values of properties stated in Note 27.3 to the financial statements reflect the fair value.

Reserves

The aggregate value of reserves and their composition are set out in the Statement of Changes in Equity of the Company on page 70 to the financial statements.

[A] Statutory Reserve Fund

The statutory reserve fund is a capital reserve which consists of profits transferred as required by section 3 (b) (ii) of Central Bank Direction No. 1 of 2003.

Stated Capital

The Stated Capital of the Company as at 31 December 2020 amounted to Rs. 2,374,509,340 consisting of 108,783,362 ordinary shares (31 December 2019 – Rs. 1,673,164,542 consisting of 91,336,974 ordinary shares).

The details of the shares issued are given on Note 33 to the financial statements.

A]. Issue Of Shares

- During the period under review, the Company issued 17,446,388 ordinary shares by way of a Rights Issue in the proportion of seventeen (17) Ordinary Shares for eighty-nine (89) Ordinary shares held in the capital of the Company and shares were listed on CSE on 3 June 2020. The Company raised LKR 701,344,798 from the Rights Issue and increased the Stated Capital of the Company.

Annual Report of the Board of Directors for the Year ended 31 December 2020

[B]. Shareholdings of the Company

The parent company, Dialog Axiata PLC, held 99.05% of the Ordinary shares in issue of the Company as at 31 December 2020. The main shareholders of the Company and corresponding holding percentages are set out below.

Name of Shareholder	31 December 2020	
	No of Shares	% Holding
1. Dialog Axiata PLC	107,755,303	99.05%
2. Mr.R.C.J Goonewardene	217,065	0.20%
3. J.B.Cocoshell (Pvt) Ltd	209,496	0.19%
4. Mrs. A. A. Raaymakers	25,000	0.02%
5. Mr. R.E Rambukwelle	22,476	0.02%
6. Mr.P.S.M Fernando	20,000	0.02%
7. Mr.S.R.S. De Saram	20,000	0.02%
8. People's Leasing & Finance PLC / C.D.Kohombanwickramage	17,820	0.02%
9. Mr.B.C.N Mendis	14,727	0.01%
10. Mr.B.C.V Mendis	13,727	0.01%
11. Mr.S.L Paranamange	13,700	0.01%
12. Mr. G.D.M. Ranasinghe/ Mrs. O.R.K. Ranasinghe (Joint)	13,000	0.01%
13. Mr.R.L.G Fernando	12,000	0.01%
14. Mr.T Thiruththanigainathan	11,844	0.01%
15. Mr.N.S Wijesekara	11,813	0.01%
16. Mr.K.N.R.L. Nandasiri / Mr.T.B.R. Sujeewa Tennakoon Banda (Joint)	10,900	0.01%
17. Mr.O.W.D Yasapala	10,516	0.01%
18. Mr.H.V.S.M Navaratne	10,000	0.01%
19. Mr.T.D Mahaliyana	9,940	0.01%
20. Citizens Development Business Finance PLC/ K.D.C. Somalatha and K Nandasiri	8,414	0.01%
Others	355,621	0.33%
Total	108,783,362	100.0%

[C]. Minimum Public Holding Requirement

The percentage of shares held by the public as at 31 December 2020 was 0.95%, in the hands of 679 public shareholders (31 December 2019 – 1.12% in the hands of 741 public shareholders)

The Company is not compliant with the Minimum Public Holding requirement under option 2 of Rule 7.13.1(b) of the Listing Rules of the Colombo Stock Exchange (“CSE”). Accordingly, the Company was transferred to the Second Board on 10 February 2020.

[D]. Equitable Treatment to Shareholders

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

Board of Directors

The Board of Directors of the Company comprise of 6 Directors (31 December 2019- 6) with wide financial and commercial knowledge and experience.

The classification of Directors into Executive (ED), Non-Executive (NED), Independent (IND) and Non-Independent Directors (NID) is given against the names as per Listing Rules and Corporate Governance Rules of the CSE and the Finance Companies Direction No.03 of 2008 and subsequent amendments thereto issued by the Central Bank of Sri Lanka.

Annual Report of the Board of Directors for the Year ended 31 December 2020

The Directors of the Company as at 31 December 2020 were;

Name	Classification (NED/NID/ED)	Remarks (Appointed date, change of directorate to chairman etc)
Ms. Renuka Fernando (Chairperson)	NID/NED	22 May 2020
Mr. Supun Weerasinghe	NID/NED	9 November 2017
Mr. Priyan Edirisinghe	IND/NED	19 January 2016
Mr. Roshan Hettiaratchi	IND/NED	9 February 2016
Mr. Sheyantha Abeykoon	NID/NED	9 November 2017
Mr. Asanga Priyadarshana*	NID/ED	6 April 2018

Dr. Hans Wijayasuriya, Chairman/Non-Independent, Non-Executive Director, stepped down from the Board of Directors of the Company with effect from 22 May 2020 and Ms. Renuka Fernando was appointed as the Chairperson/Non-Independent, Non-Executive Director of the Company with effect from 22 May 2020.

*Mr. Asanga Priyadarshana resigned as the Chief Executive Officer and Executive Director of the Company with effect from 31 January 2021. Mr. Nazeem Mohamed was appointed as the Chief Executive Officer of the Company with effect from 1 February 2021.

Board Subcommittees

The Board, while assuming the overall responsibility and accountability for the management oversight of the Company, has also appointed Board Sub Committees to ensure that the activities of the Company are conducted with the highest ethical standards and the best interest of its stakeholders at all times. The Board has formed many sub committees including the following.

- Audit Committee
- Nominating and Remuneration Committee
- Integrated Risk Management Committee
- Related Party Transactions Review Committee

Directors' Interest in Contracts and Proposed Contracts

Directors of the Company have made necessary declarations of their interest in contracts or proposed contracts, in terms of the Section 192(1) and 192(2) of the Companies Act. These interests have been recorded in the interest register which is available for inspection in terms of the Companies Act. The Directors have no direct or indirect interest in a contract or a proposed contract with the Company other than those disclosed.

[A]. Directors' Interest In Shares of the Company

None of the Directors and their close family members held any shares in the Company as at 31 December 2020. (As at 31 December 2019 – Nil).

Directors' Remuneration

The details of Directors' emoluments and other benefits paid in respect of the Company during the year under review are given in Note 41 to the financial statements.

Related Party Transactions

The Directors have disclosed transactions if, any that could be classified as related party transactions in terms of Sri Lanka Accounting Standards – LKAS 24 (Related Party Disclosure) which is adopted in the preparation of the financial statements. The details of all related party transactions carried out during the period are disclosed in Note 41 to the financial statements.

Outstanding Litigation

In the opinion of the Directors and in consultation with the Company lawyers, litigation currently pending against the Company does not have a material impact on the reported financial results, or future operations, of the Company. Details of litigation pending against the Company are given in Note 37.2 to the financial statements.

Annual Report of the Board of Directors for the Year ended 31 December 2020

Statutory Payments

The Directors, to the best of their knowledge and having made adequate inquiries from management, confirm that all taxes, duties, levies and statutory payments payable by the Company on behalf of and in respect of the employees of the Company as at the date of the statement of financial position have been duly paid, or where relevant, have been provided for, except as disclosed in Note 37 to the financial statements.

Risk Management and Internal Control

[A]. Internal Controls

The Directors of the Company have taken reasonable steps to safeguard the financial operations of the Company to prevent and detect fraud and any other irregularities. For this purpose, the Directors consider that the system of internal controls is appropriately designed for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the period and it is being regularly reviewed by the Board of Directors. The Directors further confirm that this is an on-going process to identify, evaluate and manage significant business risk.

[B]. Corporate Governance

The Directors of the Company are committed towards maintaining an effective Corporate Governance Framework and implementing processes with respect to the management and operations of the Company in order to develop and nurture sustainable growth and long-term relationships with key stakeholders. The Directors confirm that the Company is compliant with Section 7.10 of the Listing Rules of the CSE and the Directions on Corporate Governance issued by the Central Bank of Sri Lanka (CBSL).

Environmental Protection

The Company makes every endeavor to comply with the relevant environmental laws, regulations and best practices applicable in the country. After making adequate inquiries from the management, the Directors are satisfied that the Company operates in a manner that minimises the detrimental effects on the environment and provides products and services that have a beneficial effect on customers and the communities within which the Company operates.

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

Donations

The Company has made donations amounted to LKR 75,000 during the year ended 31 December 2020. (For the nine months ended 31 December 2019 – Nil).

Taxation

Provision for taxation has been computed in accordance with income tax legislations and applicable tax rates are given in Note 15 to the financial statements.

Dividends

The Directors have not recommended a dividend for the year ended 31 December 2020.

Going Concern

The Directors after making necessary inquiries and reviews including reviews of the budget for the ensuing year, capital expenditure requirements, future prospects and risks and cash flows are satisfied that the Company has adequate resources to continue operations into the foreseeable future. Accordingly, the going concern basis is adopted in preparing the financial statements of the Company.

Annual Report of the Board of Directors for the Year ended 31 December 2020

Auditors

The Independent Auditors of the Company during the year were Messrs. PricewaterhouseCoopers, Chartered Accountants.

The audit fees to the Auditors Messrs. PricewaterhouseCoopers for the year ended 31 December 2020 amounted to Rs. 1,020,600 (9 months ended 31 December 2019 – Rs. 945,000/-). In addition to the above, Rs. 663,125 was payable for the year ended 31 December 2020 (9 months ended 31 December 2019 – Rs. 531,000/-) for other permitted services.

Based on the declaration provided by Messrs. PricewaterhouseCoopers, and as far as the Directors are aware, the Independent Auditors do not have any relationship or interest with the Company that would impair their independence and objectivity.

Messrs. PricewaterhouseCoopers have expressed their willingness to continue as the Independent Auditors of the Company and a resolution proposing their re-appointment, as Auditors will be proposed at the forthcoming Annual General Meeting.

Employment Policy

The Company believes that its potential rests on the skilled & competent workforce in the rapidly changing environment. As at 31 December 2020, the number of employees on the payroll of the Company was 44 (31 December 2019 – 164).

Modern Human Resources Management practices are adopted respecting each and every individual and providing equitable opportunities for career advancement for all employees. The Company complies with its policy of non-discrimination in terms of gender, race or religion in the matter of employment.

Events after the Reporting Period

No circumstances have arisen since the Statement of Financial Position date which would require adjustments to, or disclosure in the accounts other as disclosed in Note 38 to the financial statements.

By order of the Board



Ms. Renuka Fernando
Chairperson



Mr. Priyan Edirisinghe
Director



Ms. Viranthi Attygalle
Company Secretary

Colombo
18 February 2021

Directors' Statement on Internal Controls Over Financial Reporting

1. Purpose

The Board of Directors ('the Board') of Dialog Finance PLC ('the Company') presents this report on Internal Controls over Financial Reporting in compliance with the Finance Companies (Corporate Governance) Direction No.03 of 2008, Section 10 (2) (b), as amended by the Direction No. 06 of 2013.

2. Responsibility

The Board is responsible for the implementation of an adequate and effective internal control mechanism and the continuous reviewing of its design and effectiveness. An ongoing process has been established within the Company to identify, evaluate and manage the significant risks faced by the Company which is inclusive of enhancing the system of Internal Controls over Financial Reporting as and when there are changes to the business environment or regulatory guidelines. These processes are regularly reviewed by the Board and Board - appointed sub committees.

The said design and effectiveness of internal control processes are to maintain proper accounting records and generate reliable financial information, safeguard assets of the Company, eliminate the risk of failure to achieve business goals and objectives of the Company. Such systems provide only reasonable but not absolute assurance against errors and material misstatement of management and financial information and records or against financial loss or fraud.

The Board is satisfied that the system of internal controls over financial reporting which is in place is sound and adequate to obtain reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory guidelines. Such systems are designed to manage, rather than eliminate, the risks identified to acceptable levels. Therefore, the systems implemented can provide only reasonable and not absolute assurance against the occurrence of any material misstatement and loss. The management of the Company formulates required policies and

procedures on risk and control to identify and assess risks faced, and in the design, operation and monitoring of suitable internal control to mitigate and control these risks.

3. Key Features of the Process Adopted in Applying and Reviewing the Design and Effectiveness of the Internal Control System over Financial Reporting

- **Scope of Board Appointed Sub Committees** - Board sub committees assist the Board in evaluating the effectiveness of the Company's daily operations and that it is in conformity with corporate objectives, strategies and annual budgets as well as with the policies and directions approved by the Company.
- **Internal Audit Function** - The Company has outsourced the internal audit function to Messrs. Moore Stephens Aiyar, Chartered Accountants. The annual audit plan is reviewed and approved by the Audit Committee. The audit procedures are designed in such a way to ensure compliance with policies and procedures using samples and rotational procedures. The internal auditors provide independent and objective audit reports, highlighting significant findings on non-compliance. The frequency of such audits is determined based on the level of risk assessment.
- **Role of Audit Committee**
 - Reviews the significant audit findings by internal and external auditors, regulatory authorities and management of the Company. The comments made by the external auditors in connection with the internal control system over financial reporting in previous years through issue of management letters were reviewed during the period and appropriate steps were taken to address and rectify the concerns raised. The recommendation which will be made by the external auditors for the year ended 31 December 2020, in connection with the internal control over financial reporting will be dealt with in the future.

Directors' Statement on Internal Controls Over Financial Reporting

- Reviews whether appropriate infrastructure is placed within the Company and senior officers have been made responsible for collating procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Company.
- Ensures the adequacy and effectiveness of internal audit functions of the Company referring to the scope and required quality. Activities done by the Audit Committee are set out in the Audit Committee Report on pages 46 to 48.

• Implementation of Accounting Standards and Other Regulatory Changes

- The Company adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. Based on the feedback received from the external auditors, internal auditors, regulators and the Audit Committee, the aforementioned Accounting Standards were further strengthened during period from 2013 to 2020.
- Necessary steps were taken by the Company to further review the requirements of the Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) and SLFRS 15 (Revenue from Contracts with Customers). Designing of processes and controls, implementation of models and training and awareness sessions to stakeholders (including the Board and Senior Management) were made. The Audit Committee continually advises the management on the strengthening of processes and controls required in management information systems to maintain the level of compliance with SLFRS 9 and related disclosures.
- The Company adopted SLFRS 16 – Leases during the previous financial year and necessary steps were taken to assess its impact on the financial statements and to design suitable internal controls.

• Review of Procedure Manuals

- The Company documented procedures pertaining to these new requirements and updated the relevant procedure manuals as and when necessary.

4. Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide a reasonable assurance regarding the reliability of the financial reporting system of the Company and the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements of the Central Bank of Sri Lanka.

5. Review of the Statement by External Auditors

The external auditors, Messrs.

PricewaterhouseCoopers have reviewed the above Directors' Statement of Internal Controls over Financial Reporting included in the Annual Report for the Financial Year Ended 31 December 2020 and reported to the Board that nothing has come to their attention that causes the Board to believe that the statement is inconsistent with their understanding of the processes adopted by the Board in the design and effectiveness of the Internal Control over Financial Reporting of the Company.

By order of the Board



Ms. Renuka Fernando
Chairperson



Mr. Priyan Edirisinghe
Chairman – Audit Committee

Colombo
26 March 2021

Directors' Responsibility for Financial Reporting

The responsibility of Directors in relation to the Financial Statements of Dialog Finance PLC ("the Company") is set out in the following statements. The responsibility of the Independent Auditor in relation to the financial statements prepared in accordance with the Companies Act, No.07 of 2007 ("the Companies Act"), is set out in the Independent Auditor's Report on pages 63 to 67.

The financial statements comprise of the following :

- the statement of financial position, which presents a true and fair view of the state of affairs of the Company as at 31 December 2020,
- the statement of profit or loss and other comprehensive income, which present a true and fair view of the profit or loss and/or other comprehensive income of the Company for the year ended 31 December 2020;
- Statement of changes in equity, Statement of cash flow and Notes to the financial statements.

In preparing these financial statements, the Directors have ensured that:

- Appropriate accounting policies have been selected and applied in consistent manner and material departures, if any, have been disclosed and explained;
- All applicable accounting standards, as relevant, have been followed;
- Reasonable and prudent judgements and estimates have been made so that the form and substance of transactions are properly reflected;
- Information required by the Companies Act, Finance Business Act No. 42 of 2011 and the Continuing Listing Rules of the Colombo Stock Exchange has been disclosed.

The Directors are satisfied that the Company has adequate resources to continue in operation and justify applying going concern principle in the preparation of financial statements.

The financial statements of the Company have been certified by the Head of Finance, the officer responsible for the preparation and the Chief Executive Officer and have been signed by two Directors on 18 February 2021 in conformity with the requirements of the Companies Act.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company 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.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known statutory dues as were due and payable by the Company as at the date of the statement of financial position have been paid, or where relevant provided for, except as disclosed in Note 37 to the Financial Statements covering contingent liabilities.

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

By Order of the Board



Ms. Viranthi Attygalle
Company Secretary

Colombo
18 February 2021

Independent Auditor's Report



To the Shareholders of Dialog Finance PLC

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Dialog Finance PLC ("the Company") as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

What we have audited

The financial statements of the Company, which comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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T U Jayasinghe FCA, H P V Lakdeva FCA, M D B Boyagoda FCA, Ms W D A S U Perera ACA

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Independent Auditor's Report

To the Shareholders of Dialog Finance PLC (Contd.)

Report on the audit of the financial statements (Contd.)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of loans and advances Refer to the accounting policy Section 5.3: Impairment of financial assets and Notes 10 and 22 to the financial statements.</p> <p>As at 31 December 2020, total gross amount of loans and advances amounted to LKR 879 Million, with a total allowance for impairment of LKR 73 Million. Total net amount of loans and advances contribute 25% to the total assets.</p> <p>The Company uses the Expected Credit Loss model (ECL) to determine the impairment allowance for loans and advances to customers. The impairment of loans and advances using the ECL model was considered as a key audit matter due to factors such as:</p> <ul style="list-style-type: none"> • The ECL model involves complex calculations with key variables requiring significant management judgment. • The magnitude of the reported amounts of loans and advances to customers and the impairment allowances thereof. • The determination of loss rates on a number of new products being based on limited historical information. 	<p>The audit procedures performed to assess the adequacy of the impairment allowance for credit losses on loans and advances to customers in line with SLFRS 9 adopted, included the following:</p> <ul style="list-style-type: none"> • Understanding, evaluating and testing the design and operating effectiveness of controls in the lending and credit risk mitigation process; • Assessing the appropriateness of the criteria used by management to determine whether customer credit facilities are impaired; • Assessing the appropriateness of the design and implementation of the ECL model, including the reasonableness of the significant assumptions made by management and the quality of observable data, which included, cash flow estimates, discount rates and expected recoveries when defaults occur; • Comparing the macro-economic and other forward-looking information used and updated by the management, against reliable publicly available information of the current economic environment; • Checking the underlying calculations and data on a sample basis for accuracy and completeness; • Assessing the accuracy and sufficiency of disclosures relating to impairment allowance for credit losses on loans and advances to customers as at the year end. <p>Based on the procedures performed above, the assumptions and judgments made by the management was considered to be reasonable.</p>

To the Shareholders of Dialog Finance PLC (Contd.)

Report on the audit of the financial statements (Contd.)

Key audit matter	How our audit addressed the key audit matter
<p>Recognition of deferred tax asset on tax losses carried forward. Refer to the accounting policy Section 5.16 (a): Income tax and Notes 15 and 29 to the financial statements.</p> <p>The net deferred tax asset as at 31 December 2020 amounted to LKR 124 Million with a deferred tax asset on carried forward tax losses of LKR 123 Million. Additional deferred tax asset recognised and credited in the statement of profit or loss and other comprehensive income during the year relating to the carried forward tax losses amounted to LKR 112 Million.</p> <p>The recognition of deferred tax assets on tax losses carried forward was considered as a key audit matter due to factors such as:</p> <ul style="list-style-type: none"> • The history of recent losses requiring convincing other evidence that sufficient taxable profit will be available in the future against which the unused tax losses can be utilized before the time period on carry forward tax losses expire. • The magnitude of the reported amounts in the statement of financial position as net deferred tax assets and in the statement of profit or loss and other comprehensive income as income tax reversal. • Estimation of future taxable profits which involves significant management judgment and assumptions. 	<p>The audit procedures performed to assess the recognition of the deferred tax asset arising on tax losses carried forward, included the following:</p> <ul style="list-style-type: none"> • Evaluating the control environment relating to the deferred tax calculation process by confirming the independent preparation and review of the calculation; • Checking the data used in the calculation by agreeing to the future profit forecasts against the board approved business plans and projections; • Agreeing the tax rates used to the substantially enacted tax rates applicable to the Company; • Checking the reasonability of the business plans by considering the past performance against business plans relating to prior periods, worst case scenarios presented by management and sensitivity analysis; • Assessing the consistency of the underlying assumptions used and testing the arithmetical accuracy of the calculation; • Understanding management’s assessment on utilisation of the unused tax losses against future taxable profits that would be available by discussion with those charged with governance and the senior management; • Assessing the accuracy and sufficiency of disclosures relating to the deferred tax asset in the financial statements. <p>Based on the procedures performed, the judgments and estimates made by the management were considered to be reasonable.</p>

Independent Auditor's Report

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 31 December 2020 ("the Annual Report") (but does not include the financial statements and our auditor's report thereon). The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

To the Shareholders of Dialog Finance PLC (Contd.)

Report on the audit of the financial statements (Contd.)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act, No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.



CHARTERED ACCOUNTANTS

CA Sri Lanka membership number: 2857

Colombo
18 February 2021

Statement of Profit or Loss and Other Comprehensive Income

<i>(All amounts in Sri Lanka Rupees thousands)</i>	Note	Year ended 31 December 2020	9 months ended 31 December 2019
Interest income		214,700	198,179
Less: Interest expense		(67,090)	(48,102)
Net interest income	6	147,610	150,077
Fee and commission income		1,961	60,043
Less: Fee and commission expenses		-	-
Net fee and commission income	7	1,961	60,043
Net gains from trading	8	283	379
Other operating income	9	18,846	9,490
Total operating income		168,700	219,989
Less: Impairment charges and other losses	10	(63,339)	(105,901)
Net operating income		105,361	114,088
Less: Operating expenses			
Personnel expenses	11	(136,865)	(125,902)
Depreciation and amortisation	12	(41,099)	(28,244)
Other expenses		(113,696)	(103,718)
Operating loss before taxes on financial services	13	(186,299)	(143,776)
Less: Taxes on financial services	14	-	-
Loss before tax for the year / period		(186,299)	(143,776)
Income tax reversal	15	86,780	110
Loss for the year / period		(99,519)	(143,666)
Basic / diluted loss per share for losses attributable to the ordinary equity holders of the Company (Rs.)	16	(0.98)	(1.61)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
- changes in the fair value of equity investments at fair value through other comprehensive income		118	1,634
- remeasurement of defined benefit obligation		(374)	(192)
- deferred tax effect on other comprehensive income		92	(110)
Other comprehensive income, net of tax		(164)	1,332
Total comprehensive income for the year / period, net of tax		(99,683)	(142,334)

The notes on pages 72 to 137 form an integral part of these financial statements.

Statement of Financial Position

<i>(All amounts in Sri Lanka Rupees thousands)</i>	Note	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents	18	648,006	129,419
Placements with financial institutions	19	1,163,518	647,360
Securities purchased under repurchase agreements	20	77,722	76,221
Financial assets at fair value through profit or loss	21	1,513	1,286
Financial assets at amortised cost - loans and advances	22	806,332	1,023,629
Financial assets at fair value through other comprehensive income	23	2,098	1,980
Financial investments at amortised cost	24	2,186	2,085
Other assets	25	194,418	256,948
Current tax receivable		6,255	6,255
Right-of-use assets	26	24,100	30,934
Property, plant and equipment	27	77,555	88,445
Intangible assets	28	99,699	82,572
Deferred tax asset	29	123,820	36,948
Total assets		3,227,222	2,384,082
Liabilities			
Financial liabilities at amortised cost – due to customers	30	1,064,175	818,869
Retirement benefit obligations	31	8,429	7,900
Lease liabilities	26	24,966	29,803
Other liabilities	32	75,780	73,848
Total liabilities		1,173,350	930,420
Equity			
Stated capital	33	2,374,509	1,673,165
Statutory reserve fund	34	11,361	11,361
Fair value through other comprehensive income	35	1,577	1,471
Accumulated losses	35	(333,575)	(232,335)
Total equity		2,053,872	1,453,662
Total equity and liabilities		3,227,222	2,384,082
Net asset per share (Rs.)		18.88	15.92
Commitments and contingencies	37	302,457	225,052

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



Head of Finance
Yasoda Sewwandi



Chief Executive Officer
Nazeem Mohamed

The Board of Directors is responsible for the preparation and presentation of these Financial statements. Approved and signed for and on behalf of the Board of Directors.



Chairperson
Renuka Fernando
Colombo
18 February 2021



Director
Priyan Edirisinghe

The notes on pages 72 to 137 form an integral part of these financial statements.

Statement of Changes in Equity

	Note	Stated capital	Statutory reserve fund	Retained earnings / (accumulated losses)	Fair value through OCI reserve	Total
<i>(All amounts in Sri Lanka Rupees thousands)</i>						
Balance at 1 January 2020		1,673,165	11,361	(232,335)	1,471	1,453,662
Loss for the year		-	-	(99,519)	-	(99,519)
Other comprehensive income, net of tax		-	-	(270)	106	(164)
Total comprehensive income for the year		-	-	(99,789)	106	(99,683)
Rights issue during the year	33	701,344	-	-	-	701,344
Rights issue expense		-	-	(1,451)	-	(1,451)
Transferred to statutory reserve fund	34	-	-	-	-	-
Balance at 31 December 2020		2,374,509	11,361	(333,575)	1,577	2,053,872
Balance at 1 April 2019		909,038	11,361	(86,851)	-	833,548
Loss for the period		-	-	(143,666)	-	(143,666)
Other comprehensive income, net of tax		-	-	(139)	1,471	1,332
Total comprehensive income for the period		-	-	(143,805)	1,471	(142,334)
Rights issue during the period	33	764,127	-	-	-	764,127
Rights issue expense		-	-	(1,679)	-	(1,679)
Transferred to statutory reserve fund	34	-	-	-	-	-
Balance at 31 December 2019		1,673,165	11,361	(232,335)	1,471	1,453,662

The notes on pages 72 to 137 form an integral part of these financial statements.

Statement of Cash Flows

<i>(All amounts in Sri Lanka Rupees thousands)</i>	Note	Year ended 31 December 2020	9 months ended 31 December 2019
Cash flows from operating activities			
Loss before income tax		(186,299)	(143,776)
Adjustment for,			
Interest expenses	6.2	67,090	48,102
Impairment charges and other losses	10	63,339	105,901
Provision for retirement benefits obligation	11	2,449	1,700
Depreciation of property plant and equipment	27	19,318	12,508
Depreciation of right-of-use assets	26	7,910	7,413
Amortisation of intangible assets	28	13,871	8,322
Interest on lease liabilities		832	4,013
Intangible assets transferred to a related party	41.3	-	33,699
Net gains from trading	41.3	(283)	(379)
Cash (used in) / generated from operations before working capital changes		(11,773)	77,503
Decrease / (increase) in loans and advances		217,297	(138,109)
Increase in other assets		(24,342)	(202,158)
Increase in amounts due to customers		245,306	184,869
Increase / (decrease) in other liabilities		1,931	(32,621)
Cash generated from / (used in) operations		428,419	(110,516)
Interest paid		(43,478)	(46,316)
Retirement benefits paid	31.1	(2,294)	(710)
Net cash generated from / (used in) operating activities		382,647	(157,542)
Cash flows from investing activities			
Acquisition of property plant and equipment and intangible assets		(39,425)	(75,358)
Net investment in treasury bills		(101)	64,283
Net placements with financial institutions		647,566	(484,260)
Net cash flows from securities purchased under repurchased agreement		(1,501)	(58,466)
Net cash generated from / (used in) investing activities		606,539	(553,801)
Cash flows from financing activities			
Net cash received from rights issue		699,893	762,448
Repayment of lease liabilities		(6,635)	(13,385)
Net cash generated from financing activities		693,258	749,063
Net increase in cash and cash equivalents		1,682,444	37,720
Cash and cash equivalents at the beginning of the period		129,438	91,718
Cash and cash equivalents at the end of the year / period		1,811,882	129,438
Analysis of cash and cash equivalents at the end of the year / period			
Cash and bank balances		648,157	129,438
Placements with financial Institutions (less than 90 days)		1,163,725	-
		1,811,882	129,438
Less: Impairment provision		(358)	(19)
		1,811,524	129,419

The notes on pages 72 to 137 form an integral part of these financial statements.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

1. Corporate information

1.1 General

Dialog Finance PLC ('the Company'), is a public limited liability company incorporated and domiciled in Sri Lanka, incorporated under the Companies Ordinance (Chapter 145), and was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No. 07 of 2007. It is a Licensed Finance Company under the Finance Business Act No. 42 of 2011 and amendments thereto.

The Company is listed on the Colombo Stock Exchange since 4 October 2011.

The financial year-end of the Company was changed from 31 March to 31 December effective from 31 December 2019 to be in conformity with the year end of its parent company, Dialog Axiata PLC. Accordingly, the current financial statements are prepared for the year ended from 1 January 2020 to 31 December 2020, where the comparatives are for the nine months from 1 April 2019 to 31 December 2019. As a result, the comparative figures stated in the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the related notes are not comparable.

The registered office of the Company is located at No. 475, Union Place, Colombo 02. The principal place of business is located at No. 57, Srimath Anagarika Dharmapala Mawatha, Colombo 03.

1.2 Principal activities

The Company provides a comprehensive range of financial services encompassing accepting deposits, margin trading facilities, debt factoring, revolving loans and business / personal loans.

1.3 Parent entity and ultimate parent entity

The Company's immediate parent is Dialog Axiata PLC and the Company's ultimate parent undertaking and controlling party is Axiata Group Berhad, a company incorporated in Malaysia.

1.4 Number of employees

The staff strength of the Company as at 31 December 2020 is 44 (31 December 2019 - 164).

1.5 Approval of financial statements by directors

The financial statements of the Company, for the period ended 31 December 2020, were authorised for issue by the Board of Directors on 18 February 2021. The Directors have the power to amend and reissue the financial statements.

2. Basis of preparation

2.1 Statement of compliance

The financial statements of the Company, which comprise of 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 are prepared in accordance with the Sri Lanka Accounting Standards (LKASs and SLFRSs) laid down by the Institute of Chartered Accountants of Sri Lanka, and in compliance with the requirements of the Companies Act, No. 7 of 2007, and provide appropriate disclosures as required by the Central Bank of Sri Lanka and Listing Rules of the Colombo Stock Exchange.

2.2 Responsibility for financial statements

The Board of Directors is responsible for the preparation and presentation of the financial statements of the Company as per the provisions of the Companies Act No. 07 of 2007, the Sri Lanka Accounting Standards and provide appropriate disclosures as required by the Central Bank of Sri Lanka and the listing rules of the Colombo Stock Exchange. The responsibility of the Directors in relation to the financial statements is set out in detail in the statement of Directors' responsibility report in the annual report.

2.3 Basis of measurement.

The financial statements have been prepared on a historical cost basis, except for following material items in the statement of financial position;

- Financial assets at fair value through other comprehensive income [Note 23];
- Financial assets at fair value through profit or loss [Note 21];
- Liabilities for defined benefit obligations are recognised at the present value of defined benefit obligation based on actuarial valuation [Note 31].

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

2.4 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Financial statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency.

2.5 Presentation of financial statements

The assets and liabilities of the Company presented in the statement of financial position are grouped by nature and listed in order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the financial statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non – current) is presented in Note 44.

The amounts in the financial statements have been rounded-off to the nearest rupees thousands, except where otherwise indicated as permitted by LKAS 1 "Presentation of Financial Statements".

2.6 Materiality and aggregation

In compliance with LKAS 01 'Presentation of Financial Statements', each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or functions too are present separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an accounting standard.

2.7 Statement of cash flows

The cash flow statement has been prepared using the indirect method of preparing cash flows in accordance with LKAS 7 'Statement of Cash Flows', whereby operating, investing and financial activities have been separately recognized.

Cash and cash equivalents comprise 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.

The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks (less than 3 months).

3. Significant accounting judgements, estimates and assumptions

In preparing the financial statements of the Company in conformity with SLFRSs and LKASs, the management has made judgements, estimates and assumptions which 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 recognised prospectively.

Significant areas of critical judgements, assumptions and estimation uncertainty, in applying Accounting Policies that have most significant effects on the amounts recognised in the Financial Statements of the Company are as follows:

3.1 Going concern

The Directors have made an assessment of the Company's ability to continue a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and does not intend either to liquidate or to cease operations. Therefore, the financial statements continue to be prepared on a going concern basis.

3.2 Impairment losses on loans and advances

The measurement of impairment losses under SLFRS 9 'financial instruments' across all categories of financial assets require judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

3. Significant accounting judgements, estimates and assumptions (Contd.)

3.2 Impairment losses on loans and advances Contd.)

credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's expected credit loss (ECL) calculations are output of complex models with a number of underlying assumptions regarding the choice of variable inputs and their independencies. The elements of the ECL models that are considered accounting judgements and estimates include.

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss (LTECL) basis and the qualitative assessment.
- The segmentation of financial assets of their fair values when their ECL is assessed on a collective basis.
- Development of ECLs, models including various formulas and choice of inputs, such as unemployment levels and collateral values and the effect on the probability of default (PDs), Exposure at Default (EADs) and loss given default (LGDs).

3.3 Fair value of financial instruments

The determination of fair value of financial assets and financial liabilities recorded on the statement of financial position for which there is no observable market price are determined using a variety of valuation techniques that includes the use of mathematical models. The valuation of financial instrument is described in Note 36 to the financial statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in Note 36.3 to the financial statements.

3.4 Financial assets and financial liabilities classification

The Company's accounting policies provide scope for assets and liabilities to be classified, at the inception in to different accounting categories. The classification of financial instrument is disclosed in Note 17.

3.5 Taxation

(a) Income taxes

Judgment is involved in determining the Company's provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognise liabilities for tax matters based on estimates of whether additional taxes will be due. If the final outcome of these tax matters result in a difference in the amounts initially recognised, such differences will impact the income tax and/or deferred income tax provisions in the period in which such determination is made.

(b) Deferred income tax assets

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised. This involves judgment regarding future financial performance of a particular entity in which the deferred income tax asset has been recognised.

3.6 Defined benefit obligation

The present value of the defined benefit plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost / (income) for defined benefit plan include the discount rate, future salary increase rate, mortality rate, withdrawal and disability rates and retirement age. Any changes in these assumptions will impact the carrying amount of defined benefit plan. The Company determine the appropriate discount rate at the end of each financial reporting period. This is the interest rate that should be used to determine the present value of estimated future cash outflows, expected to be required to settle the defined benefit plan. In determining the appropriate discount rate, the Company considers the interest yield of long-term Government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related defined benefit plan. Other key assumptions for defined benefit plan are based in part on current market conditions as disclosed in Note 31 to the financial statements.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

3.7 Estimated useful lives of Property, Plant & Equipment (PPE)

The Company reviews annually the estimated useful lives of PPE based on factors such as business plan and strategies, expected level of usage and future technological developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of PPE would increase the recorded depreciation charge and decrease the PPE carrying value.

3.8 Commitment and contingent liabilities

Determination of the treatment of contingent liabilities in the financial statements is based on the management's view of the expected outcome of the applicable contingency. The Company consult with legal counsel on matters related to litigation and other experts both within and outside the Company with respect to matters in the ordinary course of business.

4. Changes in accounting policies

4.1 New standards and amendments – applicable after 1 January 2020

The Company has applied the following amendments for the first time for their reporting period commencing 1 January 2020.

(a) Definition of Material – Amendments to LKAS 1 and LKAS 8.

The amendments to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout Sri Lanka Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in LKAS 1 about immaterial information.

In particular, the amendments clarify:

- That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and

- The meaning of 'primary users of general-purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

This amendment is effective for the annual periods beginning on or after 1 January 2020.

(b) Definition of a Business – Amendments to SLFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions. This amendment is effective for the annual periods beginning on or after 1 January 2020.

(c) Revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

4. Changes in accounting policies (Contd.)

4.1 New standards and amendments – applicable after 1 January 2020 (Contd.)

(c) Revised Conceptual Framework for Financial Reporting (Contd.)

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

This amendment is effective for the annual periods beginning on or after 1 January 2020.

(d) Covid-19-related Rent Concessions – Amendments to SLFRS 16

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. According to the amendment to SLFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions. This amendment is effective for the annual periods beginning on or after 1 June 2020.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

4.2 New standards and amendments not adopted by the Company

The following standards and interpretations had been issued but not mandatory for annual reporting periods ending 31 December 2020.

(a) Classification of Liabilities as Current or Non-current – Amendments to IAS 1

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023

(b) Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

(c) Annual Improvements to IFRS Standards 2018–2020

The following improvements were finalised in May 2020:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

(d) Reference to the Conceptual Framework – Amendments to IFRS 3

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent

Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

(e) Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

This amendment is effective for the annual periods beginning on or after 1 January 2022.

5. Summary of significant accounting policies

The accounting policies set out below have been consistently applied the accounting policies to all periods presented in these financial statements.

5.1 Financial instruments – initial recognition, classification and subsequent measurement

(a) Date of recognition

All financial assets and liabilities are initially recognised when and only when the company becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(b) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value plus or minus in the cost of financial asset not at fair value through profit and loss (FVTPL), the transaction costs that are directly attributable to the acquisition of the financial assets. Transaction cost of financial assets at FVTPL are expended in the profit and loss.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

5. Summary of significant accounting policies (Contd.)

5.1 Financial instruments – initial recognition, classification and subsequent measurement (Contd.)

(c) Classification and subsequent measurement of financial assets

The Company classifies its financial assets in the following measurement categories;

- Amortised cost,
- Fair value through other comprehensive income (FVOCI) or
- Fair value through profit or loss. (FVTPL)

(i) Financial assets at amortised cost:

The Company only measures loans, receivables, and other financial investments, at amortised cost if both of the following conditions are met;

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal.

Loans and receivables consist of cash and bank balances, securities purchased under repurchase agreements, factoring receivables, lease receivables, hire purchase receivables, loan receivables and other assets.

The details of the above conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflect how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair values of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of the financial assets to identify whether they meet the SPPI test.

For the purpose of this test,

'Principal' is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium / discount).

'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms of that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

(ii) Financial assets at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under LKAS 32 'Financial Instruments: Presentation' and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Currently, the Company has recorded its non-quoted equity investments FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 23 to the financial statements.

(iii) Financial assets at fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss.

Currently, the Company has recorded its quoted equity investments at fair value through profit or loss. The details of quoted equity instruments are given in Note 21 to the financial statements.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with banks, loans at call and at short notice

that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short-term commitments. Details of cash and cash equivalents are given in Note 18 to the financial statements.

(e) Classification and subsequent measurement of financial liabilities

Financial instruments issued by the Company, that are not designated at fair value through profit or loss, are classified as liabilities under 'Due to customers (Deposits from customers) and other borrowings', where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued, and other borrowings are subsequently measured at amortised cost using the Effective interest rate (EIR). Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

(f) Reclassifications of financial assets and financial liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Classification of financial liabilities is changed where the business model is changed. The Company did not reclassify any of its financial assets or liabilities in for the financial year ended 31 December 2020.

(g) Derecognition of financial assets and financial liabilities.

(i) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

5. Summary of significant accounting policies (Contd.)

5.1 Financial instruments – initial recognition, classification and subsequent measurement (Contd.)

g) Derecognition of financial assets and financial liabilities (Contd.)

(i) Derecognition of financial assets (Contd.)

The Company has transferred the financial asset, if and only if, either:

- the Company has transferred its contractual rights to receive cash flows from the financial asset or,
- it retains the rights to cash flows but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

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

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

On derecognition of a financial asset other than an equity instrument designated as fair value through other comprehensive income, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises as associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

(ii) Derecognition of financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

5.2 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows,

based on the lowest level input that is significant to the fair value measurement as a whole:

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - The fair value of financial instruments traded in active markets (such as publicly traded equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

Level 2 - The fair value of financial instruments that are not traded in an active market (for example, over-the-counter securities) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3 - If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 36 to the financial statements.

5.3 Impairment of financial assets

(i) Overview of the expected credit loss (ECL) principles

The Company recognises expected credit losses for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments, financial guarantee contracts, placements with financial institutions and cash and

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

5. Summary of significant accounting policies (Contd.)

5.3 Impairment of financial assets (Contd.)

(i) Overview of the expected credit loss (ECL) principles (Contd.)

cash equivalents. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 41.2.

The 12m ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and Purchased or originated credit impaired (POCI), as described below.

Stage 1 - When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.

Stage 2 - When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.

Stage 3 - Loans considered credit-impaired. The Company records an allowance for the LTECLs.

POCI : Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a partial derecognition of the financial asset.

(ii) The calculation of expected credit loss (ECL)

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

Probability of default (PD): The PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

Exposure at default (EAD): The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities and accrued interest from missed payments.

Loss given default (LGD): The LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The mechanism of the ECL method are summarised below.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

Stage 1:

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage 2:

When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3:

For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Loan commitments:

When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For factoring receivables and revolving loans that include both a loan and an undrawn commitment, ECLs are calculated and presented with the loan.

(iii) Financial guarantee contracts:

The Company's liability under each guarantee is measured at the higher of the initially recognised less cumulative amortisation recognised in the statement of profit or loss, and the ECL provision.

For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability – weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

(iv) Debt instruments measured at fair value through other comprehensive income

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to statement of profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

(v) Debt factoring and revolving loans

The Company's product offering includes debt factoring and revolving loan facilities, in which the Company has the right to cancel and/or reduce the facilities within a short notice. The Company does not limit its exposure to credit losses to the contractual notice period, but instead calculates ECL over a period that reflects the Company's expectations of the customer behaviour, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is limited to 12 months.

(vi) Forward looking information

In the models, the Company relies on a broad range of forward - looking information as economic inputs, such as:

- Gross Domestic Product growth in the principal market for the asset or liability;
- Unemployment rates published by Central Bank of Sri Lanka;

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

5. Summary of significant accounting policies (Contd.)

5.3 Impairment of financial assets (Contd.)

(vi) Forward looking information (Contd.)

- Central Bank rates such as exchange rates, interest rates; and
- Inflation rates published by Central Bank of Sri Lanka.

The input and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustment or overlays are occasionally made as temporary adjustment when such differences are significantly material are stated at historical cost less accumulated depreciation and impairment losses.

5.4 Modification of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms.

If the terms are substantially different, the Company derecognises the original financial asset and recognises a new asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However the Company also assesses whether the new financial asset recognised is deemed to be credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on de-recognition.

If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or

credit adjusted effective interest rate for purchased or originated credit impaired financial assets).

The company grants leases on motor vehicles and other movable assets for a term of 1-6 years basing on the customer requirement.

5.5 Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements; therefore, the related assets and liabilities are presented as gross in the statement of financial position.

5.6 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Company retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'repurchase agreements', reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and re-purchase price is treated as interest expense and is accrued over the life of agreement using the EIR.

When the counter party has the right to sell or re-pledge the securities, the Company reclassifies those securities in its statement of financial position to 'Financial investments at amortised cost'. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Company.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

5.7 Accounting for leases where the Company is the lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

(a) ROU assets

ROU assets are initially measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentive received;
- Any initial direct costs; and
- Decommissioning or restoration costs.

ROU assets that are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

(b) Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;

- The exercise price of a purchase and extension options if the group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar term, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

The Company presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented within the finance cost in comprehensive income.

(c) Remeasurement of lease liabilities

The Company is also exposed to potential future increases in variable lease payments that depend on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is remeasured and adjusted against the ROU assets.

In determining the lease term, the Company consider all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

5. Summary of significant accounting policies (Contd.)

5.7 Accounting for leases where the Company is the lessee (Contd.)

(c) Remeasurement of lease liabilities (Contd.)

The Company reassesses the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Company and affects whether the Company is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities

(d) Short term leases and leases of low value assets

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. Payments associated with short-term leases of low-value assets are recognised on a straight-line basis as an expense in comprehensive income.

5.8 Property, plant and equipment (PPE)

(a) Measurement

PPE are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of PPE comprises expenditure directly attributable to the acquisition of the item. These costs include the costs of dismantling, removal and restoration, and the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to comprehensive income during the reporting period in which they are incurred.

Borrowing costs directly incurred to finance the construction of PPE that takes more than twelve (12) months are capitalised as part of the cost of the assets during the period of time that is required to complete and prepare the qualified asset for its intended use.

Depreciation of asset begins when it is available for use. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to residual values over the estimated useful lives, in years as follows:

	Years
Buildings	25
Computer equipment	4
Office furniture	8
Office equipment	12.5
Motor vehicles	4
Machinery and other equipment	4

Depreciation on assets under construction or capital work-in-progress commence when the assets are ready for their intended use.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other operating income' in the comprehensive income.

(b) Asset exchange transaction

PPE may be acquired in exchange for a non-monetary asset or for a combination of monetary and non-monetary assets and is measured at fair value unless:

- the exchange transaction lacks commercial substance; or
- the fair value of neither the assets received nor the assets given up can be measured reliably.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

The acquired item is measured in this way even if the Company cannot immediately derecognise the assets given up. If the acquired item cannot be reliably measured at fair value, its cost is measured at the carrying amount of the asset given up.

(c) Repairs and maintenance

Repairs and maintenance are charged to the comprehensive income during the period in which they are incurred.

The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company. This cost is depreciated over the remaining useful life of the related asset.

(d) Derecognition

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' or 'Other operating expenses' in the statement of profit or loss as appropriate in the year the asset is derecognised.

5.9 Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of four (4) to eight (8) years.

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. Costs recognised as intangible assets are amortised using the straight line method over their estimated useful lives, which do not exceed 8 years. An intangible asset which is not yet available for use is tested for impairment annually irrespective of whether there is any indication of impairment.

5.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. The impairment loss is charged to comprehensive income. Any subsequent increase in recoverable amount is recognised in comprehensive income.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

5. Summary of significant accounting policies (Contd.)

5.11 Stated capital

(a) Classification

Ordinary shares with discretionary dividends are classified as equity. Other shares are classified as equity or liability according to the economic substance of the particular instrument. Distribution to holders of a financial instrument classified as an equity instrument is charged directly to equity.

Where the Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently re issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(b) Share issue expenses

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax from the proceeds.

(c) Dividends on ordinary shares

Dividends distribution is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

5.12 Employee benefits

(a) Short term employee benefits

Wages and salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.

(b) Defined contribution plans

For defined contribution plans, such as the Employees' Provident Fund and Employees' Trust Fund, the Company contribute 12% and 3% respectively, of basic or consolidated wage or salary of each eligible employee. The contributions are recognised as employee benefit expense when they are due. The

Company have no further payment obligation once the contributions have been paid. The Company and the employees are members of these defined contribution plans.

(c) Defined benefit plan - gratuity

Defined benefit plan defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The defined benefit plan comprises the gratuity provided under the payment of Gratuity Act, No. 12 of 1983.

The liability recognised in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the yield rate of long-term government bonds that have terms to maturity approximating to the terms of the related defined benefit obligation.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligations and included in employee benefit expense in the comprehensive income. The current service cost of the defined benefit plan reflects the increase in the defined benefit obligations resulting from employee service in the current year. It is recognised in the comprehensive income in employee benefit expense, except where included in the cost of an asset. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in comprehensive income as past service costs.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the statement of financial position. The assumptions based on which the results of the actuarial valuation were determined, are included in Note 31 to the financial statements.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates: (a) when the entity can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of LKAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

5.13 Statutory reserve fund

The reserves recorded in the equity on the Company's statement of financial position includes the 'Statutory reserve fund' which has been created in accordance with the Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka.

5.14 Provisions

Provisions are recognised when the Company have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

5.15 Recognition of income and expenses

(a) Interest income and interest expense

Interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest income on interest bearing financial assets measured at fair value through other comprehensive income (FVTOCI) is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The EIR (and therefore, the amortised cost of the asset / liability) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income/expense using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset / liability are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income / interest expense. The adjustment is subsequently amortised through Interest income / Interest expense in the statement of profit or loss.

When a financial asset become credit - impaired (as set out in Note 42.2.(a)) and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit - impaired, the company reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at fair value through profit or loss FVTPL is recognised using the contractual interest rate under net interest income.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

5. Summary of significant accounting policies (Contd.)

5.15 Recognition of income and expenses (Contd.)

(i) Income from leases, hire purchases and term loans

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognized as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

(ii) Factoring

Revenue is derived from two sources, funding and providing sales ledger related services.

- Funding - Discount income relating to factoring transactions is recognised at the end of a given accounting month. In computing this discount, a fixed rate agreed upon at the commencement of the factoring agreement is applied on the daily balance in the Client's current Account.
- Sales Ledger Related Services – A service charge is levied as stipulated in the factoring agreement.

Income is accounted for on an accrual basis and deemed earned on disbursement of advances for invoices factored.

(b) Fees and commission income and expenses

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Company first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

The Company earns a fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided in to two categories.

(i) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period.

(ii) Fee expense incurred from services that are provided over a certain period of time

Fees arising from negotiating or participating in the negotiation of a transaction for a third party.

(c) Other operating income

(i) Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

(ii) Recovery of bad debts written off

Recovery of amounts written off as bad and doubtful debts is recognised when received.

(iii) Other income

Other income is recognised on an accrual basis.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

(d) Expenditure recognition

Expenses are recognised in the statement of profit or loss and other comprehensive income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

(e) Personnel expenses

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay all employee benefits relating to employee services in the current and prior periods and the obligation can be estimated reliably.

5.16 Taxes

(a) Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting

nor taxable comprehensive income. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries and associates where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(b) Value Added Tax (VAT) on financial services

VAT on financial services is calculated in accordance with the Value Added Tax (VAT) Act No.14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax, adjusted for the economic depreciation and emoluments payable to employees including cash, non-cash benefits and provisions relating to terminal benefits.

The VAT on Financial service is recognized as expense in the period it becomes due.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

5. Summary of significant accounting policies (Contd.)

5.16 Taxes (Contd.)

(c) Withholding tax on dividends

Withholding Tax on Dividends Distributed by the Company that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised. At present, the rate of 10% is deducted at source.

(d) Crop Insurance Levy (CIL)

In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No.30 of 1988, Finance Business Act No.42 of 2011 and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 01 April 2013.

(e) Deposit insurance and liquidity support scheme

In terms of the Finance Companies Direction No.2 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments thereto, all Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No.1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1 October 2010. The said Scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No. 1 of 2013.

The deposits to be insured shall include demand, time and savings deposit liabilities and exclude the following.

- Deposit liabilities to member institutions;
- Deposit liabilities to the Government of Sri Lanka;
- Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Finance Companies Act (Corporate Governance) Direction No.3 of 2008 for Registered Finance Companies;
- Deposit liabilities held as collateral against any accommodation granted; and
- Deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.

Registered Finance Companies are required to pay a premium of 0.15% on total amount of eligible deposits as at end of the month with in a period of 15 days from the end of the respective month.

5.17 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

5.18 Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Company has five reportable segments, leases and hire purchases, margin trading, device financing, loans and treasury, which are the Company's strategic products / divisions. Those offer different products

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

and services and are managed separately based on the Company's management and internal reporting structure. For each of the strategic divisions, the Company's Board of Directors reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in Note 45. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

5.19 Commitments and contingencies

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstance where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company. The Company does not recognise a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

The Company recognises separately the contingent liabilities of the acquirers as part of allocating the cost of a business combination where their fair values can be measured reliably. Where the fair values cannot be measured reliably, the resulting effect will be reflected in the goodwill arising from the acquisitions. Subsequent to the initial recognition, the Company measures the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provisions of LKAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less, when appropriate, cumulative amortisation.

Undrawn loan commitment

Undrawn loan commitments are commitments under which, are over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirement.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

6. Net interest income

6.1 Interest income

	Year ended 31 December 2020	9 months ended 31 December 2019
Money market	40,300	10,449
Placements with financial institutions	56,900	29,388
Securities purchased under repurchase agreements	4,946	10,645
Government securities	191	2,133
Fixed deposits loan	743	1,290
Margin trading	10,684	6,717
Device financing	28,251	76,905
Merchant loan	5,134	6,596
Factoring loan	22,568	15,322
Finance leases and hire purchase	5,361	9,529
Mortgage loan	14,523	6,677
Demand loan	5,019	3,951
Enterprise loan	5,067	-
Revolving loan	12,789	18,577
Other loan	2,224	-
Total interest income	214,700	198,179

6.2 Interest expense

	Year ended 31 December 2020	9 months ended 31 December 2019
Deposits from customers	67,090	48,102
Total interest expense	67,090	48,102
Net interest income	147,610	150,077

7. Net fee and commission income

7.1 Fee and commission income

	Year ended 31 December 2020	9 months ended 31 December 2019
Commission income	19	25
Service charges and facilitation fee on device finance	1,809	52,464
CEFT income	120	431
Other charges and income	13	7,123
Total fee and commission income	1,961	60,043

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

7.2 Fee and commission expenses

	Year ended 31 December 2020	9 months ended 31 December 2019
Commission expenses	-	-
Total fee and commission expenses	-	-
Net fee and commission income	1,961	60,043

8. Net gains / (losses) from trading

	Year ended 31 December 2020	9 months ended 31 December 2019
Equities		
Net gains / (losses) on financial assets at fair value through profit or loss	283	379
	283	379

9. Other operating income

	Year ended 31 December 2020	9 months ended 31 December 2019
Default charges	18,051	8,617
Recovery of bad debt written off	264	486
Dividend income	320	243
Other income	211	144
	18,846	9,490

10. Credit loss expense on financial assets and other losses

10.1 The table below shows the expected credit loss (ECL) charges/ (reversals) for financial assets for the year ended 31 December 2020 and nine months ended 31 December 2019 recorded in the income statement.

	Year ended 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	132	-	-	132
Placements with financial institutions	63	-	-	63
Lease receivable	1,061	652	(2,726)	(1,013)
Hire purchase receivable	-	-	209	209
Factoring receivable	1,373	1,491	2,377	5,241
Other loan receivable	(3,295)	10,014	13,945	20,664
Device finance receivable	(1,579)	4,496	36,354	39,271
Margin trading receivable	(1,228)	-	-	(1,228)
	(3,473)	16,653	50,159	63,339

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

10. Credit loss expense on financial assets and other losses (Contd.)

	9 months ended 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	5	-	-	5
Placement with financial institution	110	-	-	110
Lease receivable	(453)	(1,473)	180	(1,746)
Hire purchase receivable	(8)	(13)	(421)	(442)
Factoring receivable	(3,732)	-	112	(3,620)
Other loan receivable	1,855	(2,381)	(3,467)	(3,993)
Device finance receivable	(1,551)	(8,126)	124,544	114,867
Margin trading receivable	720	-	-	720
	(3,054)	(11,993)	120,948	105,901

11. Personnel expenses

	Year ended 31 December 2020	9 months ended 31 December 2019
Wages, salaries and others	125,446	116,694
Contributions to defined contribution plans	8,970	7,508
Contributions to defined benefit plans	2,449	1,700
	136,865	125,902

12. Depreciation and amortisation

	Year ended 31 December 2020	9 months ended 31 December 2019
Depreciation of property, plant and equipment (Note 27)	19,318	12,508
Amortisation of intangible assets (Note 28)	13,871	8,322
Depreciation of right-of-use assets (Note 26)	7,910	7,413
	41,099	28,244

13. Operating loss before taxes on financial services

Profit / (loss) from operations is stated after charging all expenses including the following,

	Year ended 31 December 2020	9 months ended 31 December 2019
Directors' emoluments	2,478	1,800
Audit fees and expenses	1,021	945
Non-audit fees to auditors	663	531
Professional and legal expenses	1,155	652
Depreciation of property, plant and equipment	19,318	12,508
Amortisation of intangible assets	13,871	8,322
Provision for unrecoverable VAT	8,298	15,292
Deposit insurance premium	1,346	737
Donations	75	-
Interest on lease liability	832	4,013
Depreciation of right-of-use assets	7,910	7,413
Other operating expenses	97,828	79,749

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

14. Taxes on financial services

	Year ended 31 December 2020	9 months ended 31 December 2019
Value added tax on financial services	-	-
	-	-

15. Income tax (reversal) / expense

15.1 The major components of income tax expense for the year ended 31 December 2020 and for the nine months ended 31 December 2019 are as follows:

	Year ended 31 December 2020	9 months ended 31 December 2019
Current tax expense		
Current tax expense for the year / period	-	-
Under / (over) provision of current taxes in respect of previous years	-	-
	-	-
Deferred tax reversal		
Deferred taxation reversal for the year / period (Note 29)	(86,780)	(110)
	(86,780)	(110)
Deferred tax (reversal) / expense on other comprehensive income	(92)	110
Effective tax rate	46.63%	0.08%

15.2 Reconciliation of effective tax rate

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

	Year ended 31 December 2020	9 months ended 31 December 2019
Loss before tax	(186,299)	(143,776)
At the statutory income tax rate of 28%	(52,164)	(40,257)
Tax effect of non-deductible expenses	(71,519)	46,028
Tax effect of other allowable credits	42,212	(48,396)
Deferred tax reversal / (expense) recognized in respect of profit/loss of previous years	(30,795)	-
Deferred tax reversal / (expense) recognized in respect of other sources	25,486	-
Deferred tax reversal / (expense) not recognized	-	42,515
	(86,780)	(110)

The Company's profit is subjected to a corporate tax of 28% during the year ended 31 December 2020 and the nine months period ended 31 December 2019.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

16. Loss per share – basic

16.1 Loss per share

	Year ended 31 December 2020	9 months ended 31 December 2019
Loss attributable to the equity holders of the Company	(99,519)	(143,666)
Weighted average number of ordinary shares during the period / year (Note 16.2)	101,422,420	89,330,358
Basic loss per share (Rs.)	(0.98)	(1.61)

The rights issues were made at the market price prevailing at that time. Refer Note 33.

16.2 Weighted average number of ordinary shares

	Number of shares		Weighted average number of shares	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Number of ordinary shares in issue as at 1Jan / 1 April	91,336,974	72,233,816	91,336,974	72,233,816
Number of shares issued under rights issue	17,446,388	19,103,158	10,085,446	17,096,542
Number of shares in issue / weighted average number of ordinary shares as at 31 December	108,783,362	91,336,974	101,422,420	89,330,358

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements, which would require the restatement of EPS.

16.3 Diluted earnings per share

There was no dilution of ordinary shares outstanding at any time during the period. Therefore, diluted earnings per share is the same as basic earnings per share as shown above.

17. Analysis of financial instruments by measurement basis

As at 31 December 2020	Amortised cost	Equity instrument - FVTPL	Equity instrument - FVTOCI	Total
Financial assets				
Cash and cash equivalents	648,006	-	-	648,006
Placements with banks and financial institutions	1,163,518	-	-	1,163,518
Securities purchased under repurchase agreements	77,722	-	-	77,722
Financial assets at fair value through profit or loss	-	1,513	-	1,513
Financial assets at amortised cost - loans and advances	806,332	-	-	806,332
Financial assets at fair value through other comprehensive income	-	-	2,098	2,098
Financial investments at amortised cost	2,186	-	-	2,186
Total financial assets	2,697,764	1,513	2,098	2,701,375
Financial liabilities				
Financial liabilities at amortised cost – due to customers	1,064,175	-	-	1,064,175
Lease liabilities	24,966	-	-	24,966
Total financial liabilities	1,089,141	-	-	1,089,141

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

As at 31 December 2019	Amortised cost	Equity instrument - FVTPL	Equity instrument - FVTOCI	Total
Financial assets				
Cash and cash equivalents	129,419	-	-	129,419
Placements with banks and financial institutions	647,360	-	-	647,360
Securities purchased under repurchase agreements	76,221	-	-	76,221
Financial assets at fair value through profit or loss	-	1,286	-	1,286
Financial assets at amortised cost - loans and advances	1,023,629	-	-	1,023,629
Financial assets at fair value through other comprehensive income	-	-	1,980	1,980
Financial investments at amortised cost	2,085	-	-	2,085
Total financial assets	1,878,714	1,286	1,980	1,881,980
Financial liabilities				
Financial liabilities at amortised cost – due to customers	818,869	-	-	818,869
Lease liabilities	29,803	-	-	29,803
Total financial liabilities	848,672	-	-	848,672

18. Cash and cash equivalents

	31 December 2020	31 December 2019
Cash in hand	9	18
Cash in eZ cash wallet	4,126	6,841
Balances with banks	644,022	122,579
Less: Allowance for expected credit loss (Note 18.1)	(151)	(19)
	648,006	129,419

18.1 The movement in provision for stage 1 expected credit losses are as follows;

	2020	2019
Balance as at 1 January / 1 April	19	14
Charge for the year / period	132	5
Balance as at 31 December	151	19

18.2 Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

	2020	2019
Cash and cash equivalents as at 31 December	648,006	129,419
Placement with financial institutions (less than 3 months) (Note 19)	1,163,518	-
Cash and cash equivalents as at 31 December as per Cash Flow Statement	1,811,524	129,419

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

19. Placements with financial institutions

	31 December 2020	31 December 2019
Placement with financial institutions (more than 3 months)	-	647,504
Placement with financial institutions (less than 3 months)	1,163,725	-
Less: Allowance for expected credit losses	(207)	(144)
	1,163,518	647,360

19.1 The movement in provision for stage 1 expected credit losses are as follows;

	2020	2019
Balance as at 1 January / 1 April	144	34
Charge for the year / period	63	110
Balance as at 31 December	207	144

20. Securities purchased under repurchase agreements

	31 December 2020	31 December 2019
Treasury Bills & Repos	77,722	76,221
	77,722	76,221

21. Financial assets at fair value through profit or loss

	31 December 2020	31 December 2019
Quoted equity shares (Note 21.1)	1,513	1,286
	1,513	1,286

21.1 Quoted equity shares

	31 December 2020		31 December 2019	
	No of Shares	Carrying / Fair value	No of Shares	Carrying / Fair value
Balangoda Plantations PLC	22,000	354	22,000	264
Tokyo Cement Company (Lanka) PLC	8,157	622	8,157	392
Ceylon Hotels Corporation PLC.	-	-	4,715	56
The Kingsbury PLC	15,000	179	15,000	197
John Keells Hotels PLC	32,584	358	32,584	377
Total market value		1,513		1,286

22. Loans and advances

	31 December 2020	31 December 2019
Gross loans and advances	879,300	1,410,310
Less: provision for impairment	(72,968)	(386,681)
	806,332	1,023,629

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

	Notes	31 December 2020	31 December 2019
Lease receivables	22.1	42,356	50,113
Hire purchase receivables	22.2	-	-
Factoring receivables	22.3	121,989	137,925
Device finance receivables	22.4	-	405,248
Other loans and advances	22.5	533,066	333,557
Margin trading receivables	22.6	108,921	96,786
		806,332	1,023,629

22.1 Lease receivable

	31 December 2020	31 December 2019
At amortised cost		
Total lease rental receivable	60,773	89,466
Less: Unearned lease interest income	(9,251)	(10,302)
Less: VAT suspense	(179)	(210)
Less: Prepaid rentals	(182)	(296)
Gross lease receivable	51,161	78,658
Less: Provision for impairment		
Stage 1	(1,402)	(1,380)
Stage 2	(1,469)	(817)
Stage 3	(5,934)	(26,348)
Net lease receivable	42,356	50,113

The company provides finance leasing facilities. No lease receivables as at 31 December 2020 (31 December 2019 - Nil) have been assigned for funding arrangements.

(a) Maturity analysis of net lease receivable

As at 31 December 2020	1 Year	1 - 5 Years	More than 5 Years	Total
Total lease rental receivable	32,797	27,615	-	60,412
Less: Unearned lease interest income	(4,366)	(4,885)	-	(9,251)
Gross lease receivable	28,431	22,730	-	51,161
Less: Allowance for expected credit losses	(4,922)	(3,883)	-	(8,805)
Net lease receivable	23,509	18,847	-	42,356

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

22. Financial assets at amortised cost - Loans and advances (Contd.)

22.1 Lease receivable (Contd.)

(a) Maturity analysis of net lease receivable (Contd.)

As at 31 December 2019	1 Year	1 - 5 Years	More than 5 Years	Total
Total lease rental receivable	41,995	46,966	-	88,961
Less: Unearned lease interest income	(1,043)	(9,260)	-	(10,303)
Gross lease receivable	40,952	37,706	-	78,658
Less: Allowance for expected credit losses	(14,088)	(14,457)	-	(28,545)
Net lease receivable	26,864	23,249	-	50,113

(b) Analysis of lease receivable on maximum exposure to credit risk

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Individually impaired lease receivable	-	-	16,106	16,106
Lease receivable- subject to collective impairment	21,533	8,947	4,575	35,055
Allowance for expected credit losses (ECL)	(1,402)	(1,469)	(5,934)	(8,805)
	20,131	7,478	14,747	42,356

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Individually impaired lease receivable	-	-	22,499	22,499
Lease receivable- subject to collective impairment	14,457	12,533	29,169	56,159
Allowance for expected credit losses (ECL)	(1,380)	(817)	(26,348)	(28,545)
	13,077	11,716	25,320	50,113

(c) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	1,380	817	26,348	28,545
(Reversal) / Charge to income statement (Note 10)	1,061	652	(2,726)	(1,013)
Write off of lease receivables	(1,039)	-	(17,688)	(18,727)
Balance as at 31 December 2020	1,402	1,469	5,934	8,805

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2019	1,833	2,290	43,131	47,254
(Reversal) / Charge to income statement (Note 10)	(453)	(1,473)	180	(1,746)
Write off of lease receivables	-	-	(16,963)	(16,963)
Balance as at 31 December 2019	1,380	817	26,348	28,545

(d) Lease income from lease contracts

The Company has earned following lease income from the lease contracts which the company acts as the lessor

	31 December 2020	31 December 2019
Interest income from leases the company acts as the lessor	5,361	10,261
	5,361	10,261

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

22.2 Hire purchase receivable

	31 December 2020	31 December 2019
At amortised cost		
Total hire purchase rental receivable	2,917	6,017
Less: Unearned hire purchase interest income	-	-
Less: Prepaid rentals	-	-
Gross hire purchase receivable	2,917	6,017
Less: Provision for impairment		
Stage 1	-	-
Stage 2	-	-
Stage 3	(2,917)	(6,017)
Net hire purchase receivable	-	-

(a) Maturity analysis of net hire purchase receivable

As at 31 December 2020	1 Year	1 - 5 Years	More than 5 Years	Total
Total hire purchase rental receivable	2,917	-	-	2,917
Less: Unearned hire purchase interest income	-	-	-	-
Gross hire purchase receivable	2,917	-	-	2,917
Less: Allowance for expected credit losses	(2,917)	-	-	(2,917)
Net hire purchase receivable	-	-	-	-

As at 31 December 2019	1 Year	1 - 5 Years	More than 5 Years	Total
Total hire purchase rental receivable	6,017	-	-	6,017
Less: Unearned hire purchase interest income	-	-	-	-
Gross hire purchase receivable	6,017	-	-	6,017
Less: Allowance for expected credit losses	-	-	-	-
Net hire purchase receivable	(6,017)	-	-	(6,017)

(b) Analysis of hire purchase receivable on maximum exposure to credit risk

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Individually impaired hire purchase receivable	-	-	2,917	2,917
Hire purchase receivable- subject to collective impairment	-	-	-	-
Allowance for expected credit losses (ECL)	-	-	(2,917)	(2,917)
	-	-	-	-

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

22. Financial assets at amortised cost - Loans and advances (Contd.)

22.2 Hire purchase receivable (Contd.)

(b) Analysis of hire purchase receivable on maximum exposure to credit risk (Contd.)

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Individually impaired hire purchase receivable	-	-	6,017	6,017
Hire purchase receivable- subject to collective impairment	-	-	-	-
Allowance for expected credit losses (ECL)	-	-	(6,017)	(6,017)
	-	-	-	-

(c) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	-	-	6,017	6,017
Charge / (reversal) to income statement [Note 10]			209	209
Write off impact	-	-	(3,309)	(3,309)
Balance as at 31 December 2020	-	-	2,917	2,917

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2019	8	13	19,963	19,984
Charge / (reversal) to income statement [Note 10]	(8)	(13)	(421)	(442)
Write off impact	-	-	(13,525)	(13,525)
Balance as at 31 December 2019	-	-	6,017	6,017

22.3 Factoring receivables

	31 December 2020	31 December 2019
Factoring receivable	127,759	138,454
Less: Provision for impairment		
Stage 1	(1,902)	(529)
Stage 2	(1,491)	-
Stage 3	(2,377)	-
Net Factoring receivable	121,989	137,925

(a) Analysis of Factoring receivable on maximum exposure to credit risk

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Individually impaired factoring receivable	-	-	6,865	6,865
Factoring receivable - subject to collective impairment	108,105	11,889	900	120,894
Allowance for expected credit losses (ECL)	(1,902)	(1,491)	(2,377)	(5,770)
	106,203	10,398	5,388	121,989

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Individually impaired factoring receivable	-	-	-	-
Factoring receivable - subject to collective impairment	138,454	-	-	138,454
Allowance for expected credit losses (ECL)	(529)	-	-	(529)
	137,925	-	-	137,925

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	529	-	-	529
(Reversal) / charge to income statement [Note 10]	1,373	1,491	2,377	5,241
Write off impact	-	-	-	-
Balance as at 31 December 2020	1,902	1,491	2,377	5,770

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2019	4,261	-	236	4,497
(Reversal) / charge to income statement [Note 10]	(3,732)	-	112	(3,620)
Write off impact	-	-	(348)	(348)
Balance as at 31 December 2019	529	-	-	529

22.4 Device finance receivables

	31 December 2020	31 December 2019
Device finance rental receivable	-	453,503
Device finance rental in arrears	-	196,786
	-	650,289
Unearned loan income	-	(31,572)
Insurance claims received	-	(139)
Gross investment in device finance	-	618,578
Less: Provision for impairment		
Stage 1	-	(7,343)
Stage 2	-	(19,575)
Stage 3	-	(186,412)
Net investment in device finance receivables	-	405,248

(a) Subsequent to the approval received from the Central Bank of Sri Lanka, the Company's device finance portfolio, as at 1 October 2020, amounting to LKR 96.8 Mn, was transferred to Telecard (Private) Limited, a wholly owned subsidiary of Dialog Broadband Networks (Private) Limited, for a consideration of LKR 96.8 Mn.

(b) Analysis of device finance receivable on maximum exposure to credit risk

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Individually impaired device finance receivable	-	-	-	-
Device finance receivable - subject to collective impairment	-	-	-	-
Allowance for expected credit losses (ECL)	-	-	-	-
	-	-	-	-

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Individually impaired device finance receivable	-	-	-	-
Device finance receivable - subject to collective impairment	258,487	57,400	302,691	618,578
Allowance for expected credit losses (ECL)	(7,343)	(19,575)	(186,412)	(213,330)
	251,144	37,825	116,279	405,248

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

22. Financial assets at amortised cost - Loans and advances (Contd.)

22.4 Device finance receivables (Contd.)

(c) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	7,343	19,575	186,412	213,330
Charge / (reversal) to income statement [Note 10]	(1,579)	4,496	36,354	39,270
Write off impact	-	-	-	-
Sale of Portfolio	(5,764)	(24,071)	(222,766)	(252,600)
Balance as at 31 December 2020	-	-	-	-

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2019	8,894	27,701	61,868	98,463
Charge / (reversal) to income statement [Note 10]	(1,551)	(8,126)	124,544	114,867
Balance as at 31 December 2019	7,343	19,575	186,412	213,330

22.5 Other loans and advances

	31 December 2020	31 December 2019
Gross investment in other loans and advances	523,439	199,759
Other loans and advances in arrears	33,661	39,596
	557,100	239,355
Unearned loan income	(36,381)	(45,899)
	520,719	193,456
Revolving loan	57,324	146,218
Cheque discounting	1,384	86,667
Merchant loan	8,510	43,643
Net investment in other loans and advances	587,937	469,984
Less: Provision for impairment		
Stage 1	(632)	(3,927)
Stage 2	(13,342)	(3,328)
Stage 3	(40,897)	(129,172)
Net investment in other loans and advances after impairment	533,066	333,557

(a) Analysis of loan receivable on maximum exposure to credit risk

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Individually impaired loan receivable	-	-	45,926	45,926
Loan receivable - subject to collective impairment	418,917	103,717	19,377	542,011
Allowance for expected credit losses (ECL)	(632)	(13,342)	(40,897)	(54,871)
	418,285	90,375	24,406	533,066

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Individually impaired loan receivable	-	-	188,245	188,245
Loan receivable - subject to collective impairment	249,717	15,460	16,562	281,739
Allowance for expected credit losses (ECL)	(3,927)	(3,328)	(129,172)	(136,427)
	245,790	12,132	75,635	333,557

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	3,927	3,328	129,172	136,427
(Reversal) / charge to income statement [Note 10]	(3,295)	10,014	13,945	20,664
Write off	-	-	(102,220)	(102,220)
Balance as at 31 December 2020	632	13,342	40,897	54,871

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2019	2,072	5,709	132,639	140,420
(Reversal) / charge to profit or loss [Note 10]	1,855	(2,381)	(3,467)	(3,993)
Balance as at 31 December 2019	3,927	3,328	129,172	136,427

22.6 Margin trading receivables

	31 December 2020	31 December 2019
Opening balance	98,619	53,885
Decrease in net position	-	1,624
Net payment and receipts	10,907	43,110
Margin trading receivable	109,526	98,619
Less: Provision for impairment		
Stage 1	(605)	(1,833)
Margin trading receivable (net of provisions)	108,921	96,786

(a) Analysis of loan receivable on maximum exposure to credit risk

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Individually impaired margin trading receivable	-	-	-	-
Margin trading receivable - subject to collective impairment	109,526	-	-	109,526
Allowance for expected credit losses (ECL)	(605)	-	-	(605)
	108,921	-	-	108,921

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Individually impaired margin trading receivable	-	-	-	-
Margin trading receivable - subject to collective impairment	98,619	-	-	98,619
Allowance for expected credit losses (ECL)	(1,833)	-	-	(1,833)
	96,786	-	-	96,786

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

22. Financial assets at amortised cost - Loans and advances (Contd.)

22.6 Margin trading receivables (Contd.)

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2020	1,833	-	-	1,833
Charge / (reversal) to income statement [Note 10]	(1,228)	-	-	(1,228)
Write off	-	-	-	-
Balance as at 31 December 2020	605	-	-	605

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2019	1,113	-	2,327	3,440
Reversal to profit or loss [Note 10]	720	-	-	720
Write off	-	-	(2,327)	(2,327)
Balance as at 31 December 2019	1,833	-	-	1,833

23. Financial assets fair value through other comprehensive income

	31 December 2020	31 December 2019
Financial assets at fair value through other comprehensive income (FVOCI)	2,098	1,980
	2,098	1,980

(a) Financial assets at fair value through other comprehensive income consist of 100 shares invested in unquoted shares of Credit Information Bureau of Sri Lanka.

(b) During the period ended 31 December 2020, the Company received dividends of Rs. 320,000 (31 December 2019 - Rs. 242,905) from unquoted equity investments and recognised as other operating income.

24. Financial investments at amortised cost

	31 December 2020	31 December 2019
Financial investment at amortised cost	2,186	2,085
	2,186	2,085

The Company has classified its investments in government debt securities - Treasury bonds and Treasury bills as financial investment at amortised cost.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

25. Other assets

	31 December 2020	31 December 2019
Other financial assets		
Amounts due from related companies	165,104	223,026
Advance received	95	157
eZ cash collection receivable	113	16
Facilitation fee receivable	-	1,045
Total other financial assets	165,312	224,244
Other non-financial assets		
Deposits and prepayments	8,024	11,629
Other receivable	11,076	11,069
VAT on financial service overpayment	9,867	9,867
Deposit insurance overpayment	139	139
Total other non-financial assets	29,106	32,704
Total other assets	194,418	256,948

26. Leases

This note provides information for leases where the Company is a lessee.

26.1 Amounts recognised in the statement of financial position

	31 December 2020	31 December 2019
Right-of-use assets		
Buildings	24,100	30,934
	24,100	30,934
Lease liabilities		
Current	5,484	12,464
Non-current	19,482	17,339
	24,966	29,803

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

26. Leases (Contd.)

26.2 Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	Year ended 31 December 2020	9 months ended 31 December 2019
Depreciation charge of right-of-use assets	7,910	7,413
Interest expense	832	4,013

26.3 Amounts presented in the statement of cash flows

	Year ended 31 December 2020	9 months ended 31 December 2019
Total cash outflow for leases	6,635	13,385

26.4 Right-of-use (ROU) assets

	31 December 2020	31 December 2019
At beginning of the year / period	30,934	38,062
Remeasurement	-	285
Addition	27,350	-
Disposal	(26,274)	-
Depreciation during the year / period	(7,910)	(7,413)
At end of the year / period	24,100	30,934

The Company changed their Colombo branch premises from No: 33, Level 2, Parkland 1, Parkland Street, Colombo 02 to 1st Floor, No.57, Srimath Anagarika, Dharmapala Mawatha, Colombo 03 with effect from 25 July 2020. The net change in the lease assets are reflected in the addition to and disposal of ROU assets above.

26.5 Lease liabilities

	31 December 2020	31 December 2019
At beginning of the year / period	29,803	38,837
Addition	27,350	-
Derecognition	(26,384)	-
Payments during the year / period	(6,635)	(13,385)
Interest for the year / period	832	4,351
At end of the year / period	24,966	29,803

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

27. Property, plant and equipment

	Land and buildings	Machinery and equipment	Furniture, fittings and other equipment	Computers	Motor vehicles	Total
At 31 December 2020						
Cost	23,835	8,759	26,676	69,928	240	129,438
Accumulated depreciation	(7,347)	(3,132)	(5,501)	(35,663)	(240)	(51,883)
Net book amount	16,488	5,627	21,175	34,265	-	77,555
Year ended 31 December 2020						
Opening net book amount	17,295	5,270	21,774	44,106	-	88,445
Additions	-	6,481	22,437	4,819	-	33,737
Disposals - Cost	-	(6,398)	(23,311)	-	-	(29,709)
Disposals - Accumulated depreciation	-	1,592	2,808	-	-	4,400
Depreciation charge	(807)	(1,318)	(2,533)	(14,660)	-	(19,318)
Closing net book amount	16,488	5,627	21,175	34,265	-	77,555
Period ended 31 December 2019						
Opening net book amount	17,899	5,295	18,608	24,585	-	66,387
Additions	-	1,175	5,489	27,903	-	34,567
Disposals - Cost	-	-	(14)	(562)	-	(576)
Disposals - Accumulated depreciation	-	-	14	562	-	576
Depreciation charge	(604)	(1,200)	(2,322)	(8,382)	-	(12,508)
Closing net book amount	17,295	5,270	21,774	44,106	-	88,445
At 31 December 2019						
Cost / valuation	23,835	8,676	27,550	65,109	240	125,410
Accumulated depreciation	(6,540)	(3,406)	(5,776)	(21,003)	(240)	(36,965)
Net book amount	17,295	5,270	21,774	44,106	-	88,445

27.1 Property, plant and equipment acquired during the financial period / year

During the financial period, the Company acquired property, plant and equipment to the aggregate value of Rs. 33.74 Mn (31 December 2019 - Rs. 34.57 Mn).

27.2 Fully depreciated property, plant and equipment

Cost of fully depreciated property, plant and equipment, which are still in use as at 31 December 2020 is Rs. 24.33 Mn. (31 December 2019 – Rs. 11.47 Mn).

27.3 Information on the freehold land and buildings of the Company

Address	Land extent (A-R-P)	Building extent (Sq.Ft.)	No of buildings	Cost		Carrying amount of land and building	
				Land	Building	31 Dec 2020	31 Dec 2019
No : 21, Kumara Veediya, within Ward No: 19 of Kandy Municipal Council, Kandy District, Central Province	0A-0R-4.75P	3,040	1	8,313	15,522	16,488	17,295

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

28. Intangible assets

	Software	Capital work-in progress (CWIP)	Total
At 31 December 2020			
Cost	126,441	6,858	133,299
Accumulated amortisation	(33,600)	-	(33,600)
Net book amount	92,841	6,858	99,699
Year ended 31 December 2020			
Opening net book amount	82,572	-	82,572
Additions	24,140	6,858	30,998
Amortisation charge	(13,871)	-	(13,871)
Closing net book amount	92,841	6,858	99,699
At 31 December 2019			
Cost / valuation	102,298	-	102,298
Accumulated amortisation	(19,726)	-	(19,726)
Net book amount	82,572	-	82,572
Period ended 31 December 2019			
Opening net book amount	57,782	29,966	87,748
Additions	40,791	-	40,791
Disposals / Transfers	(7,679)	(29,966)	(37,645)
Amortisation charge	(8,322)	-	(8,322)
Closing net book amount	82,572	-	82,572

28.1 Intangible assets acquired during the financial year / period

During the financial period, the Company acquired intangible assets (computer software) to the aggregate value of Rs. 31.0 Mn. (31 December 2019 - Rs. 40.8 Mn).

28.2 Intangible assets transferred during the financial year ended 31 December 2019

During the financial year ended 31 December 2019, the Company transferred intangible assets to the aggregate value of Rs. 33.7Mn to Telecard (Private) Limited, which is a subsidiary of parent company's subsidiary Dialog Broadband Networks (Private) Ltd.

28.3 Fully amortised intangible assets

There were no fully amortised intangible assets of the Company as at 31 December 2020. (31 December 2019: Nil).

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

29. Deferred tax asset

(a) The movement on the deferred income tax asset account is as follows:

	Accelerated depreciation for tax purposes		Equity securities FVOCI	Provision for loan losses	Retirement benefit obligation	Tax loss on leasing operation	Total
	Property plant and equipment	Leased assets					
Balance as at 1 January 2020	7,401	5,162	163	(37,052)	(2,318)	(10,304)	(36,948)
Income statement (Note 15.1)	(924)	(4,242)	-	30,662	63	(112,339)	(86,780)
Other comprehensive income	-	-	12	-	(104)	-	(92)
Balance as at 31 December 2020	6,477	920	175	(6,390)	(2,359)	(122,643)	(123,820)
Balance as at 31 April 2019	3,933	10,289	-	(39,871)	(1,536)	(9,763)	(36,948)
Income statement (Note 15.1)	3,468	(5,127)	-	2,819	(729)	(541)	(110)
Other comprehensive income	-	-	163	-	(53)	-	110
Balance as at 31 December 2019	7,401	5,162	163	(37,052)	(2,318)	(10,304)	(36,948)

The total temporary differences of Rs. 623.3Mn arising from tax losses and tax credits has resulted in deferred tax asset amounted to Rs. 174.5Mn as at 31 December 2020. Carried forward tax losses resulted from investments and operating performance of the Company over the past years. Inland Revenue Act No.24 of 2017 specifies that tax losses could be carried forward for a period of six years, to claim against taxable profits. Any carried forward tax losses prior to year of assessment 2018/2019 shall be treated as loss incurred in the year of assessment 2018/2019.

Based on the internal assessment carried out by the management of the company, the recognition of deferred tax asset as at 31 December 2020 has been limited to Rs. 123.8Mn and the unrecognized deferred tax asset as at 31 December 2020 was Rs. 51.9Mn.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits based on the future plans of the Company. The company envisaged to achieve business growth by expanding assets book and FinTech products portfolio across the country leveraging on technology platforms, an extensive distribution network, and customer base.

(b) Deferred tax asset is recognized at the rate of 28% during the year ended 31 December 2020 and the period ended 31 December 2019.

30. Financial liabilities at amortised cost – due to customers

	31 December 2020	31 December 2019
Financial liabilities at amortised cost – due to customers	1,054,141	811,209
Amortised interest payable	10,034	7,660
	1,064,175	818,869

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

31. Retirement benefit obligations

31.1 Defined benefit obligation

(a) The movement in the present value of defined benefit obligation over the year / period is as follows :

	31 December 2020	31 December 2019
At 1 January / 1 April	7,900	6,717
Current service cost	1,640	1,128
Interest expense	809	572
Total amount recognized in comprehensive income	2,449	1,700
Amount recognized in other comprehensive income		
Remeasurement losses on defined benefit obligations	374	192
Total amount recognized in other comprehensive income	374	192
Benefits paid	(2,294)	(710)
At 31 December	8,429	7,900

This obligation is not externally funded.

An actuarial valuation of the gratuity fund was carried out as at 31 December 2020 by Mr. Poopalanathan AIA of Messrs Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuary. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Actuarial Cost Method", recommended by Sri Lanka Accounting Standard - LKAs 19 (Employee Benefits).

31.2 Key assumptions used in the above valuation are as follows:

	31 December 2020	31 December 2019
Discount rate per annum	6.74%	10.24%
Future salary increment rate	10.00%	10.00%
Retirement age (years)	55 years	55 years
Mortality	A 1967/70 Mortality Table	A 1967/70 Mortality Table

Expected average future working life of the active participants is 6.72 years (31 December 2019 - 8.66 years).

31.3 The sensitivity of the defined benefit obligation to changes in the principal assumptions is as follows:

	Change in assumption	31 December 2020		31 December 2019	
		Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by 6.00%	Increase by 6.68%	Decrease by 5.83%	Increase by 6.55%
Future salary growth rate	1.00%	Increase by 6.63%	Decrease by 6.08%	Increase by 6.69%	Decrease by 6.06%

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

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(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

31.4 Maturity profile of defined benefit obligation

The distribution of the timing of undiscounted benefit payments is as follows:

	31 December 2020	31 December 2019
Within the next 12 months	778	1,625
Between 1-2 years	1,555	1,132
Between 3-5 years	3,385	1,815
Between 6-10 years	4,571	1,815
Beyond 10 years	3,597	1,513
	13,886	7,900
Weighted average duration of defined benefit obligation	6.72 years	6.76 years

32. Other liabilities

	31 December 2020	31 December 2019
Financial liabilities		
Other financial liabilities	41,249	42,814
Amounts due to related companies	28,462	11,056
Vendor payable	1,509	11,497
Payable to margin trading customers	3,609	416
Total financial liabilities	74,829	65,783
Other non-financial liabilities		
Other payable	732	7,945
Advances received from repossessed assets	34	34
Sports club payable	185	86
Total other non-financial liabilities	951	8,065
Total other liabilities	75,780	73,848

33. Stated capital

	31 December 2020		31 December 2019	
	Number of shares	Amount	Number of shares	Amount
Authorized, Issued and fully paid Ordinary shares				
Ordinary Shares as at 1 January 2020 / 1 April 2019	91,336,974	1,673,165	72,233,816	909,038
Right issue (a)	17,446,388	701,344	19,103,158	764,127
Ordinary Shares as at 31 December 2020 / 31 December 2019	108,783,362	2,374,509	91,336,974	1,673,165

(a) Rights issue

	Year ended 31 December 2020	9 months ended 31 December 2019
Total amount raised from the rights issue	701,344	764,127
Rights issue expenses	(1,451)	(1,679)
Net proceeds from the rights issue	699,893	762,448

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

33. Stated capital (Contd.)

(a) Rights issue (Contd.)

- (i) The Company issued 17,446,388 ordinary shares by way of a Rights Issue in the proportion of seventeen (17) Ordinary Shares for eighty-nine (89) Ordinary shares held in the capital of the Company and shares were listed on 3 June 2020. The Company raised Rs. 701,344,798 from the Rights Issue and increased the Stated Capital of the Company from Rs. 1,673,164,542 representing 91,336,974 shares to Rs. 2,374,509,340 representing 108,783,362 shares.
- (ii) The Company issued 19,103,158 ordinary shares by way of a rights issue in the proportion of thirty two (32) ordinary shares for one hundred and twenty one (121) ordinary shares held in the capital of the Company and shares were listed on 26 April 2019. The Company raised Rs. 764,126,320 from the Rights Issue and increased the stated capital of the Company from Rs. 909,038,222 representing 72,233,816 shares to Rs. 1,673,164,542 representing 91,336,974 shares.

34. Statutory reserve funds

	31 December 2020	31 December 2019
Balance as at 1 January / 1 April	11,361	11,361
Transfers during the year / period	-	-
Balance as at 31 December	11,361	11,361

The statutory reserve fund is maintained by Finance Companies (Capital Funds) Direction No. 1 of 2003 as per Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly, 5% of the net profit for the year transferred to Reserve fund as long as the capital funds are not less than 25% of total deposit liabilities.

35. Other reserves

The movement of the reserves is as follows:

	Fair value through other comprehensive income	Retained earnings/ (accumulated losses)	Total
Balance at 1 January 2020	1,471	(232,335)	(230,864)
Loss for the period	-	(99,519)	(99,519)
Other comprehensive income, net of tax	106	(270)	(164)
Total comprehensive income for the period	106	(99,789)	(99,683)
Rights issue expense	-	(1,451)	(1,451)
Balance as at 31 December 2020	1,577	(333,575)	(331,998)
Balance at 1 April 2019	-	(86,851)	(86,851)
Loss for the period	-	(143,666)	(143,666)
Other comprehensive income, net of tax	1,471	(139)	1,332
Total comprehensive income for the period	1,471	(143,805)	(142,334)
Rights issue expense	-	(1,679)	(1,679)
Balance as at 31 December 2019	1,471	(232,335)	(230,864)

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

36. Fair value of asset and liabilities

The following describes the methodologies and assumptions used to determine fair value of those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income primarily consist of unquoted equity securities. Determination of the fair value of unquoted equity is detailed in Note 36.2.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices.

Variable rate financial instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

36.1 Assets and liabilities measured at fair value and fair value hierarchy

The following table represents the fair value level of the financial assets and liabilities that are measured at fair value at the end of the reporting period.

	Level 1		Level 3		Total	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
As at 31 December						
Financial Assets						
Financial assets at FVTPL	1,513	1,286	-	-	1,513	1,286
Financial assets at FVTOCI	-	-	2,098	1,980	2,098	1,980
	1,513	1,286	2,098	1,980	3,611	3,266

36.2 Valuation inputs and relationship to fair value

The following table summaries the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	Fair value		Unobservable input	Range of inputs		Relationship of unobservable inputs to fair value
	31 Dec 2020	31 Dec 2019		31 Dec 2020	31 Dec 2019	
Unlisted equity securities	2,098	1,980	Adjusted net assets value per share	21	20	31 December 2019: increasing / decreasing adjusted net assets per share by 5% would change the fair value by Rs 99,000. 31 December 2020: increasing / decreasing adjusted net assets per share by 5% would change the fair value by Rs 105,000.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

36. Fair value of asset and liabilities (Contd.)

36.2 Valuation inputs and relationship to fair value (Contd.)

The following table summaries the movement of recurring FV measurement categorized within level 3.

	31 December 2020	31 December 2019
Amount as at the beginning of the period	1,980	346
Total gain / (loss) included under the other comprehensive income	118	1,634
Amount as at the end of the period	2,098	1,980

36.3 Financial instruments not measured at fair value and fair value hierarchy

The following table sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy used:

	Carrying value	Quoted prices in active markets	Significant observable input	Significant unobservable inputs	Total
		Level 1	Level 2	Level 3	
As at 31 December 2020					
Financial assets					
Financial assets at amortised cost -					
Loans and advances	806,332	-	806,332	-	806,332
Financial investments at amortised cost (Treasury bonds)	2,186	-	2,186	-	2,186
Total financial assets	808,518	-	808,518	-	808,518
As at 31 December 2019					
Financial assets					
Financial assets at amortised cost -					
Loans and advances	1,023,629	-	1,023,629	-	1,023,629
Financial investments at amortised cost (Treasury bonds)	2,085	-	2,085	-	2,085
Total financial assets	1,025,714	-	1,025,714	-	1,025,714

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values since, they are short term in nature or re-priced to current market rates frequently.

Assets

Cash and bank balances
 Securities purchased under repurchase agreements
 Placements with financial institutions
 Financial investments at amortised cost (Treasury Bills)
 Other assets

Liabilities

Other payables

All of the resulting fair value estimates are included in level 2, except for fair value hierarchies disclosed elsewhere in the financial statements, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

37. Commitments and contingencies

	31 December 2020	31 December 2019
Commitments		
Commitment for unutilised facilities		
- Factoring	276,431	198,589
Capital commitments	26,026	26,463
	302,457	225,052
Contingent liabilities		
Guarantees	-	-
	-	-
Total commitments and contingencies	302,457	225,052

37.1 Commitment and contingencies

As at 31 December 2020	On demand	Within 01 year	1 - 5 years	More than 5 years	Total
Commitments					
Commitment for unutilised facilities					
- Factoring	276,431	-	-	-	276,431
Capital commitments	-	26,026	-	-	26,026
	276,431	26,026	-	-	302,457
Contingent liabilities					
Guarantees	-	-	-	-	-
Total commitments and contingencies	276,431	26,026	-	-	302,457

As at 31 December 2019	On demand	Within 01 year	1 - 5 years	More than 5 years	Total
Commitments					
Commitment for unutilised facilities					
- Factoring	198,589	-	-	-	198,589
Capital commitments	-	26,463	-	-	26,463
	198,589	26,463	-	-	225,052
Contingent liabilities					
Guarantees	-	-	-	-	-
Total commitments and contingencies	198,589	26,463	-	-	225,052

37.2 Litigation filed by the Company / against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigations against the Company as at 31 December 2020 which would have a material impact on the financial statements.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

38. Events after the reporting period

No circumstances have arisen since the statement of financial position date which requires adjustments to or disclosures in the financial statements.

39. Significant unusual events or transactions affecting assets, liabilities, equity, net income or cash flows

COVID-19 pandemic has resulted in a substantive shift in management's focus towards ensuring the continued safety of people, uninterrupted services to customers, compliance with guidelines issued by various government authorities and continuity of critical business operations in line with our re-assessed business continuity plan.

The outbreak and the associated developments impacted the business, our customers and staff due to restrictions on movement and economic slowdown. The Company remains committed to support the personal and corporate customers and has adhered to the guidelines and directions issued by the Government and CBSL, when providing financial support and relief to sectors of the economy impacted by the pandemic. The aforesaid relief measures and related restrictions had an adverse impact on the earnings and expected credit losses on loans and advances of the Company.

Despite the isolation measures implemented by the authorities, due to the second wave of the outbreak in early October 2020, business activity recovered across the country and the Company saw a gradual improvement in recoveries.

The current unprecedented situation is yet evolving and the future impact will heavily depend on the complete removal of restrictions and time taken for economic activity to rebound to pre COVID-19 levels. The Company has resorted to aggressive cost rescaling and rationalisation initiatives both in operating and capital expenditure to soften the impact on the business.

There were no other unusual events or transactions affecting assets, liabilities, equity, net income or cash flows due to their nature, size or incidence for the year ended 31 December 2020.

40. Comparative information

The comparative information is reclassified wherever necessary to conform to the current period's presentation.

41. Related party transactions

- (a) All related party transactions were entered into in the normal course of business and at prices available at negotiated terms. The names of these related parties, nature of these transactions and their total value have been set out in accordance with the provisions of LKAS 24: "Related Party Disclosure".
- (b) Dialog Axiata PLC owns 99.05% of the total number of shares in issue of the Company. The remaining 0.95% of the shares are widely held. The ultimate parent of the Company is Axiata Group Berhad.
- (c) **Transactions with Key Management Personnel**

Key management personnel include members of the Board of Directors of the Company.

	Year ended 31 December 2020	9 months ended 31 December 2019
Directors' fees and short-term employee benefits	21,075	16,746
	21,075	16,746

In addition to the above, the Company has also paid for fuel and medical benefits to KMP who are employees of the Company in line with the approved benefit plans of the Company.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

41.1 Transactions, arrangements and agreements involving KMP and their close family members (CFMs)

(a) Loans and advances granted

No loans or advances were given to Key Management Personnel and their close family members during the period.

(b) Deposits and borrowings from KMPs are detailed below.

No borrowing through debt instruments were made or no investments were made by key management personnel during the period.

41.2 Transactions, arrangements and agreements involving with related entities of KMPs.

(a) Loans and advances

There were no loan and advances granted to related companies of the KMPs of the Company.

41.3 Transactions with group companies

(a) Dialog Axiata PLC- Parent Company

The Company has not obtained any loans or facilities from parent company except as disclosed below.

Fixed deposit liability

	31 December 2020	31 December 2019
Opening balance 1 January / 1 April	450,686	423,914
Deposit received during the year / period	-	26,962
Interest accrued / (paid) during the year /period	29,040	(190)
Closing balance as at 31 December	479,726	450,686

Fixed deposits placed by Dialog Axiata PLC carries interest at market value.

(b) In addition to the above, the Company had the following receivable / payable balances with Dialog Axiata

	31 December 2020	31 December 2019
Receivable	132,746	195,729
Payable	91,630	461,662

(c) The Company transferred furniture fittings & other equipment amounted to Rs. 26,229,329/- to Dialog Axiata PLC during the year ended 31 December 2020 .

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

41. Related party transactions (Contd.)

41.3 Transactions with group companies (Contd.)

(d) Transactions during the year / period in the ordinary course of business with Dialog Axiata PLC, are set out below.

	31 December 2020	31 December 2019
Expenses		
Interest paid	29,040	26,962
Secondment staff cost	35,307	41,325
Collection commission fee	4,397	3,649
Telecommunication expenses	1,338	656
Issue of shares		
Proceeds from rights issue of shares	701,311	764,127

(e) Outstanding loans and advances - Apigate (Private) Limited (Associate of ultimate parent company - formerly known as "WSO2 Teleco (Private) Limited")

	31 December 2020	31 December 2019
Opening balance as at 1 January / 1 April	30,440	-
Granted during the year / period	102,000	66,000
Interest income	5,230	1,919
Less: Repayment	(107,226)	(37,479)
Closing balance at 31 December	30,444	30,440
Net accommodation as a percentage of Capital Funds	1%	3%

(f) Telecard (Private) Limited (Sub-subsidiary of parent company)

	31 December 2020	31 December 2019
Payables		
Savings	5,601	1,358
Receivables		
Loan	98,308	-
Other receivable	36,536	33,699
	134,844	33,699
Net accommodation as a percentage of Capital Funds	5%	0%

The Company transferred intangible assets to the aggregate value of LKR 33,699,198/- to Telecard (Private) Limited during the period ended 31 December 2019.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

(g) Transactions during the year / period in the ordinary course of business with Dialog Broadband Networks (Private) Limited, are set out below.

	Year ended 31 December 2020	Nine months ended 31 December 2019
Expenses		
IT Expenses	36,745	21,669

(h) Transactions during the year / period in the ordinary course of business with Telecard (Private) Limited are set out below.

	Year ended 31 December 2020	Nine months ended 31 December 2019
Income		
Interest Income	1,432	-

(i) Transactions during the year / period in the ordinary course of business with Apigate (Private) Limited, are set out below.

	Year ended 31 December 2020	Nine months ended 31 December 2019
Income		
Interest Income	5,230	1,919

42. Risk management

42.1 Introduction

Risk is inherent in all aspects of financial business activities and whilst many of these risks cannot be eliminated, they can however be identified, quantified and controlled. Company had implemented a robust Enterprise Risk Management system for identifying, assessing, monitoring and managing material risk throughout the organisation, which includes:

- Oversight of the risk management system.
- Examination of the Company's risk profile which contains a description of the material risks faced by the Company including financial and non-financial matters.
- Mechanism to review, at least annually, the effectiveness of the Company's implementation of the risk management system.

This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

42. Risk management (Contd.)

42.1 Introduction (Contd.)

(a) Risk Governance

The Board of Directors have overall responsibility to ensure that an effective Risk Management framework is developed and implemented across the Company and the Board have delegated this responsibility to the Board Integrated Risk Management Committee (BIRMC). The BIRMC was set up to fulfil the requirements set out in the Finance companies Direction No. 3 of 2008 on Corporate Governance for Finance Companies issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act, No.42 of 2011. This subcommittee will be primarily responsible for the following,

- Assess all credit, market, liquidity, operation and strategic risk.
- Review the adequacy and effectiveness of all management level committees and ALCO.
- Adequacy of the Company's capital.
- Risk exposures and risk profiles of the Company are within the Risk Appetite and to make recommendations to the Board of Directors on any action required.
- Ensure the Company is compliant with relevant laws, regulations and standards.

The BIRMC Committee currently consists membership of 3 Directors (appointed by the Board), Chief Executive Officer and key management personnel from Risk Management, Finance and Operations.

The Assets and Liability Committee (ALCO) of the Company meets every month to assess and discuss the Risk relating to Market, Liquidity, Assets and liabilities. Credit and Investment related risks are also reviewed. Significant decisions made by ALCO is updated to the Board Integrated Risk Management Committee and to the Board of Directors on a quarterly basis.

Board approved Risk management policy provides the guidelines to identify analyse and manage the risks faced by the Company and to ensure the risks are maintained within the risk appetite of the Company through necessary controls and setting of limits. The policy also stipulates the process of ongoing monitoring of the identified risks. Risk policy and Risk Management framework are reviewed regularly to reflect changes in the market conditions, products and services offered. Employees of the Company are constantly provided with updates and are enlightened of their roles and responsibilities through training, procedures and disciplined control environment maintained by the Company.

The Company adopts the Three Lines of Defence model in managing risks. The oversight responsibilities are outlined below,

(i) 1st Line of Defence

Department Head / Manager should identify, assess, monitoring and reporting risks.

(ii) 2nd Line of Defence

Head Risk Management, Head Legal & Compliance, ALCO and BIRMC will develop, implement and monitor effective Enterprise Risk Management Framework to ensure risks are within the risk appetite of the Company.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

(iii) 3rd Line of Defence

Oversight by Internal Audit and Board Audit Committee

In addition to the BIRM Committee and ALCO, the Enterprise Risk Management function in the Company is carried out by Risk Management Department (RMD). RMD is responsible for implementing and maintaining the risk management framework including, implementing the risk policy, maintaining the risk registers and ensuring risk mitigating actions are taken by closely working with the relevant departments in the Company. This unit submits a monthly report to Board on identified key risks to the Company.

Based on the above the Company is exposed to Credit Risk, Market Risk- Interest Rate Risk, Liquidity Risk, Regulatory and Compliance Risk, Operations Risk and Reputation Risk.

42.2 Credit Risk

Credit risk, or default risk, is the risk that a financial loss will be incurred if a counterparty to a (derivatives) transaction does not fulfil its financial obligations in a timely manner. It is therefore a function of the following: the value of the position exposed to default (the credit or credit risk exposure); the proportion of this value that would be recovered in the event of a default; and the probability of default. The risk is primarily that of the lender and includes lost capital and interest, disruption to cash flows, and results in accelerated recovery costs.

The strategy of Company is not to eliminate credit risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

Managing Credit Risk

The Company manages its credit risk through a robust credit model that considers the behavioural pattern of individual customers. In addition, the company also carries out rigorous screening and review process of facilities granted to corporates and their loan limits are assigned considering the collateral, the repayment ability, Guarantors and financial position of the borrower.

Post disbursement of the facility, ongoing monitoring is carried out by Credit Risk Management Department whilst also carrying out monthly performance review of Corporate clients to identify potential warning signs of default and taking corrective action such as reporting to the relevant relationship managers.

(a) Impairment Assessment

The model of impairment assessment has been explained in Note 5.3 under Accounting policies. The references below should be read in conjunction with those Accounting policies.

(i) Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Company considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements. As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

41. Risk management (Contd.)

41.2 Credit Risk (Contd.)

(a) Impairment Assessment (Policy applicable from 1 April 2018) (Contd.)

(i) Definition of default and cure (Contd.)

- Internal assessment of the borrower indicating default and near-default
- The borrower requesting emergency funding from the Company
- The borrower having past due liabilities to public creditors
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived off by the Company
- The debtor (or any legal entity within debtor's group) filing for bankruptcy
- Debtor's listed debt or equity is suspended at the primary exchange because of rumors or facts about financial difficulties

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

(ii) Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. The Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk basing on its age movements and the exposure defaults basing on the objective evidences.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

42. Risk management (Contd.)

42.2 Credit Risk (Contd.)

(b) Credit quality by class of financial assets

Assets	Note	At 31 December 2020				At 31 December 2019				
		Neither past due nor impaired	Past due but not individually impaired	Individually impaired	Total	Neither past due nor impaired	Past due but not individually impaired	Individually impaired	Total	%
Cash and cash equivalents	18	648,157	-	-	648,157	129,438	-	-	129,438	5.19%
Placements with financial institutions	19	1,163,725	-	-	1,163,725	647,504	-	-	647,504	25.97%
Securities purchased under repurchase agreements		77,722	-	-	77,722	76,221	-	-	76,221	3.06%
Financial assets at fair value through profit or loss	20	1,513	-	-	1,513	1,286	-	-	1,286	0.05%
Lease receivable	21.1	15,724	19,331	16,106	51,161	9,791	46,368	22,499	78,658	3.16%
Hire purchase rental receivable	21.2	-	-	2,917	2,917	-	-	6,017	6,017	0.24%
Factoring receivable	21.3	108,105	12,789	6,865	127,759	136,855	1,599	-	138,454	5.55%
Device finance receivable	21.4	-	-	-	-	191,891	426,687	-	618,578	24.82%
Other loans and advances	21.5	399,078	141,327	47,532	587,937	151,839	129,901	188,245	469,985	18.85%
Margin trading receivable	21.6	109,526	-	-	109,526	98,619	-	-	98,619	3.96%
Financial assets at fair value through other comprehensive income	20	2,098	-	-	2,098	1,980	-	-	1,980	0.08%
Financial investment at amortised cost	23	2,186	-	-	2,186	2,085	-	-	2,085	0.08%
Other financial assets	27	165,312	-	-	165,312	224,244	-	-	224,244	8.99%
Total		2,693,146	173,447	73,420	2,940,013	1,671,753	604,555	216,761	2,493,069	100.00%

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

42. Risk management (Contd.)

42.2 Credit Risk (Contd.)

(b) Credit quality by class of financial assets (Contd.)

(i) Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not individually impaired loans, by class of financial assets

	At 31 December 2020					31 December 2019				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Lease receivable	5,810	7,205	1,741	4,575	19,331	4,666	3,971	8,562	29,169	46,368
Hire purchase rental receivable	-	-	-	-	-	-	-	-	-	-
Factoring receivable	-	8	11,882	899	12,789	1,599	-	-	-	1,599
Device finance receivable	-	-	-	-	-	66,596	25,264	32,136	302,691	426,687
Other loans and advances	12,470	1,460	102,262	25,135	141,327	97,879	7,772	7,688	16,562	129,901
Total	18,280	8,673	115,885	30,609	173,447	170,740	37,007	48,386	348,422	604,555

(c) Maximum exposure to credit risk

	At 31 December 2020		At 31 December 2019	
	Maximum exposure to credit risk	Net exposure	Maximum exposure to credit risk	Net exposure
Financial assets				
Cash and bank balances	648,157	648,006	129,438	129,419
Placements with financial institutions	1,163,725	1,163,518	647,504	647,360
Securities purchased under repurchase agreements	77,722	77,722	76,221	76,221
Financial assets at fair value through profit or loss	1,513	1,513	1,286	1,286
Lease receivable	51,161	42,356	78,658	50,113
Hire purchase rental receivable	2,917	-	6,017	-
Factoring receivable	127,759	121,989	138,454	137,925
Device finance receivable	-	-	618,578	405,248
Other loans and advances	587,937	533,066	469,985	333,557
Margin trading receivable	109,526	108,921	98,619	96,786
Financial assets at fair value through other comprehensive income	2,098	2,098	1,980	1,980
Financial investments at amortised cost	2,186	2,186	2,085	2,085
Other financial assets	165,312	165,312	224,244	224,244
Total financial assets	2,940,013	2,866,687	2,493,069	2,106,224

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

(d) Analysis of risk concentration
The following table shows the risk concentration by sector for the financial assets components of the statement of financial position.

As at 31 December 2020	Manu- facturing	Tourism	Agri- culture	Trade	Cons- truction	Transport	Services	Gover- nment	Financial Institutions	Con- sumption	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	648,006	-	-	648,006
Placements with financial institutions	-	-	-	-	-	-	-	-	1,163,518	-	-	1,163,518
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	-	77,722	-	-	77,722
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	1,513	1,513
Lease receivable	-	1,325	-	-	5,339	10,844	5,381	-	-	19,467	-	42,356
Hire purchase rental receivable	-	-	-	-	-	-	-	-	-	-	-	-
Factoring receivable	-	-	-	2,280	70,728	24,694	16,281	-	8,006	-	-	121,989
Device finance receivable	-	-	-	-	-	-	-	-	-	-	-	-
Other loans and advances	14,894	-	-	130,242	32,257	10,332	323,083	-	-	22,258	-	533,066
Margin trading receivable	-	-	-	-	-	-	-	-	108,921	-	-	108,921
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	2,098	2,098
Financial investments at amortised cost	-	-	-	-	-	-	-	2,186	-	-	-	2,186
Other assets	-	-	-	-	-	-	-	-	-	-	165,312	165,312
Total	14,894	1,325	-	132,522	108,324	45,870	344,745	2,186	2,006,173	41,725	168,923	2,866,687

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

42. Risk management (Contd.)

42.2 Credit Risk (Contd.)

(d) Analysis of risk concentration (Contd.)

As at 31 December 2019	Manu- facturing	Tourism	Agri- culture	Trade	Con- struction	Transport	Services	Gover- nment	Financial Institutions	Con- sumption	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	129,419	-	-	129,419
Placements with banks	-	-	-	-	-	-	-	-	647,360	-	-	647,360
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	-	76,221	-	-	76,221
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Lease receivable	274	-	-	-	839	17,368	595	-	-	-	1,286	1,286
Factoring receivable	-	-	-	1,956	85,501	31,312	19,156	-	-	31,037	-	50,113
Device finance receivable	-	-	-	-	-	-	-	-	-	-	-	137,925
Other loans and advances	55,384	-	-	62,649	55,654	17,327	114,960	-	-	405,248	-	405,248
Margin trading receivable	-	-	-	96,786	-	-	-	-	-	27,583	-	333,557
Financial investments - Available-for-sale	-	-	-	-	-	-	-	-	-	-	1,980	1,980
Financial investments - held to maturity	-	-	-	-	-	-	-	2,085	-	-	-	2,085
Other assets	-	-	-	-	-	-	-	-	-	-	224,244	224,244
Total	55,658	-	-	161,391	141,994	66,007	134,711	2,085	853,000	463,868	227,510	2,106,224

42.3 Market Risk

Market risk is the risk that arises from movements in stock prices, interest rates, exchange rates, and commodity prices. The Company has identified that Interest Rate Risk as the most critical risk to the organization.

(a) Interest Rate Risk (IRR)

Interest Rate Risk (IRR) is the loss of net interest income to the Company due to changes in the market interest rates as the Company is involved in lending to borrowers from the funds obtained as deposits from customers. It refers to the vulnerability of an institution's financial condition due to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

Managing interest rate risk

Interest rate risk is managed principally through interest rate gaps and by having pre-approved limits for re-pricing products. ALCO is the monitoring body for compliance with these limits and assisted by Finance Department. Monitoring includes changes in the Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations. Management of interest rate risk aims at capturing the risk arising from the maturity and re-pricing.

Interest Rate Risk Exposure on Non-Trading Financial Assets and Liabilities

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

As at 31 December 2020	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
Financial assets							
Cash and cash equivalents	648,006	-	-	-	-	-	648,006
Placements with financial institution	1,163,518	-	-	-	-	-	1,163,518
Securities purchased under repurchase agreements	77,722	-	-	-	-	-	77,722
Financial assets at fair value through profit or loss	-	-	-	-	-	1,513	1,513
Lease receivables	13,951	9,558	10,709	8,138	-	-	42,356
Hire purchase receivables	-	-	-	-	-	-	-
Factoring receivables	121,989	-	-	-	-	-	121,989
Device finance receivables	-	-	-	-	-	-	-
Other loans and advance receivables	196,504	118,873	134,776	82,913	-	-	533,066
Margin trading receivables	108,921	-	-	-	-	-	108,921
Financial assets at fair value through other comprehensive income	-	-	-	-	-	2,098	2,098
Financial investments at amortised cost	-	2,186	-	-	-	-	2,186
Other assets	-	-	-	-	-	165,312	165,312
Total financial assets	2,330,611	130,617	145,485	91,051	-	168,923	2,866,687
Financial liabilities							
Financial liabilities at amortised cost – due to customers	791,839	241,613	22,723	8,000	-	-	1,064,175
Lease liabilities	1,316	4,168	13,733	5,749	-	-	24,966
Other financial liabilities	-	-	-	-	-	74,829	74,829
Total financial liabilities	793,155	245,781	36,456	13,749	-	74,829	1,163,970
Interest sensitivity gap	1,537,456	(115,164)	109,029	77,302	-	94,094	1,702,717

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

42. Risk management (Contd.)

42.3 Market Risk (Contd.)

(a) Interest Rate Risk (IRR) (Contd.)

As at 31 December 2019	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
Financial assets							
Cash and cash equivalents	129,419	-	-	-	-	-	129,419
Placements with financial institutions	647,360	-	-	-	-	-	647,360
Securities purchased under repurchase agreements	76,221	-	-	-	-	-	76,221
Financial assets at fair value through profit or loss	-	-	-	-	-	1,286	1,286
Lease receivables	18,817	8,047	22,086	1,163	-	-	50,113
Hire purchase receivables	-	-	-	-	-	-	-
Factoring receivables	137,925	-	-	-	-	-	137,925
Device finance receivables	139,694	262,831	2,723	-	-	-	405,248
Other loans and advance receivables	210,788	15,374	34,143	73,252	-	-	333,557
Margin trading receivables	96,786	-	-	-	-	-	96,786
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	1,980	1,980
Financial investments at amortised cost	-	120	1,965	-	-	-	2,085
Other financial assets	-	-	-	-	-	224,244	224,244
Total financial assets	1,457,010	286,372	60,917	74,415	-	227,510	2,106,224
Financial liabilities							
Financial liabilities at amortised cost – due to customers	645,113	133,237	32,520	8,000	-	-	818,870
Lease liabilities	1,863	5,588	14,901	7,451	-	-	29,803
Other liabilities	-	-	-	-	-	65,784	65,784
Total financial liabilities	647,976	138,825	47,421	15,451	-	65,784	914,457
Interest sensitivity gap	810,034	147,547	13,496	58,964	-	161,726	1,191,767

42.4 Liquidity risk

The risk of an organization not having funds to meet its payment obligations is defined as Liquidity Risk. The Company has maintained sufficient levels during the financial period.

An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causing counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

Managing liquidity risk

Liquidity Risk is monitored and managed by ALCO and Finance Department. ALCO provides the necessary guidance to ensure that this risk is avoided by the Company. The Company ensures that it always manages the liquidity risk by having sufficient liquidity to meet its liability obligations.

The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required. A key element of these systems is monitoring and assessing the firm's current and future fund requirement including debt obligations and planning for any unexpected funding needs, regardless of whether they arise from firm-specific factors, or from systemic (economy-wide) factors.

42.4.1 Statutory liquid asset ratio

Statutory liquid asset calculation is performed based on the following calculations as prescribed in section 2, 3 and 4 of the finance companies (liquid assets) direction No.04 of 2013.

The Company's liquid asset ratio is 7.5% of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per section 4 of the said direction). Liquid assets are maintained with Sri Lanka Government securities.

42.4.2 Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

The table below summarises the maturity profile of the undiscounted cash flows of the Companies financial assets and liabilities as at 31 December 2020.

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

As at 31 December 2020	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
Financial assets						
Cash and cash equivalents	648,006	-	-	-	-	648,006
Placements with financial institutions	1,163,518	-	-	-	-	1,163,518
Securities purchased under repurchase agreements	77,722	-	-	-	-	77,722
Financial assets at fair value through profit or loss	1,513	-	-	-	-	1,513
Lease receivables	18,626	14,350	16,620	10,995	-	60,591
Hire purchase receivables	2,917	-	-	-	-	2,917
Factoring receivables	127,759	-	-	-	-	127,759
Device finance receivables	-	-	-	-	-	-
Other loans and advance receivables	221,288	142,971	166,672	93,387	-	624,318
Margin trading receivables	109,526	-	-	-	-	109,526
Financial assets at fair value through other comprehensive income	-	-	-	-	2,098	2,098
Financial investments at amortised cost	-	2,186	-	-	-	2,186
Other financial assets	-	-	-	-	-	-
Total financial assets	2,370,875	159,507	183,292	104,382	2,098	2,820,154
Financial liabilities						
Financial liabilities at amortised cost – due to depositors	793,470	252,722	26,957	11,491	-	1,084,640
Lease liabilities	1,981	5,944	16,618	6,035	-	30,578
Other liabilities	46,367	28,462	-	-	-	74,829
Total financial liabilities	841,818	287,128	43,575	17,526	-	1,190,047
Net financial assets / liabilities	1,529,057	(127,621)	139,717	86,856	2,098	1,630,107

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

42. Risk management (Contd.)

42.4 Liquidity risk (Contd.)

42.4.2 Contractual maturities of undiscounted cash flows of financial assets and financial liabilities (Contd.)

As at 31 December 2019	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
Financial assets						
Cash and cash equivalents	129,419	-	-	-	-	129,419
Placements with financial institutions	647,360	-	-	-	-	647,360
Securities purchased under repurchase agreements	76,221	-	-	-	-	76,221
Financial assets at fair value through profit or loss	1,286	-	-	-	-	1,286
Lease receivables	31,593	13,082	43,421	3,544	-	91,640
Hire purchase receivables	7,063	-	-	-	-	7,063
Factoring receivables	138,454	-	-	-	-	138,454
Device finance receivables	221,724	429,062	4,837	-	-	655,623
Other loans and advance receivables	331,744	16,539	50,302	136,532	-	535,117
Margin trading receivables	98,619	-	-	-	-	98,619
Financial assets at fair value through other comprehensive income	-	-	-	-	1,980	1,980
Financial investments-available for sale	-	120	1,965	-	-	2,085
Financial investments-held to maturity	224,244	-	-	-	-	224,244
Total financial assets	1,907,727	458,803	100,525	140,076	1,980	2,609,111
Financial liabilities						
Financial liabilities at amortised cost – due to depositors	650,107	143,575	33,742	8,000	-	835,424
Lease liabilities	3,209	9,624	23,526	-	-	36,359
Other liabilities	42,153	23,631	-	-	-	65,784
Total financial liabilities	695,469	176,830	57,268	8,000	-	937,567
Net financial assets / liabilities	1,212,258	281,973	43,257	132,076	1,980	1,671,544

43. Capital management

The Company manage its capital to ensure that it will be able to conclude as going concern while maximizing the return to standards through optimisation of the debt and equity balances. In addition, the Company is requested to maintain minimum capital as per the regulations. The Company's covered strategy remained unchanged from prior year. Extended capital requests are enforced and regulated by the Central Bank of Sri Lanka. These requests are established to ensure sufficient capital and reserves are maintained. The Company maintained capital and reserves of Rs. 2,053,872,643 as at 31 December 2020 which was above the minimum capital requirement of Rs. 2,000,000,000 as at that date.

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

44. Maturity analysis

As at 31 December 2020	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	No contractual maturity	Total
Assets						
Cash and cash equivalents	648,006	-	-	-	-	648,006
Placements with financial institutions	1,163,518	-	-	-	-	1,163,518
Securities purchased under repurchase agreements	77,722	-	-	-	-	77,722
Financial assets at fair value through profit or loss	1,513	-	-	-	-	1,513
Lease receivables	13,951	9,558	10,709	8,138	-	42,356
Hire purchase receivables	-	-	-	-	-	-
Factoring receivables	121,989	-	-	-	-	121,989
Device finance receivables	-	-	-	-	-	-
Other loans and advance receivables	196,504	118,873	134,776	82,913	-	533,066
Margin trading receivables	108,921	-	-	-	-	108,921
Financial asset at fair value through other comprehensive income	-	-	-	-	2,098	2,098
Financial investments at amortised cost	-	2,186	-	-	-	2,186
Other assets	19,308	165,104	10,006	-	-	194,418
Income tax receivable	6,255	-	-	-	-	6,255
Right-of-use assets	-	-	-	-	24,100	24,100
Property, plant and equipment	-	-	-	-	77,555	77,555
Intangible assets	-	-	-	-	99,699	99,699
Deferred tax assets	-	-	123,820	-	-	123,820
Total assets	2,357,687	295,721	279,311	91,051	203,452	3,227,222
Liabilities						
Financial liabilities at amortised cost						
Financial liabilities at amortised cost—due to customers	791,839	241,613	22,723	8,000	-	1,064,175
Retirement benefit obligations	-	-	-	-	8,429	8,429
Lease liabilities	1,316	4,168	13,733	5,749	-	24,966
Other liabilities	47,318	28,462	-	-	-	75,780
Total liabilities	840,473	274,243	36,456	13,749	8,429	1,173,350
Equity						
Stated capital	-	-	-	-	2,374,509	2,374,509
Statutory reserve fund	-	-	-	-	11,361	11,361
Fair value through other comprehensive income	-	-	-	-	1,577	1,577
Retained earnings	-	-	-	-	(333,575)	(333,575)
Total equity	-	-	-	-	2,053,872	2,053,872
Total liabilities and equity	840,473	274,243	36,456	13,749	2,062,301	3,227,222

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

44. Maturity analysis (Contd.)

As at 31 December 2019	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	No contractual maturity	Total
Assets						
Cash and cash equivalents	129,419	-	-	-	-	129,419
Placements with financial institutions	647,360	-	-	-	-	647,360
Securities purchased under repurchase agreements	76,221	-	-	-	-	76,221
Financial assets at fair value through profit or loss	1,286	-	-	-	-	1,286
Lease receivables	18,817	8,047	22,086	1,163	-	50,113
Hire purchase receivables	-	-	-	-	-	-
Factoring receivables	137,925	-	-	-	-	137,925
Device finance receivables	139,694	262,831	2,723	-	-	405,248
Other loans and advance receivables	210,788	15,374	34,143	73,252	-	333,557
Margin trading receivables	96,786	-	-	-	-	96,786
Financial asset at fair value through other comprehensive income	-	-	-	-	1,980	1,980
Financial investments-held to maturity	-	120	1,965	-	-	2,085
Other assets	23,916	223,026	10,006	-	-	256,948
Income tax receivable	6,255	-	-	-	-	6,255
Right-of-use assets	-	-	-	-	30,934	30,934
Property, plant and equipment	-	-	-	-	88,445	88,445
Intangible assets	-	-	-	-	82,572	82,572
Deferred tax assets	-	-	36,948	-	-	36,948
Total assets	1,488,467	509,398	107,871	74,415	203,931	2,384,082
Liabilities						
Financial liabilities at amortised cost—due to customers	645,112	133,237	32,520	8,000	-	818,869
Retirement benefit obligations	-	-	-	-	7,900	7,900
Lease liabilities	1,863	5,588	14,901	7,451	-	29,803
Other liabilities	62,792	11,056	-	-	-	73,848
Total liabilities	709,767	149,881	47,421	15,451	7,900	930,420
Equity						
Stated capital	-	-	-	-	1,673,165	1,673,165
Statutory reserve fund	-	-	-	-	11,361	11,361
Fair value through other comprehensive income	-	-	-	-	1,471	1,471
Retained earnings	-	-	-	-	(232,335)	(232,335)
Total equity	-	-	-	-	1,453,662	1,453,662
Total liabilities and equity	709,767	149,881	47,421	15,451	1,461,562	2,384,082

Notes to the Financial Statements

(All amounts in the notes are in Sri Lanka Rupees thousands unless otherwise stated)

45. Financial reporting by segment

For the year / period ended	Leasing and Hire purchase		Treasury/ Investments		Margin Trading		Other loan and advances		Device Financing		Unallocated		Total	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Net interest income	4,048	7,218	56,453	43,026	8,043	4,208	50,815	36,115	28,251	59,510	-	-	147,610	150,077
Net Fees and commission income / (expenses)	76	25	-	-	-	-	1,934	1,799	(49)	58,219	-	-	1,961	60,043
Other income	264	1,848	603	622	-	-	4,270	7,273	13,744	-	248	126	19,129	9,869
Operating income by segment	4,388	9,091	57,056	43,648	8,043	4,208	57,019	45,187	41,946	117,729	248	126	168,700	219,989
Total operating income	4,388	9,091	57,056	43,648	8,043	4,208	57,019	45,187	41,946	117,729	248	126	168,700	219,989
Impairment reversals / (charges) and other losses	804	2,188	(195)	(115)	1,228	(721)	(25,905)	7,614	(39,271)	(114,867)	-	-	(63,339)	(105,901)
Net operating income	5,192	11,279	56,861	43,533	9,271	3,487	31,114	52,801	2,675	2,862	248	126	105,361	114,088
Operating expenses	(5,994)	(5,078)	-	-	(15,374)	(9,807)	(92,328)	(47,772)	-	(41,061)	-	-	(113,696)	(103,718)
Depreciation and amortisation	(2,167)	(1,383)	-	-	(5,558)	(2,671)	(33,374)	(13,009)	-	(11,181)	-	-	(41,099)	(28,244)
Segment result	(2,969)	4,818	56,861	43,533	(11,661)	(8,991)	(94,588)	(7,980)	2,675	(49,380)	248	126	(49,434)	(17,874)
Personnel expenses	-	-	-	-	-	-	-	-	-	-	-	-	(136,865)	(125,902)
Loss from operations	-	-	-	-	-	-	-	-	-	-	-	-	(186,299)	(143,776)
VAT on Financial services	-	-	-	-	-	-	-	-	-	-	-	-	86,780	110
Income tax reversal	-	-	-	-	-	-	-	-	-	-	-	-	(99,519)	(143,666)
Net loss for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other information														
Balance at 31 December														
Segment assets	42,465	50,114	1,895,043	757,327	108,921	96,786	654,109	471,480	-	405,249	526,684	603,126	3,227,222	2,384,082
Total assets	42,465	50,114	1,895,043	757,327	108,921	96,786	654,109	471,480	-	405,249	526,684	603,126	3,227,222	2,384,082
Segment liabilities	61,858	45,551	-	-	158,663	87,973	952,829	428,548	-	368,348	-	-	1,173,350	930,420
Total liabilities	61,858	45,551	-	-	158,663	87,973	952,829	428,548	-	368,348	-	-	1,173,350	930,420

Five Year Summary

Income Statements

	Year ended 31 December 2020	9 months ended 31 December 2019	Year ended 31 March		
			2019	2018	2017
Interest income	214,700	198,179	231,115	204,822	172,195
Interest expense	(67,090)	(48,102)	(86,676)	(93,775)	(75,481)
Net interest income	147,610	150,077	144,439	111,047	96,714
Other income	21,090	69,912	99,473	10,262	8,360
Total operating income	168,700	219,989	243,912	121,309	105,074
Impairment charges and other losses	(63,339)	(105,901)	(133,136)	(54,117)	(143)
Net operating income	105,361	114,088	110,776	67,192	104,931
Operating expenses	(291,660)	(257,864)	(238,948)	(95,707)	(89,256)
Operating profit	(186,299)	(143,776)	(128,172)	(28,515)	15,675
Taxes on financial service	-	-	(823)	(3,248)	(6,678)
(Loss) / profit before tax	(186,299)	(143,776)	(128,995)	(31,763)	8,997
Income tax reversal / (expense)	86,780	110	(415)	9,238	(4,252)
(Loss) / profit after tax	(99,519)	(143,666)	(129,410)	(22,525)	4,745

Statements of Financial Position

	31 December 2020	31 December 2019	31 March		
			2019	2018	2017 (Restated)
Assets					
Cash and cash equivalents and short-term funds	1,889,246	853,000	272,559	271,078	48,093
Financial assets at amortised cost-loan and advances	806,332	1,023,629	991,417	852,178	1,127,386
Financial investment at a mortised cost	2,186	2,085	66,368	60,468	43,534
Property, plant and equipment and intangible assets	177,254	171,017	154,135	34,013	38,366
Other assets	352,204	334,351	136,989	41,399	26,210
Total assets	3,227,222	2,384,082	1,621,468	1,259,136	1,283,589
Liabilities and shareholders' funds					
Financial liabilities at amortised cost - due to customers	1,064,175	818,869	632,209	830,565	577,660
Borrowings	-	-	-	-	254,143
Other liabilities	109,175	111,551	155,711	18,554	18,788
Shareholders' funds	2,053,872	1,453,662	833,548	410,017	432,998
Total liabilities and shareholders' funds	3,227,222	2,384,082	1,621,468	1,259,136	1,283,589
Ratios					
Return on average assets	-6.4%	-9.0%	-9.0%	-2.5%	0.4%
Return on equity	-4.8%	-14.4%	-20.8%	-5.1%	1.0%
Net interest margin	5.3%	8.7%	9.8%	8.7%	8.0%
(Loss) / earnings per share (Rs.)	(0.98)	-1.61	-1.97	-0.48	0.1
Net asset per share (Rs.)	18.88	15.92	11.54	8.81	9.31

Share Information

Information on Ordinary Shares of the Company

Market price per share

For the year / period ended	31 December 2020 Rs.	31 December 2019 Rs.
Highest price	61.00	49.90
Lowest price	30.00	30.00
Last traded price	56.00	43.00

Shareholders' Information

Twenty largest shareholders of the Company

	Name of shareholders	31 December 2020		31 December 2019	
		No. of shares	% Holding	No. of shares	% Holding
1	Dialog Axiata PLC	107,755,303	99.05%	90,309,767	98.88%
2	Mr.R.C.J Goonewardene	217,065	0.20%	146,155	0.16%
3	J.B.Cocoshell (Pvt) Ltd	209,496	0.19%	209,496	0.23%
4	Mrs.A.A.Raaymakers	25,000	0.02%	25,000	0.03%
5	Mr. R.E Rambukwella	22,476	0.02%	22,262	0.02%
6	Mr.P.S.M Fernando	20,000	0.02%	22,601	0.02%
7	Mr. S.R.S De Saram	20,000	0.02%	N/Q	N/Q
8	People's Leasing & Finance PLC / C.D.Kohombanwickramage	17,820	0.02%	17,820	0.02%
9	Mr.B.C.V Mendis	14,727	0.01%	14,727	0.02%
10	Mr. B.C.V Mendis	13,727	0.01%	13,727	0.02%
11	Mr. S.L Paranamange	13,700	0.01%	13,700	0.01%
12	Mr.G.D.M Ranasinghe/ Mr.O.R.K Ranasinghe	13,000	0.01%	10,000	0.01%
13	Mr. R.L.G. Fernando	12,000	0.01%	12,000	0.01%
14	Mr.T Thiruthanigainathan	11,844	0.01%	12,344	0.01%
15	Mr. N.S. Wijesekara	11,813	0.01%	11,813	0.01%
16	Mr.K.N.Nandasiri / T.B.Ratna Sujeewa	10,900	0.01%	18,632	0.02%
17	Mr. O.W.D Yasapala	10,516	0.01%	11,000	0.01%
18	Mr.H.V.S.M Navaratne	10,000	0.01%	10,000	0.01%
19	Mr.T.D Mahaliyana	9,940	0.01%	9,940	0.01%
20	Citizens Development Business Finance PLC/ K.D.C. Somalatha and K Nandasiri	8,414	0.01%	N/Q	N/Q
		108,427,741	99.67%	90,890,984	99.51%
	Others	355,621	0.33%	445,990	0.49%
	Total	108,783,362	100.00%	91,336,974	100.00%

N/Q- Not qualify for top 20 shareholders as at 31 December 2019

Share Information

Directors' shareholdings

Directors'/ CEO's holding in shares as at	31 December 2020	31 December 2019
Dr. Hans Wijayasuriya*	Nil	Nil
Ms. Renuka Fernando	Nil	Nil
Mr. Supun Weerasinghe	Nil	Nil
Mr. Sheyantha Abeykoon	Nil	Nil
Mr. Priyan Edirisinghe	Nil	Nil
Mr. Roshan Hettiaratchi	Nil	Nil
Mr. Asanga Priyadarshana**	Nil	Nil
Mr. Nazeem Mohamed	Nil	Nil

* Dr. Hans Wijayasuriya stepped down from the Board as Chairman of the Company with effect from 22 May 2020.

**Mr. Asanga Priyadarshana resigned as a director and as the Chief Executive Officer of the Company with effect from 31 January 2021.

Public shareholdings

Information pertaining to public shareholding is as follows:

	31 December 2020	31 December 2019
Public holding percentage	0.95%	1.12%
Number of public shareholders	679	741

(a) Float adjusted market capitalisation as at 31 December 2020 was Rs. 57,571,304/- (31 December 2019 was Rs. 43,987,887/-)

(b) The Company is not compliant with the minimum public holding requirement under option 2 of Rule 7.13.1(b) of the Listing Rules of the Colombo Stock Exchange (CSE). Accordingly, the Company was transferred to the Second Board on 10 February 2020.

Utilisation of proceeds from the rights issue as at 31 December 2020

Rights issue – June 2020

Objective number	Objective as per Circular	Amount allocated as per Circular Rs.	Proposed date of utilisation as per Circular	Amount allocated from proceeds Rs. (A)	% of total proceeds	Amounts utilised Rs. (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
1	To utilise for lending purpose	699,739,798	Within 12 months ending June 2021	699,739,798	99.77%	-	-	Remaining funds are placed with banks
2	Expenses relating to the Rights Issue	1,605,000	-	1,605,000	0.23%	1,451,460	90%	Remaining funds are placed with banks

Share Information

Rights issue – April 2019

Objective number	Objective as per Circular	Amount allocated as per Circular Rs.	Proposed date of utilisation as per Circular	Amount allocated from proceeds Rs. (A)	% of total proceeds	Amounts utilised Rs. (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
1	To utilise for lending purpose	762,586,320	Financial year 2019/20	762,446,843	99.78%	91,446,091	12%	Remaining funds are placed with banks
2	Expenses relating to the Rights Issue	1,540,000	Financial year 2019/20	1,679,477	0.22%	1,679,477	100%	-

The proceeds of the rights issue was utilised only for the objectives specified in the circular to shareholders in respect of the issue.

Distribution of shareholders

Description	Resident			Non Resident			Total		
	Number of shareholders	No. of shares	(%)	Number of shareholders	No. of shares	(%)	Number of shareholders	No. of shares	(%)
1 to 1000 Shares	559	71,270	0.07	3	757	-	562	72,027	0.07
1001 to 10000 Shares	92	277,874	0.26	9	34,074	0.03	101	311,948	0.29
10001 to 100000 Shares	14	217,523	0.20	-	-	-	14	217,523	0.20
100001 to 1000000 Shares	2	426,561	0.39	-	-	-	2	426,561	0.39
Over 1000000 Shares	1	107,755,303	99.05	-	-	-	1	107,755,303	99.05
Total	668	108,748,531	99.97	12	34,831	0.03	680	108,783,362	100.00

Categories of shareholders	No. of shareholders	No. of shares
Individual	653	757,642
Institutional	27	108,025,720
Total	680	108,783,362

Related Party Transactions

Declaration

The Company has complied with the requirements of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions.

Non - Recurrent Related Party Transactions exceeding 10% of the Equity or 5% of the Total assets of the Company (Disclosure as per section 9 of the CSE Listing Rules)

None of the transactions carried out by the Company with the Related Parties have exceeded the aggregate monetary value of 10% of the shareholders' equity of the Company or 5% of the Total Assets of the Company as at 31 December 2020.

Recurrent Related Party Transactions exceeding 10% of the Gross Revenue / Income (Disclosure as per section 9 of the CSE Listing Rules)

Name of the related party	Relationship	Nature of the transaction	Aggregate value of related party transactions entered into during the period	Aggregate value of related party transactions as a % of net revenue/ income	Terms and conditions of the related party transactions
Dialog Axiata PLC	Parent Company	Interest paid on FDs & Savings	29,040	17.21%	1 Month (renewable) (4% - 8.5%)
		Secondment staff cost	35,307	20.93%	Reimbursement of Actual expenses
		Collection commission fee	4,397	2.61%	Collection commission (2.5% of charged)
Dialog Broadband Networks (Private) Limited	Members of the same group	Telephone expense	1,338	0.79%	General business terms and conditions applied
		IT Related Expenses	36,745	21.78%	General business terms and conditions applied

Other Disclosures pertaining to Related Party Transactions

Further to the disclosures of RPT made in Note 41 to the Financial Statements,

- The Company has not obtained from or granted guarantees to Dialog Axiata PLC or any other related Companies within the group of Companies.
- The Company has not made any provision for impairment for the receivable balances from Dialog Axiata PLC or its related companies as there are no balances which are deemed as irrecoverable.

Value Added Statement

(All amounts in Sri Lanka Rupees thousands)

For the year / period ended	31 December 2020	31 December 2019
Direct economic value generated		
Interest income	214,700	198,179
Fee and commission income	1,961	60,043
Other income	19,129	9,869
	235,790	268,091
Economic value distributed		
To depositors and lenders		
Interest expense	67,090	48,102
	67,090	48,102
Operating costs		
Depreciation and amortisation	41,099	28,244
Fee and commission expenses	-	-
Other expenses	113,696	103,718
	154,795	131,962
To employees		
Salary and bonus	121,884	112,838
Other benefits	14,981	13,064
	136,865	125,902
Payments to government		
Income tax (reversal) / expense	-	(110)
Taxes on financial services	-	-
Crop insurance levy	-	-
	-	(110)
Payments to providers of capital		
Dividends to shareholders	-	-
	-	-
Economic value distributed	358,750	305,856
Economic value retained	(122,960)	(37,765)
	235,790	268,091

Glossary of Financial Terms

Accounting policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual basis

Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

Amortised cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Asset and liability committee (ALCO)

A risk-management committee in a finance company that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the finance company's forecast and strategic balance-sheet allocations.

Available-for-sale financial assets

Non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Capital adequacy ratio

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash

Cash on hand and demand deposits.

Cash equivalents

Short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Inflows and outflows of cash and cash equivalents.

Capital funds

Capital funds shall have the same meaning as contained in the definition in section 46 of the Finance Companies Act, No. 78 of 1988.

Collectively assessed impairment

Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Reporting date.

Glossary of Financial Terms

Compounded annual growth rate (CAGR)

The rate at which a variable would have grown if it grew at an even rate compounded annually.

Contingencies

A condition or situation existing at the Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Control

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Corporate governance

The process by which corporate entities are governed, it is concerned with the way in which power is exercised over the management and direction of an entity, the supervision of executive actions and accountability to owners and others.

Cost to income ratio

Operating expenses excluding loan/ lease loss provision as a percentage of total operating income.

Credit ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit risk

Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

Credit risk mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer deposits

Money deposited by account holders. Such funds are recorded as liabilities.

Deferred tax

Sum set aside for tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful asset.

Derecognition

Removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

Discount rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

Dividend cover

Profit after tax divided by gross dividend. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Glossary of Financial Terms

Dividend pay-out ratio

Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

Dividend per share (DPS)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

Dividend yield

Dividend earned per share as a percentage of its market value.

Earnings per share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in use.

Effective interest rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective tax rate (EPR)

Provision for taxation expressed as a percentage of Profit Before Tax.

Equity method

A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Events after the reporting period

Events, favourable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Expected credit loss (ECL)

Probability weighted estimate of the present value of cash shortfalls (i.e. the weighted average credit losses, with respective risks of defaults occurring in a given time period use as the weights). ECL measurements are unbiased (i.e. neutral, not conservative and not biased towards optimism or pessimism) and are determined by evaluating a range of possible outcomes.

Exposure at default (EAD)

This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns of committed facilities.

Exposure

A claim, contingent claim or position which carries a risk of financial loss.

Factoring

A time-honored financial tool used by companies worldwide. It is the purchase of account receivables (invoices) for immediate cash.

Fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value through profit or loss

A financial asset/liability: Acquired/ incurred principally for the purpose of selling or repurchasing in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

Glossary of Financial Terms

Finance lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial asset

Any asset that is cash, an equity instrument of "another" entity or a contractual right to receive cash or another financial asset from another entity.

Financial instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability

A contractual obligation to deliver cash or another financial asset to another entity.

Functional and presentation currency

These Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

Going concern

An entity shall prepare Financial Statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Group

A parent of all its subsidiaries.

Gearing

Long term borrowings divided by the total funds available for shareholders.

Gross dividend

The portion of profits distributed to the shareholders including the tax withheld.

Guarantees

A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual obligations.

Held for trading

Debt and equity investments that are purchased with the intent of selling them within a short period of time.

Hire purchase

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

Held to maturity (HTM)

Investments Held-to-Maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity.

High quality liquid assets (HQLA)

Assets that can be easily and immediately converted into cash at little or no loss of value that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

International financial reporting standards (IFRS)

set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

Glossary of Financial Terms

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Interest cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest margin

Net Interest income expressed as a percentage of average interest earning assets.

Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest spread

Represent the difference between average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

Interest in suspense

Interest suspended on non-performing leases, hire purchases and other advances.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired loans

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment allowances

Management's best estimate of losses incurred in the loan portfolios at the balance sheet date.

Impairment provisions

Provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Individually assessed impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Individually significant loan impairment provision (Specific impairment provision)

Impairment is measured individually for assets that are individually significant to the Group.

Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Investment properties

Investment property is a property (land or building or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative services; or sale in the ordinary course of business.

Investment securities

Securities acquired and held for yield and capital growth purposes and are usually held to maturity.

Key management personnel

Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

Glossary of Financial Terms

Lending portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

Lifetime expected credit losses

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Liquid assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

Liquidity risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan/credit losses and provisions

Amount set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollected.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

Loan to value ratio (LTV)

A mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loss given default (LGD)

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Market capitalisation

The value of a Company obtained by multiplying the number of ordinary shares in issue by its market value as at a date.

Market risk

The possibility of loss arising from changes in a value of financial instrument as a result in changes of market variables such as interest rate, exchange rates, credit spread and other asset prices.

Net assets value per share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Non controlling interest

Non Controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

Net interest income (NII)

The difference between income earned on interest bearing assets and costs incurred on financial instruments/ facilities used for funding.

Net interest margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

Glossary of Financial Terms

Non - performing advances

A lease, hire purchase or other advance placed on cash basis (i.e. interest income is only recognised when cash is received), because in the opinion of management, there is a reasonable doubt regarding the collect ability of principal and/ or interest. Rentals receivable in arrears for more than six rentals have been categorised as non-performing. Nonperforming advances are reclassified as performing when all arrears rentals are settled in full.

NPA ratio

The total non-performing leases hire purchases and other advances expressed as a percentage of total loans and advances portfolio.

Off- balance sheet items

Items that are not recognised as assets or liabilities in the statement of financial position, which give rise to the commitment and contingencies in future.

Offsetting of financial statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

Operational risk

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

Parent company

A parent is an entity that has one or more subsidiaries.

Past due

A financial asset is past due when a counter party has failed to make a payment when contractually due.

Power

The existing rights that give the current ability to direct the relevant activities.

Price earnings ratio (P/E ratio)

The current market price of the share is divided by the earnings per share of the Company.

Probability of default (PD)

The probability that an obligor will default within a one-year time horizon.

Projected unit credit method (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro-rated on service or as the benefit/ years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Provision cover

Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on non-performing loans, leases and advances.

Prudence

Inclusion of degree of caution in the exercise of judgment needed in making the estimates required under the conditions of uncertainty, so that asset or income are not overstated and liabilities or expenses are not understated.

Glossary of Financial Terms

Related parties

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Residual value

The estimated amount that is currently realizable from disposal of the asset, after deducting estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Repurchase agreements

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

Return on average assets (ROA)

Profit after tax expressed as a percentage of average assets

Return on equity (ROE)

Net Profit after Tax less dividend on preference shares if any, exercised as a percentage of average ordinary shareholders' equity.

Revenue reserves

Reserves set aside for future distribution and investment.

Reverse repurchase agreements

Transactions involving the purchase of securities by the company and resale back to the seller at a future date and specified price.

Right-of-use asset (ROU asset)

Right-of-use asset is lessee's right to use an asset over the life of a lease. The asset is calculated as the initial amount of the lease liability, plus any lease payment made to the lessor before the lease commencement date, plus any initial direct cost incurred, minus any lease incentives received.

Rights issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

Risk weighted assets

The sum of on balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

Segment analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

Shareholders' funds

The total of stated capital and capital and revenue reserves.

Single borrower limit

Maximum of a single accommodation or the aggregate of accommodations granted to by a finance company and outstanding at any point of time from an individual borrower shall not exceed 15% of the capital funds of such finance company as shown in the last audited balance sheet.

Statutory reserve fund

A capital reserve created as per the provisions of the Finance Companies (Capital Funds) Direction No.1 of 2003.

Sri Lanka financial reporting standards (SLFRSs)

Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka.

They comprise of the followings. Sri Lanka Accounting Standards (SLFRS); Sri Lanka Accounting Standards (LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

Glossary of Financial Terms

Stated capital

All amounts received by the Company or due and payable to the Company – (a) in respect of the issue of shares, (b) in respect of calls on shares. Statutory Reserve Fund A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003.

Substance over form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary company

An entity, including an unincorporated entity which is controlled by another entity called parent.

Tier I capital (Core capital)

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II capital (Supplementary capital)

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital (Capital Base) Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

Transaction costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Twelve month expected credit losses (12m ECL)

The portion of lifetime expected credit losses that represent the expected credit losses that result from default event on a financial instrument that are possible within the 12 months after the reporting date.

Useful life

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

Value added

Wealth created by providing financial and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Yield

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

Notice of Annual General Meeting

DIALOG FINANCE PLC
(PB 765 PQ)

NOTICE IS HEREBY GIVEN THAT **THE FORTIETH ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD AS A FULLY VIRTUAL MEETING ON FRIDAY, 18 JUNE 2021 AT 04:00PM (IST - INDIA STANDARD TIME)** FROM THE BROADCAST VENUE AT THE BOARDROOM, DIALOG AXIATA PLC, 14TH FLOOR, NO. 475, UNION PLACE, COLOMBO 2, SRI LANKA.

1. Ordinary Resolution 1

To receive and adopt the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2020 and the Auditors' Report thereon.

2. Ordinary Resolution 2

To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.

3. Ordinary Resolution 3

To authorise the Directors to determine and make donations.

By Order of the Board



Viranthi Attygalle
Company Secretary

30 April 2021
Colombo

Notes:

- i) Due to the health risks associated with the COVID-19 pandemic and related guidelines and regulations issued by the Ministry of Health, the AGM will be held as a fully virtual meeting, and as such shareholders will only be able to participate in the AGM virtually, via the designated online meeting platform.
- ii) Only persons who are shareholders of the Company and whose names appear on the Share Register as at 16 June 2021 will be entitled to participate in the above virtual meeting.
- iii) A shareholder entitled to participate and vote at the above virtual meeting is entitled to appoint a proxy to participate and vote in his/her place by completing the Form of Proxy enclosed herewith.
- iv) A proxy need not be a shareholder of the Company. However, the proxy must be above 18 years of age.
- v) Shareholders who are unable to participate in the above virtual meeting are also encouraged to submit a duly completed Form of Proxy appointing the Chairperson of the Meeting to participate and vote on their behalf.
- vi) For more information on how to participate virtually in the above meeting, please refer Administrative Details enclosed herewith.

Administrative Details for the 40th Annual General Meeting

Taking into consideration the current regulations/restrictions prevailing in the country due to the COVID-19 pandemic, the related guidelines and regulations issued by the Ministry of Health, the 40th Annual General Meeting (AGM) of Dialog Finance PLC (the "Company") will be held by virtual means on Friday, 18 June 2021 at 4:00PM (IST – India Standard Time).

The details regarding the participation and the procedure to be adopted during the AGM are set out below.

Date, Time and Conduct of AGM

- (a) The AGM will be held as a fully virtual meeting on **Friday, 18 June 2021 at 4:00PM (IST – India Standard Time)**.
- (b) Certain members of the Board and other key officials who are essential for the administration of the meeting will be physically present in the Boardroom of the Company. All others, including shareholders, will participate via a designated online meeting platform.

Notice of AGM and Form of Proxy

The Notice of AGM and accompanying Form of Proxy are attached herewith and will also be published on the corporate website at www.dialogfinance.lk/important-notices.

No Personal Attendance at AGM

Due to the health risks associated with the COVID-19 pandemic and related health guidelines, the AGM will be held virtually, and as such shareholders will only be able to participate in the AGM virtually, via the designated online meeting platform.

Alternative Arrangements for Participation at the AGM

Shareholders may participate at the AGM by:

- (a) participating in the AGM via the designated online meeting platform;
- (b) submitting questions in advance of the AGM; and/or
- (c) appointing the Chairperson of the Meeting as proxy to participate and vote on their behalf at the AGM.

Confirmation of Participation and Pre-Registration

- (a) Shareholders of the Company who wish to participate at the virtual AGM and whose names appear on the Share Register as at 16 June 2021 are required pre-register participation. Registrations that do not meet this requirement will be rejected during the verification stage.
- (b) In order to pre-register participation, shareholders are requested to complete the online pre-registration form available at www.dialogfinance.lk/important-notices on or before 4:00PM on 16 June 2021.
- (c) If your shares are held in joint names, please register both names. However, you only need to enter one email address.
- (d) Upon verification of the registration details, an email of confirmation will be sent to the shareholders followed by an email with the log-in information closer to the AGM. Please note that the log-in information is authorised only for use by shareholders or their duly appointed proxy. The Company shall not be responsible or liable for misuse and /or unauthorised use of the log-in information.

Administrative Details for the 40th Annual General Meeting

Appointment of Proxies

- (a) A shareholder entitled, as set out above, to participate and vote at the meeting but is unable to do so, is entitled to appoint a proxy to virtually participate and vote at the AGM instead of him/her in the manner provided for by completing the Form of Proxy enclosed herewith.
- (b) Shareholders who are unable to participate also have the option of submitting a duly completed Form of Proxy (which, in particular, clearly indicates such shareholder's vote in respect of each of the matters set out in the Form of Proxy), appointing the Chairperson of the Meeting to participate and vote on their behalf such that each shareholder's vote may be identified and recorded as if such shareholders were present at the meeting.
- (c) In order to be valid, the Form of Proxy must be duly completed and emailed to the Company Secretary at agminfo@dialog.lk and must be received not later than 48 hours before the time appointed for holding the meeting, i.e. before 4:00PM on 16 June 2021.

Annual Report 2020

The Annual Report 2020 has been published on the corporate website, and may be accessed at www.dialogfinance.lk/financial-statements. If a shareholder wishes to receive a printed copy of the Annual Report 2020, please complete the Form of Request and forward it to the Company Secretary in accordance with the instructions given therein.

Meeting Procedure & Voting

- (a) Shareholders who are unable to participate at the virtual AGM may submit their suggestions/questions related to the AGM and the agenda, to the Company Secretary in writing on or before 16 June 2021 via agminfo@dialog.lk
- (b) The procedure on the conduct of the meeting and voting will be explained to shareholders prior to the commencement of the meeting.

Further Information

For more information, shareholders can refer to our corporate website at www.dialogfinance.lk/important-notices or contact Ms. Divya Ranaraj on +94 773 908 929 during working hours.

Important Reminder

Due to the constantly evolving COVID-19 situation in the country, we may be required to change our arrangements for the AGM at short notice. Shareholders are requested to check www.dialogfinance.lk/important-notices for the latest updates on the status of the AGM.

Thank You

Form of Proxy

I/We (name of shareholder/s)
 (Holder of NIC/Passport/Company Registration No./s)
 of (address of shareholder/s).....
 being a shareholder/s of **Dialog Finance PLC**, hereby appoint:

please indicate your preference with a

Name of proxy holder :

NIC/Passport No of proxy holder :

Address of proxy holder :

Email address of proxy holder :

Mobile number of proxy holder :

OR failing him/her

Chairperson of the Meeting

as my/our proxy to participate and vote on my/our behalf in accordance with the preference as indicated below at the **Fortieth Annual General Meeting of the Company** to be held by virtual means on 18 June 2021 at 04:00PM (IST – India Standard time) and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

RESOLUTIONS	FOR	AGAINST
Ordinary Business:		
Ordinary Resolution 1		
Ordinary Resolution 2		
Ordinary Resolution 3		

(Please indicate with a 'X' in the space provided how your proxy is to vote on each resolution. If you do not do so, the proxy will vote or abstain from voting at his/her discretion.)

Signature(s) of Shareholder(s)	Contact No. of Shareholder/s	Email address of Shareholder/s	Date

NOTE :

Instructions as to completion of the Form of Proxy are on the reverse hereof.



Notes and Instructions as to completion of Form of Proxy

1. A shareholder entitled to participate and vote at the virtual meeting but is unable to do so, can appoint not more than one proxy to virtually participate and vote at the AGM instead of him/her, by completing the Form of Proxy. Shareholders who are unable to participate in the above meeting are encouraged to appoint the Chairperson of the Meeting to participate and vote on their behalf.
2. Please complete the Form of Proxy by filling in legibly, your full name, address and contact number and the full name, NIC number, address, contact number and email of the proxyholder and thereafter date and sign in the space provided.
3. In order to be valid, the Form of Proxy must be duly completed and forwarded via email to agminfo@dialog.lk, and must be received not later than 48 hours before the time appointed for holding the meeting, i.e. before 04:00PM on 16 June 2021.
4. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
5. If the appointer is a Company or Corporation, the Form of Proxy should be executed under its Common Seal or by a duly authorised officer of the Company or Corporation in accordance with its Articles of Association or Constitution.
6. The Form of Proxy should only be used for the purpose of appointing a proxy to participate and vote on your behalf at the meeting in the event you are unable to participate at the meeting and should not be used to confirm participation at the AGM. If you wish to participate at the meeting via the designated online meeting platform, you must pre-register your participation by completing the online pre-registration form available at www.dialogfinance.lk/important-notice
7. If a shareholder has submitted a Form of Proxy prior to the virtual meeting and subsequently decides to participate at the meeting him/herself, he/she should take immediate steps to revoke the appointment of proxy.

Corporate Information

Name of the Company

Dialog Finance PLC

Company Secretary

Ms. Viranthi Attygalle

Company Registration No.

PB 765 PQ

Compliance Officer

Mr. Thisil Vincent

Date of Incorporation

25 November 1981

Registrars

SSP Corporate Services (Private) Limited
No. 101, Inner Flower Road,
Colombo 03.

Registered Address

No. 475, Union Place, Colombo 02.

Tel : + 94 11 2573894

Fax : + 94 11 2573609

Principal Office

1st Floor,

No. 57, Srimath Anagarika Dharmapala Mawatha,
Colombo 03.

Tel : + 94 11 4317317

Fax : + 94 11 4317335

E-mail : financialservice@dialog.lk

(Principal office was changed to above with effect from 27 July 2020. Principal office was maintained at '2nd Floor, Parkland 01, No. 33, Park Street, Colombo 02' until 26 July 2020 prior to the change.)

Auditors

Messrs. PricewaterhouseCoopers
Chartered Accountants
100, Braybrooke Place,
Colombo 02.

Bankers

- Seylan Bank PLC
- Commercial Bank of Ceylon PLC
- Nations Trust Bank PLC
- Bank of Ceylon
- Cargills Bank Ltd
- People's Bank
- Hatton National Bank PLC
- National Development Bank PLC
- DFCC Bank PLC

Legal Form and Stock Exchange Listing

A Public Quoted Company with Limited Liability which was quoted on the Diri Savi Board of the Colombo Stock Exchange on 4th October 2011 and subsequently transferred to the Second Board on 10 February 2020.

Credit Rating

AA(lka) was affirmed by Fitch Ratings Lanka Ltd

Board of Directors

- Ms. Renuka Fernando - Chairperson
- Mr. Supun Weerasinghe
- Mr. Priyan Edirisinghe
- Mr. Roshan Hettiaratchi
- Mr. Sheyantha Abeykoon

(Mr. Asanga Priyadarshana resigned as a director of the Company with effect from 31 January 2021)

Designed & Produced by :





1st Floor,
No. 57, Srimath Anagarika Dharmapala Mawatha,
Colombo 03, Sri Lanka.

Tel : 011 4317317 **Fax :** 011 4317335

Email : financialservice@dialog.lk **Web :** www.dialogfinance.lk

