



# SHAPING NEW FRONTIERS



ANNUAL REPORT 2022



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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 savings 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)' the highest rating thus far assigned in the industry (Current Rating 'AA (lka)' RWN).

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 2022	Year ended 31 December 2021	Change (%)
<b>Operating results for the year (Rs. '000)</b>			
Gross income	1,029,898	271,613	279
Total operating income	667,580	213,799	212
Impairment charges for loans and advances	84,884	10,247	728
Operating expenses	467,423	276,104	69
Operating profit / (loss) before taxes on financial services	67,096	(77,241)	(187)
Profit / (loss) for the year	67,096	(77,241)	(187)
<b>Assets and liabilities (Rs. '000)</b>			
Customer deposits	3,786,922	1,323,916	186
Loans and receivables	3,056,448	2,742,531	11
Total assets	6,584,626	4,021,380	64
Total liabilities	3,980,857	1,484,585	168
Shareholders' funds	2,603,769	2,536,795	3
<b>Profitability ratios (%)</b>			
Net interest margin	10.99	6.94	4.05
Return on assets (ROA)	1.03	(2.24)	3.27
Return on equity (ROE)	2.61	(3.52)	6.13
<b>Investors' information (Rs.)</b>			
Market price	63.00	83.50	(25)
Net assets per share	22.18	21.61	3
Earnings per share	0.57	(0.70)	(181)
<b>Regulatory ratios (%)</b>			
<b>Capital adequacy ratios</b>			
Tier I (minimum ratio – 31 December 2022 – 8.5%, 31 December 2021 - 7%)	46.36	60.21	(13.85)
Tier I + Tier II (minimum ratio – 31 December 2022 – 12.5%, 31 December 2021 - 11%)	46.36	60.21	(13.85)
<b>Other key indicators (%)</b>			
Non performing loan ratio (gross)	1.32	2.35	(1.03)
Cost to income ratio	70.02	129.14	(59.12)
Fitch rating	AA (lka)	AA (lka)	



# Chairperson's Message



## **My dear shareholders,**

Despite unprecedented challenges in the political and economic environments, 2022 has been a year of delivery for us. The lingering impacts of the COVID 19 pandemic, political and economic instability, inflation, rising interest rates and a cost-of-living crisis created unprecedented anxiety for the people of this nation. However, acknowledging that challenges also bring opportunity, we at Dialog Finance PLC worked even harder to deliver on our strategy and support our people when they needed us the most. The team worked through the challenges with unbridled passion, to deliver a commendable performance in 2022.

## **A year of delivery**

We ended the year under review with a strong operational performance underpinned by a clear futuristic vision and prudent, forward-looking strategies. On the consumer front we launched several innovative Fintech solutions to expand our reach and empower the underserved communities in Sri Lanka.

Capitalizing and building on the customer risk scoring capabilities of our parent company, Dialog Finance took a serious step towards integrating credit risk

modelling within its system. We invested in the required expertise in credit modelling and data analytics in order to support this very dynamic process of risk management and refined credit decision making. Backed by strong risk management processes, we successfully relaunched Quick Loan, our micro loan facility, bringing relief to the people at a much-needed time, taking us a step closer to our goal of bringing financial inclusiveness through technology. However, given the extremely volatile external environmental conditions, we adopted a very cautious approach towards lending, aiming to balance both consumer requirements as well as our overall risk appetite.

We also saw unprecedented traction being generated for our digital savings account which we launched in 2021 through the Genie platform. Subsequently, we also launched our debit card, which emerged as Sri Lanka's first fully digitally managed debit card which provides customers with the capability to request for and manage the card through the Genie mobile application. These efforts further honed our futuristic aim to be the primary financial services provider for the digital savvy generation, featuring innovative, cutting-edge and technologically driven financial solutions.

**"We also saw unprecedented traction being generated for our digital savings account which we launched in 2021 through the Genie platform. Subsequently, we also launched our debit card, which emerged as Sri Lanka's first fully digitally managed debit card which provides customers with the capability to request for and manage the card through the Genie mobile application."**

The fully digital journey for the MSME segment covering digital lending and online banking services was a key developmental milestone which we successfully rolled out during 2022, addressing the missing link to financial inclusiveness for small and medium businesses which are the backbone of our economy. Through this, we will increase the accessibility to finance of the MSME segment spread across the island, thereby supporting them in their journey of growth.

On the sustainability front, we continued to work in line with the Dialog Group's overall sustainability agenda and prioritised sustainable practices whilst upholding principles of good corporate governance through stewardship, accountability, transparency, and integrity. The pandemic, followed by the economic crisis deepened socio-economic disparities across communities in the country, with poverty levels steadily increasing in 2022. These dynamics further emphasised the need for a collective effort towards supporting the country's most vulnerable communities and as a frontrunner in the Fintech space we will continue to support the Group's sustainability ambition to drive financial inclusion and financial literacy across the country.

Supporting this ambition further, Dialog Finance was granted the license to operate as a Financial Acquirer of Payment Cards by the Central Bank of Sri Lanka and we now have the ability to leverage the retailer partners of Dialog and expand our digital payment service proposition.

### **Financial performance and stability**

Dialog Finance proved its resilience in an adverse operating environment to deliver total operating income of Rs. 667.6 Mn for the year ended 31 December 2022 with a Year on Year (YoY) growth of 212.2%. Despite the overall moderate performance of the Licensed Finance Companies sector during 2022, Dialog Finance was able to achieve significant growth in its balance sheet and financial performance mainly driven by the increase in market interest rates and growth in the interest earning assets through both lending and investment portfolios.

In line with the market conditions, the lending book recorded a moderate growth of 12.6% YoY to record gross loans and advances of Rs. 3.2 Bn as at 31 December 2022. Despite the adverse macro-economic situation, the Company maintained the Gross Non-Performing Advances (NPA) ratio low at 1.32% as at December 2022 supported by a strengthened risk management framework, moderate risk appetite and expansion of the recovery infrastructure and processes.

While operating expenses also recorded an increase of 69.3% YoY, aggressive cost management and rationalization initiatives resorted to by the Company despite inflationary impact, coupled with the growth in operating income supported to improve the cost to income ratio from 129.1% in 2021 to 70.0% in 2022. Accordingly, the Company succeeded in recording a net profit for the first time since commencing the operation under the Dialog Group, for the year ended 31 December 2022. Dialog Finance reported a net profit of Rs. 67.1 Mn for the year ended 31 December 2022 compared to a net loss of Rs. 77.2 Mn in the preceding financial year. During the year, the Company maintained capital and liquidity levels well above the statutory minimum requirements.

**"Dialog Finance proved its resilience in an adverse operating environment to deliver total operating income of Rs. 667.6 Mn for the year ended 31 December 2022 with a YoY growth of 212.2%. Despite the overall moderate performance of the Licensed Finance Companies sector during 2022, Dialog Finance was able to achieve significant growth in its balance sheet and financial performance."**

We continue to adopt operational best practices, robust internal controls, and effective and proactive risk management practices that we have put in place across all levels of business operations to drive sustainable growth. In this regard, we comply with all the regulatory requirements imposed by the governing bodies, including the Central Bank of Sri Lanka (CBSL), Colombo Stock Exchange (CSE), Securities and Exchange Commission (SEC) and Inland Revenue Department (IRD). Further, I wish to confirm that there were no violations of the provisions of the code of conduct of the Company which is in place for Directors and all employees.

### Outlook

We anticipate macroeconomic challenges to exert continued pressures on the country's performance and prospects in 2023. However, Sri Lanka has always been a resilient nation and has recovered from many challenges. So, we remain confident of the government and regulator's efforts to ensure stability of the financial system and are optimistic that the country will embark on a path to recovery.

We remain fully aware of our overarching responsibility, not only towards our shareholders but also to society as a whole, during this phase of economic transition, and stand ready to deliver meaningful Fintech solutions to all Sri Lankans. We have already set the foundation required for future growth and our focus will be mainly directed towards the underserved consumer and MSME segments as we look to scale up our customer bases. Innovation of products and services, delivery and distribution through simple to use digital infrastructure backed by strong data analytic and risk management capability will continue to be key facets of our strategic positioning to bring consistent growth that we envisage for 2023 and beyond. Accordingly, we will continue to adopt operational best practices and robust internal controls that will gear us up for future work challenges.

### Appreciations

I would like to convey my sincere appreciation to my colleagues on the Board for their continued support in steering the Company through difficult circumstances. My gratitude also goes to the Central Bank of Sri Lanka and other regulatory bodies for the vital role they play and their contributions to the industry, and to all our stakeholders and customers for their loyalty which has inspired us to stay true to our vision with determination and strength.

I am also grateful to the entire team of employees led by the Chief Executive Officer and the Senior management team whose talents, indomitable spirit and unreserved commitment continue to broaden the horizons for the Company. None of this year's progress would have been possible without the hard work, determination and professionalism they display.



**Ms. Renuka Fernando**  
Chairperson

30 April 2023





# Chief Executive Officer's Review



## My dear shareholders,

The year 2022 was a transformative year where the Company navigated through numerous unforeseen and unprecedented challenges to take progressive and purposeful strides towards creating financial inclusivity across wider segments of society. As we united with a common purpose to protect the Company and its stakeholders, I have been inspired by the Dialog Finance team's commitment and level of perseverance under highly volatile and challenging conditions.

## Context to performance

The year under review has been one of most challenging years in our post war history with unprecedented challenges in the economic environment. The severe foreign reserve shortage resulted in introduction of import restrictions encompassing a wide range of imported items, caused shortage of essential items during the year. Further, the Sri Lankan Rupee depreciated sharply, and inflation accelerated at a notable pace, reaching historically high levels during the year.

The impact of these adverse events affected every sector of the economy. Amid these headwinds, the

Company was able to demonstrate significant progress supported by the ingenuity and untiring dedication of the Dialog Finance team.

## Commendable Operating Performance amidst challenging times

Despite the external challenges and adverse economic outlook, the Company displayed a commendable performance where we recorded a total operating income of Rs. 667.6 Mn for the year ended 31 December 2022 compared to Rs. 213.8 Mn recorded in the previous year which represents a Year on Year (YoY) growth of 212.2%. This notable performance was driven by increase in market interest rates, growth in investments enabled by higher customer deposits and growth in lending portfolio. With regard to the bottom line, FY 2022 was a milestone year as the Company achieved profitability for the first time since inception of operations under the Dialog Group by recording a net profit of Rs. 67.1 Mn compared to a net loss of Rs. 77.2 Mn in the preceding financial year.

We witnessed a moderate growth in lending activities during the year in line with the market conditions to record gross loans and advances of Rs. 3.2 Bn as

### **" The FY 2022 was a milestone year as the Company achieved profitability for the first time since inception of operations under the Dialog Group by recording a net profit of the Rs. 67.1 Mn compared to a net loss of Rs. 77.2 Mn in the preceding financial year. "**

at 31 December 2022 with a growth of 12.6% YoY. The Company maintained the Gross Non-Performing Advances (NPA) ratio low at 1.32% as at end of December 2022, despite the adverse macro-economic situation. The proactive risk management framework and moderate risk appetite coupled with focused recovery efforts helped the Company to maintain the quality of the lending portfolio.

The total asset base of the Company recorded a growth of 63.7% YoY to reach to Rs. 6.6 Bn as at end of December 2022. The significant growth in the asset base was driven by lending activities and higher investments supported by excess liquidity position attributable to the higher growth in customer deposits during the year relative to the growth in loans and advances. The customer deposit base recorded at Rs. 3.8 Bn as at end of December 2022, with a YoY increase of 186.0%.

The Tier I capital adequacy ratio (CAR) and total CAR recorded at 46.36% as at 31 December 2022, which were well above the CBSL's prescribed minimum thresholds which was Tier I CAR at 8.5% and total CAR at 12.5% as at end of December 2022. During the year, excess liquidity was carried while meeting statutory liquid asset requirements and ratios prescribed by the CBSL. The Company's core capital as at the year-end stood at Rs. 2.6 Bn well above the CBSL's minimum threshold of Rs. 2.5 Bn.

#### **Driving financial inclusivity**

The Company managed to position itself as a digital first finance company and carve a unique niche within the Non-Bank Financial Industry (NBFI) sector with its unique business model. Our initial focus over last few years on building the Fintech technologies and human capital held us in good stead to provide innovative and digitally driven financial solutions in the year under review.

We continue to leverage on Dialog Axiata PLC's Fintech platform, Genie as our primary consumer delivery platform to promote our savings and lending products and increase the accessibility of digital financial services to all Sri Lankan consumers. Along with the digital savings product we offer the digital fixed deposit, goal-based savings and a plethora of savings products which promote micro savings with the added convenience of opening savings and fixed deposits on the mobile. Introduction of video KYC formalities without visiting a physical branch has enabled us to deliver a seamless, digitally driven customer experience. Dialog Finance's debit card is the first digitally operated debit card in Sri Lanka and features a host of innovative features which helps customers to manage their debit card through the Genie App. Quick Loan, our fully digitalized credit solution continues to serve customers to meet their short-term funding requirements during these challenging times.

Moving ahead to serve the MSME segment, which we consider as the backbone of the economy, a range of facilities under the retailer category is offered to drive financial inclusivity in the MSME segment of the country. We strongly believe that reaching out to this underbanked segment which is not adequately serviced by the traditional banking system will help boost the economy. The captive Dialog retail segment was targeted during the year to promote lending products which would enable them to access a wide spectrum of savings and lending products. Further, the Company entered a strategic partnership with Daraz during the year to serve the MSME segment

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with affordable lending solutions and we believe these collaborative partnerships will enable us to support the growth of MSMEs while supporting economic development.

Building on this momentum we gained significant traction with the digital lending and savings products which were launched during last few years. It is very encouraging to witness increasing adoption rates of digital financial solutions by Sri Lanka consumers and businesses.

### Way forward

We have been at the forefront of technology adoption, digital financial solutions that enhances customer experience and convenience. We will continue to make the requisite investments to build Fintech platforms and strengthen the existing ones to elevate our delivery and relationship with our customers which includes building scalable and resilient tech solutions. Further, the Company will continue to create collaborative partnerships with business partners and within the Dialog ecosystem to drive customized and innovative digital financial products.

We welcome the progressive initiatives taken by the Central Bank of Sri Lanka during the year to promote digital financial services, which will help to build a digitally driven Sri Lanka. This provides us with greater impetus to promote innovative products to drive digital and financial inclusivity across the nation.

### A note of appreciation

I wish to extend my sincere appreciation to the Board of Directors for their wise counsel and strategic leadership in traversing through a complex and dynamic operating environment. I express my gratitude to all stakeholders including our loyal shareholders, customers and business partners who placed their trust in Dialog Finance to partner with us in our journey towards success. I wish to thank the Government of Sri Lanka, Governor and staff of the CBSL, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange for their invaluable support and guidance extended.

I take this opportunity to recognize and thank every single member of the Dialog Finance team who went above and beyond their call of duty to contribute towards the growth of the Company despite the myriad of obstacles which they experienced in 2022 in the external environment. Your unwavering support to deliver superior value is greatly appreciated.

As a future focused Fintech company we will continue to evolve and grow with continuous collaboration, by developing partnerships with our valued stakeholders, to shape new frontiers in the Fintech sphere of Sri Lanka.



**Nazeem Mohamed**  
Director / Chief Executive Officer

30 April 2023

# Board of Directors

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



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



**Mr. Priyan Edirisinghe**  
Independent,  
Non-Executive Director



**Mr. Roshan Hettiaratchi**  
Independent,  
Non-Executive Director



**Mr. Nazeem Mohamed**  
Chief Executive Officer  
Non-Independent, Executive Director

## Board of Directors

### **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 40 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, Renuka 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 commenced his career in Telecommunications at Dialog Axiata PLC 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 Axiata in 2010. In 2013, he was seconded to Axiata Group Berhad, 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. At present, Mr Weerasinghe serves as the Group Chief Executive/ Executive Director of Dialog Axiata PLC.

Mr. Weerasinghe serves on the Boards of subsidiary and associate companies of Dialog including Dialog Broadband Networks (Private) Limited, Dialog Television (Private) Limited, Digital Holdings Lanka (Private) Limited, Dialog Device Trading (Private) Limited, H One (Private) Limited, Digital Health (Private) Limited, Digital Commerce Lanka (Private) Limited and Headstart (Private) Limited. He is also a director of Infinity (Private) Limited, InsureMe Insurance Brokers (Private) Limited as well as UNGC Network Sri Lanka.

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

## Board of Directors

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### **Mr. Priyan Edirisinghe** Independent, Non-Executive Director

Mr. Priyan Edirisinghe is an Independent, Non-Executive Director who was appointed to the Board on 19 January 2016. He currently serves as the Senior Independent Director of the Company.

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

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

In addition to his role as a Non-Executive Director for the Company, Mr. Edirisinghe currently serves in the same capacity CT Land Development PLC, PE Management Consultants (Private) Limited and V&L Wealthfund (Private) Limited.

### **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. Mr. Hettiaratchi 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 Masters' 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 including Right Angles (Private) Limited, ANA Investments (Private) Limited and Southern Gammiris (Private) Limited.

### **Mr. Nazeem Mohamed** Chief Executive Officer / Non-Independent, Executive Director

Mr. Nazeem Mohamed was appointed to the Board on 24 June 2022.

Mr. Mohamed also serves as the Chief Executive Officer of the Company since 1 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

## EXTERNAL ENVIRONMENT

### The global economy

The global economy is estimated to have recorded a moderate growth of 3.4% in 2022 compared to the higher growth of 6.0% recorded in 2021, mainly weighed down by Russia's war in Ukraine and inflation in many countries. While the impacts of the COVID-19 pandemic continued to linger worldwide, the war in Ukraine unleashed a new crisis, disrupting food and energy markets.

Towards the third quarter of the year economic growth proved to be surprisingly better with stable household consumption and business investment amid tight labour markets, and faster than expected adaptation to the energy crisis. In the fourth quarter however, this uptick is estimated to have faded in most though not all major economies. US growth remains better than expected but across other economies, activity indicators generally point to a slowdown.

*(Source: IMF World Economic Outlook)*

### The local economy

Sri Lanka faced an unprecedented economic and political crisis resulting from the impacts of COVID-19, significant tax cuts and large sovereign debt repayments collectively depleting the country's limited foreign reserves. During the first half of the year, the country faced severe fuel shortages, power outages and widespread scarcity of imported raw material and essential goods, leading the social unrest and political tension.

Amid the foreign reserve shortage, Sri Lanka announced the suspension of external debt service and a plan for debt restructuring in April 2022. This announcement triggered a significant downgrade in Sri Lanka's sovereign credit rating by all the international credit rating agencies during the first half of 2022. On a positive note, the government commenced talks with the International Monetary Fund (IMF) to secure financial assistance by way of an Extended Fund Facility (EFF) to support Sri Lanka's economic policies and reforms. As a result, the IMF Board approved a 48-month extended arrangement with total funding amounting to USD 2.9 Bn in March 2023.

**Economic Growth:** The overall economy contracted during the year with the negative growth of 7.8% recorded in 2022. All three major economic sectors contracted in 2022, with industry sector recording a significant decline of 16.0% in 2022. Agriculture and service sectors also declined by 4.6% and 2.0%, respectively in 2022. The setback in the service sector was driven mostly by the decline in financial services, professional services and other personal services while the industry sector was affected by the restriction of importation of raw materials and the power and fuel shortages.

**Inflation:** During the year, inflation accelerated at a notable pace, reaching historically high levels. Substantial supply side disruptions both locally and globally, administrative price adjustments, sharp depreciation of the Sri Lanka Rupee against the US Dollar (USD) and the pent-up demand associated with the lagged impact of large monetary accommodation amidst the COVID-19 pandemic contributed largely towards this rise in inflation. The CCPI (Colombo Consumer Price Index) and NCPI (National Consumer Price Index) peaked in September 2022, before decelerating in following months in response to the monetary policy measures. Headline inflation measured by the year-on-year change in the CCPI was recorded at 57.2% in December 2022 compared to 12.1% in December 2021. Headline inflation measured by the year-on-year change in the NCPI was recorded at 59.2% in December 2022 compared to 14.0% in December 2021.

**Exchange Rate:** The shortage in liquidity in the local foreign exchange market continued to exert pressure on the exchange rate and the CBSL allowed the Sri Lankan rupee to float starting from early March 2022. This resulted in depreciation of the Sri Lankan Rupee substantially by 70.6% against the USD by the end April 2022 compared to December 2021. In this backdrop the CBSL commenced the provision of market guidance on the daily exchange rate with an allowable margin from mid-May 2022 enabling the Sri Lanka rupee to remain relatively stable against the USD since then. The Sri Lankan Rupee depreciated against the USD during the year to record Rs. 363 by the end of 2022 compared to Rs. 200 recorded by the end of 2021.

# Management Discussion and Analysis

**External Sector:** The challenges in the external sector heightened as import expenditure continued to outpace export income up until the first quarter of 2022. Thereafter however, import expenditure declined considerably and the trade deficit was narrowed towards the latter part of the year as a result of improvement in export income and the policy measures introduced to curtail imports amidst the foreign exchange liquidity shortage in the banking system.

**Interest Rates:** The CBSL tightened its monetary policy measures significantly during 2022 to arrest the inflationary pressures in the economy, to stabilise the exchange rate and also to correct anomalies observed in the market interest rate structure. Following several adjustments to policy rates with the most notable being in April 2022 where the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) increased to 13.5% and 14.5% respectively. Accordingly, market interest rates escalated swiftly and resulted in significant liquidity deficits in the money market. The tight monetary policy stance is currently maintained with SDFR at 15.5% and SLFR at 16.5% to facilitate the ongoing disinflation process. However, reduction in interest rates is expected during 2023 with a gradual relaxation of the current monetary policy and the easing of risk premium as the debt restructuring process progresses.

(Source: CBSL & IMF)

## NBFI sector performance

The stability of the financial sector was challenged amidst the crisis conditions that have prevailed in the economy during 2022. The Non-Bank Financial Institutions (NBFI) sector comprising of Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) showed promise of growth during the first quarter of the year but shifted to a path of deceleration starting from the second quarter of the year due to the adverse macroeconomic conditions and prolonged restrictions on importation of motor vehicles.

**Reach:** The NBFI sector consisted of 36 LFCs and 1 SLCs at the end of year 2022. Despite the challenging conditions that prevailed in the financial markets, the financial infrastructure ensured stability and uninterrupted functioning of the sector during the year under review. Technology-based products and services which had been on an uptrend in recent years received greater prominence in 2022 and many NBFIs moved towards increased digitalization with the use of technological solutions to deliver an undisrupted service to customers during the year.

**Asset base:** The total asset base increased by 8.3% YoY (year-on-year) to record Rs. 1,611.2 Bn as at end of 2022 with the contribution of growth in loans and advances which recorded at 5.0% in 2022. With the import restrictions in effect, the LFCs and SLCs sector diversified its credit portfolio to other product categories away from leasing and hire purchase resulting in an increased concentration on pawning and gold loan products. Accordingly, the concentration on leasing and hire purchases decreased to 48.4% at end of December 2022, compared to 55.0% recorded at the end of December 2021. The concentration on pawning advances of the sector increased to 19.2% as at end of 2022 from 11.3% as at end of 2021.

**Asset quality and profitability:** The sector experienced a deterioration in credit quality and decline in profitability during the year. The Gross and Net Non-Performing Loans (NPL) Ratios recorded at 17.5% and 12.3% respectively as at end of December 2022 compared to 11.0% and 2.7% recorded respectively as at end of December 2021. This was mainly as a result of the impact from adverse macroeconomic conditions and the change in classification and measurement of credit facilities as per The Finance Business Act Direction No. 01 of 2020 which required LFCs ending the financial year on March 31, 2022 to adopt 120 past due dates for classification of NPLs with effect from 1st April 2022, compared to the earlier requirement of 180 days. Profit after tax declined significantly by 21.0% in 2022 mainly due to significant increase in interest expenses with the higher interest rate environment. Accordingly, Net Interest Margin of the sector decreased to 6.6% as at end December 2022 compared to 8.5% as at end of December 2021.



# Management Discussion and Analysis

**Capital adequacy:** Capital of the LFCs and SLCs sector improved during the period under review mainly due to infusion of new capital by LFCs to meet the regulatory requirement. Accordingly, Tier 1 Capital Adequacy Ratio (CAR) and Total CAR of the sector increased to 20.6% and 22.0%, respectively, by end December 2022 compared to 15.5% and 17.0% respectively, recorded as at end of December 2021.

**Liquidity:** The liquidity position of the sector remained satisfactory with the Regulatory Liquid Assets to Total Assets recorded at 10.7% as at end of December 2022, a marginal increase compared to 9.7% recorded in December 2021.

## Supervisory and Regulatory Developments:

The Central bank of Sri Lanka introduced several policy measures and prudential regulations during 2022 to strengthen the supervisory and regulatory framework of non-bank financial institutions aiming at stability and soundness of the sector. Following are the key regulations issued for the LFCs in this regard.

- The Finance Business Act (Technology Risk Management and Resilience) Direction No. 01 of 2022 which will be effective from 1 January 2023. This direction intends to set minimum regulatory requirements on technology risk management and resilience for LFCs.
- The Finance Business Act (Mobile Phone Based E-Money Services) Direction No. 02 of 2022. This direction provides guidelines to LFCs on obtaining mobile phone-based e-money services through Licensed Service Providers (LSPs) and their merchants.
- Guideline on Sustainable Finance Activities. This guideline is issued considering the importance of a sustainable economy and the need for providing with governance and risk management framework for sustainable finance activities of LFCs. This will support the sustainable finance initiatives of LFCs in line with the Roadmap for Sustainable Development published by the CBSL in 2019.

(Source: CBSL)

## Looking ahead

The impacts of the Sri Lankan political and economic crisis on the financial services sector have been profound. With Sri Lanka's economy still subdued, financial institutions will continue to be presented with credit risks amid a fragile operating environment. It is expected that the IMF-EFF programme will provide an opportunity to embark on critical reforms and long neglected structural adjustments, which will be instrumental in shaping the economy to progress on a trajectory of greater stability and sustained growth.

On a positive note, while traditional financial services still continue to hold the greater market share, the Fintech ecosystem is expected to step into a rapid growth in the upcoming years. With digital transacting becoming more commonplace, financial services are becoming more decentralized, transparent, and accessible and thus, Fintech will be a definite driving force in future.

## OUR PRODUCT PORTFOLIO

Despite challenging operating environment, Dialog Finance displayed resilience and made progress towards achieving its objectives during the year. The commitment and dedication of our team enabled us to navigate through this turbulent year with confidence allowing us to deliver on our promise to our stakeholders. We continued to support diverse groups of customers across the country, helping them to meet their financial requirements and recover from the impacts of the pandemic as well as the economic crisis, through flexible and creative digital financial solutions.

## Digital Lending, Quick Loan

Dialog Finance introduced Sri Lanka's first fully digitalized lending product offered by a NBFi to help consumers fulfil their short-term funding requirements by obtaining small ticket value loans. The Quick Loan facility offers easy access to customers to conveniently obtain a short-term loan digitally, using the Genie Mobile App, which enables a digital KYC (Know-Your-Customer) process with lower processing time, zero paper involvement, and efficient completion of regulatory requirements.

# Management Discussion and Analysis

## Financial Solutions to MSME segment

We offer innovative financial solutions to small and medium-sized retailers and enterprises with the aim of increasing financial inclusiveness and affordability to overcome challenging economic conditions and grow their businesses.

## Digital Savings and Debit Card Services

This new and innovative product transcends the traditional savings experience, as the digital savings account enables customers to open a savings account via digital KYC (Know-Your-Customer) process with lower processing time, zero paper involvement, and efficient completion of regulatory requirements and to access funds and transact directly from their mobile phone anywhere at any time. Dialog Finance's debit card is Sri Lanka's first fully digitally managed debit card provides customers with the facility to request for and manage the card via the Genie mobile app.

## Goal Based Savings

This digital investment plan was exclusively created to fulfil specific investment and savings goals with a range of attractive features. This allows customers to develop the habit of target-based savings digitally and will help to focus on setting and accomplishing financial targets in a seamless manner.

## Payment Services via the Genie Mobile App

Customers who maintain a savings account with Dialog Finance can carry out their day-to-day payment transactions through their savings account in a simpler and faster manner. While encouraging sustainability through paperless transacting, this provides access to a range of merchants through the Genie app, enabling the customer to experience the benefits of fast and flexible payment gateways and efficient use of their accounts maintained through the app in a safe and secure digital environment.

## CUSTOMER CENTRICITY

Delivering long-term value to our customers is central to our purpose and provides the foundation for our strategy. We seek to enrich our customers' lives by providing wide array of innovative and digital financial solutions, improving our levels of customer service, through cutting edge digital tools and platforms, and by developing direct, close, personal connections.

## Enhancing value propositions

Dialog Finance continued to expand its offering across its key markets to cater to customers' evolving needs even more closely. The digital savings account through the Genie platform was one such initiative which was instantly embraced by new age customers. Using technology and video KYC facilities, customers are able to open savings account with zero paperwork and without the hassle of having to physically travel to a branch. The Genie debit card is Sri Lanka's fully digitally managed debit card facility offered to the digital savings customers.

In addition to focusing on the consumer sector, we also serve the MSME sector and offers financial solution to the meet the financial needs of the MSME customers.

## Improving customer service

Customer experience is a key focus point, and we have a dedicated customer service unit which follows strong customer service governance policies and protocols. To enhance customer experience and satisfaction, and understand customer concerns better, we took steps to enhance and further professionalize our customer interactions and simplify customer journeys during the year.

## Strengthening engagement and trust

At a time when physical presence was challenged, our digital presence proved to be a vital asset which facilitated constant engagement with customers. We used our social media presence not only to engage with customers but also as a platform for brand advocacy and for grievance communications. Information regarding customer experience was gathered from all these contact points and necessary actions were taken immediately for improvement.

Product responsibility and marketing integrity is a vital aspect to gaining customer trust. We ensure that our product and services comply with applicable laws and regulations and meet our ethical standards. Product related information is readily available on our corporate website and information on fees and charges, product features, terms and conditions are clearly communicated to clients through our

# Management Discussion and Analysis

staff. There were no instances of non-compliance concerning product and service information or marketing communications during the year.

## DIGITAL PROGRESS

Dialog Finance's digital strategy roadmap aligns with its vision to be Sri Lanka's No.1 Fin Tech Company. Accordingly, our digital services continue to be enhanced in keeping with the Company's growing capabilities and changing customer demands.

### IT governance

A dedicated IT team is in charge of implementing the Company's digital strategy. IT operations at Dialog Finance are governed by a framework consisting of robust IT policies, clear demarcation of responsibilities and a highly skilled IT team ensures that IT risks are identified and managed in a systematic manner. With digital investments increasing in both priority and value, the Company continued to focus on strengthening its IT governance framework during the year.

A periodic Information System (IS) audit takes place to ensure the company's adherence to standards and established IT policies/ procedures as well as other global best practices. Risk-based IS audit plans are formulated annually considering the observations made during the executed IS audits and annual audit review of the prior year. The annual IS audit plan covers critical IT infrastructure, critical systems, supporting IT operational processes, cyber security and information security aspects.

### Key IT strategies

The increasing adoption of digital financial services is resulting exponential growth in users and volume of digital transactions across our digital channels. To support this growth, we continued to invest in our digital value proposition, by scaling up our system capabilities and strengthening security controls.

Digital technology is expected to play an increasingly important role in the Company's growth agenda as it seeks to provide customer-centric solutions to penetrate new markets. With the implementation of the new core banking system, we envisage an accelerated adoption of digital processes as the integration of several interfaces will create a more agile platform enabling the Company to respond much faster to the changing business environment. In line with our corporate agenda, our focus is directed towards:

- Further digitalisation of operations to drive internal and external efficiencies.
- Continuing to scale up all our systems including the core banking system as well as other supporting systems.
- Fine-tuning our cyber security protocols to ensure the highest level of data security.
- Building a sound IT resource team with a strong backup layer for each operational area.

## NURTURING TALENT

Being a Fintech company, our key HR strategy is to invest in and build a pool of technically specialized talent that will support the growth of the business. We have dedicated our efforts to foster a learning culture within the company that attracts and retains competent and skilled individuals who are passionate about their career with us.

The total staff strength of the Company as at 31 December 2022 was 85 and a majority of our staff are below the age of 35, representing a young and energetic workforce.

During the year, we focused on attracting top talent and 59 new employees joined our workforce. We pride ourselves in being an equal opportunity employer and follow fair and transparent procedures for recruitments. Further, we remained heavily focused

# Management Discussion and Analysis

on retaining our critical talents, thus one-to-one meetings, group discussions and stay interviews were conducted regularly to identify their needs and desires. A robust performance management process is followed to set scorecard based KPIs at the beginning of the year and employees are guided with required skill management and coaching to meet their individual KPIs.

We always ensure to comply with mandatory training requirements and e-learning platforms such as Zenlife and LinkedIn learning were used during the year to encourage a flexible and preferred learning culture where employees could spend their time for upskilling at their convenience. At the beginning of the year, the training calendar is planned based on the Training Needs Analysis (TNA) conducted as an outcome of the performance evaluation process.

We ensure that remuneration and benefits are on par with industry standards and employees are adequately compensated for their efforts. The commitment to maintain one-to-one communication with employees giving a personal touch for the employer-employee relationship is one of our key strengths. This has helped us to identify employee concerns and support them on a professional as well as personal level especially during the challenging times. This has been further reinforced by the Employee Engagement Survey which is being conducted annually. Furthermore, to encourage staff interaction and engagement "Fintech re-creation events" are organized on a regular basis.

We follow and practice the open policies on diversity and inclusion and continue to strive towards gender parity at all levels. We are proud of the significant strides we have taken to ensure a conducive work environment for our female colleagues.

We have created a systematic, transparent system of identifying candidates for succession, thereby developing a high-quality leadership pipeline within the Company. This ensure we transform our employees in line with the changes in the external environment and the right talent is available at the right time.

## Outlook

In the journey of becoming the best Fintech company in Sri Lanka we are determined to equip ourselves with the top talents who will drive the business with collective skills. We embrace the challenge of placing top talents with the current competition and talent drought due to skill migration, while developing our existing resources to be future-ready and competent in their respective field of interest. We are evident of our people being the most crucial asset of our Company, will commit to write our success story as one team.

## VALUE CREATED FOR OUR INVESTORS

Despite the unprecedented economic crisis, the Company recorded a strong financial and operational performance in 2022 by navigating this crisis with a series of well-planned strategies coupled with the proactive risk management initiatives. The below provides detailed analysis of the Company's financial performance in 2022.

## Income statement analysis

### Gross income

The Company recorded a total gross income of Rs. 1,029.9 Mn for the year ended 31 December 2022, demonstrating a significant growth of 279.2% compared to Rs. 271.6 Mn recorded for the year ended 31 December 2021, driven by the contribution made by fund-based income, fee-based income and income from other sources.

### Interest income and net interest income (NII)

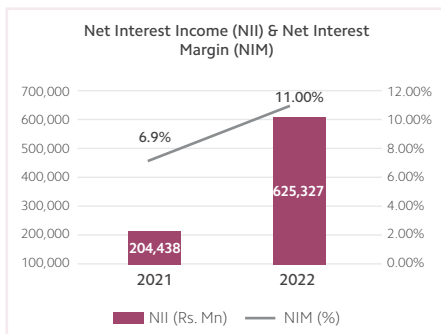
Total interest income grew significantly by 277.2% to record Rs. 984.9 Mn for 2022 compared to Rs. 261.1Mn recorded during 2021. This increase was mainly driven by the growth in the average interest earning assets by Rs. 2,623.4 Mn and the increase in the rate of interest on average interest earning assets by 8.6%. The average interest earning assets grew through both lending and investment portfolios. The increase in the rate of interest on average interest earning assets was driven by the increase in market interest rates in line with the significant increase in policy rates by CBSL in the early part of 2022.

# Management Discussion and Analysis

The contribution from the investment portfolio to total interest income increased significantly to 47.3% in 2022 compared to 26.3% in the previous financial year. This was driven by higher excess liquidity during 2022 stemming from the growth in deposits over the growth in loans and advances, which was invested across various investment instruments such as fixed deposit placements with banks, repurchase agreements and government securities.

Interest expense which amounted to 36.5% of the interest income during the year under review (2021 – 21.7%), increased significantly by 534.9% to record Rs. 359.5 Mn for 2022 compared to Rs. 56.6Mn recorded for 2021. This was mainly due to growth in average customer deposits during the year 2022 by Rs. 2,096.5 Mn coupled with increase in the cost of funds by 6.1% consequent to the repricing of customer deposits in line with the market interest rates.

Net interest income stood at Rs. 625.3 Mn for the year ended 31 December 2022, recorded an impressive growth of 205.9% compared to the corresponding financial year. This performance was backed by the growth in interest earning assets coupled with improvement in net interest margin by 4.1% to record 11.0% in 2022 from 6.9% in 2021.



## Fee based income

Total fee and commission income stood at Rs. 17.9 Mn for 2022 compared to Rs. 6.4 Mn recorded for 2021, recording an improvement of 179.8% YoY,

mainly driven by income from debit card related services and loan fee income. Consequently, net fee and commission income increased by 189.9% YoY to record Rs. 15.1 Mn for the year ended 31 December 2022.

## Other income

Total other income which comprises of net gains and losses from trading and net other operating income recorded a significant growth of Rs. 23.0 Mn YoY to record Rs. 27.1 Mn for the year ended 31 December 2022. This growth was mainly attributable to other operating income related to the debit card business of the Company.

## Total operating income

Further to the growth in net interest income and non-interest income, total operating income improved significantly by 212.2% and reached Rs. 667.6 Mn during the year under review compared to total operating income of Rs. 213.8 Mn recorded in 2021.

## Impairment charges and non-performing advances (NPA)

Impairment charges for the year ended 31 December 2022 increased to Rs. 84.9 Mn compared to Rs. 10.2 Mn in 2021, recording an increase of Rs. 74.7 Mn. Higher impairment provision during the year contributed by impairment charges of Rs. 20.7 Mn on account of the investment portfolio consequent to the downgrading of the sovereign rating and the bank ratings and impairment charges of Rs. 64.2 Mn on account of the loans and advances portfolio under individual and collective impairment provisions and also by way of management overlays considering the adverse economic conditions and uncertainties in the market.

## Operating expenses

Total operating expenses amounted to Rs. 467.4 Mn for the year ended 2022 compared to Rs. 276.1 Mn for the year ended 2021, recorded an increase of 69.3% YoY. This was mainly driven by the increase in operating cost due to investment made by the Company on human capital, technology and customer

# Management Discussion and Analysis

experience to support the business strategies and business growth. The cost was further escalated by impact of inflation in relation to all the operating expenses categories, increase in indirect taxes and increase in foreign currency denominated operating payment in line with the significant depreciation of the Sri Lanka Rupee.

However, aggressive cost management and rationalization initiatives implemented by the Company despite inflationary impact, together with the growth in operating income supported to improved the cost to income ratio from 129.1% in 2021 to 70.0% in 2022.

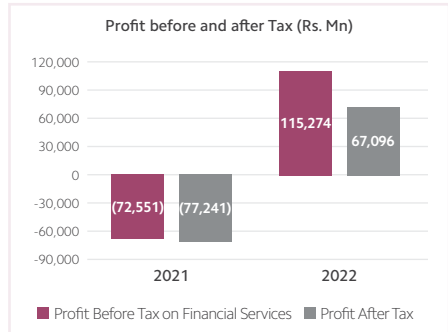
It is expected that the streamlining of processes continues to drive both service excellence and a leaner cost profile. Along with the development of business and the expected higher growth in income will enable the Company to further reduce its cost to income ratio.

## Profit before and after taxes

On the back of improved operating income, the Company recorded a profit before tax on financial services of Rs. 115.3 Mn for the year ended 31 December 2022, compared to the loss before taxes on financial services of Rs. 72.6 Mn recorded in the prior year.

With the growth in operating profit, taxes on financial services which comprise of value added tax and social security contribution levy increased to Rs. 48.2 Mn for the year ended 31 December 2022 compared to value added tax on financial services of Rs. 4.7 Mn recorded during the previous year.

Accordingly, the Company recorded a net profit of Rs. 67.1 Mn for the year ended 31 December 2022 relative to the net loss of Rs. 77.2 Mn recorded for the previous financial year.



## Profitability - return on assets (ROA) and return on equity (ROE)

The improved profitability increased ROA to 1.0% (positive) in 31 December 2022 compared to 2.2% (negative) in 31 December 2021. ROE improved to 2.6% (positive) in 31 December 2022 from 3.5% (negative) in 31 December 2021.

## Analysis of Statement of Financial Position

### Total assets

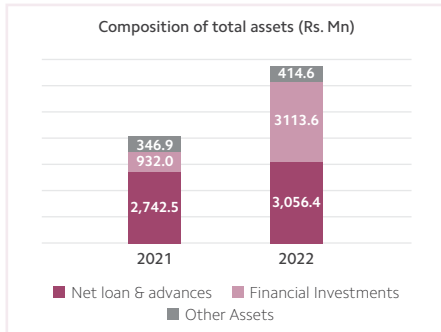
The total asset base of the Company recorded a growth of Rs. 2.6 Bn (63.7%) YoY to reach to Rs. 6.6 Bn as at end of December 2022. The growth in the asset base mainly reflects lending book growth and the excess liquidity being invested in various investment instruments such as fixed deposit placements with the banks, repurchase agreements and government securities. The excess liquidity mainly arose from the higher growth in customer deposits during the year relative to the growth in loans and advances.

### Loans and advances

Despite adverse economic conditions, the lending book recorded a moderate growth of 12.6% YoY to record gross loans and advances of Rs. 3.2 Bn as at 31 December 2022 from Rs. 2.8 Bn as at 31 December 2021. The net loans and advances stood at Rs. 3.1 Bn, which is a 11.4% growth from Rs. 2.7 Bn as at 31 December 2021.

# Management Discussion and Analysis

The net loans and advances portfolio as at 31 December 2022, represents 46.4% of the total assets. The ratio declined from 68.2% as at 31 December 2021 with the increase in investments with the excess liquidity position.

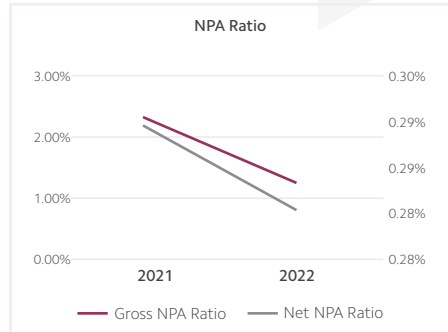


## Asset quality

Despite the adverse macro-economic situation, the Company maintained the Gross Non-Performing Advances (NPA) ratio low at 1.32% as at end of December 2022 from 2.35% as at end of December 2021. This was achieved through the growth in the lending portfolio and timely recovery measures taken during the year under review. Improvement in the NPA ratio was further supported by the write off of unrecoverable receivables amounting to Rs. 22.5 Mn during the year. The net NPA ratio was 0.28% as at 31 December 2022.

Quality of the loans and advances portfolio of the Company is further reflected by the low Impaired Loans (Stage 3) to Total Loans and Advances Ratio which stood at 1.56% as at 31 December 2022. (2021 – 3.01%) Total impairment provision for loans and advances as a percentage of gross loan portfolio was 3.93% as at end of December 2022. (2021 – 2.96%)

The proactive risk management framework and moderate risk appetite coupled with efficient recovery efforts helped the Company to maintain the quality of the lending portfolio.



## Customer deposits

The deposit base increased by Rs. 2.5 Bn reaching Rs. 3.8 Bn as at 31 December 2022, compared to Rs. 1.3 Bn recorded as at 31 December 2021. Deposits made up 57.5% of the total asset base as at 31 December 2022 compared to 32.9% as at 31 December 2021. This significant increase in the deposit base was due to the growth in digital savings deposits and fixed deposit of Rs. 2.0 Bn made by a related party company.

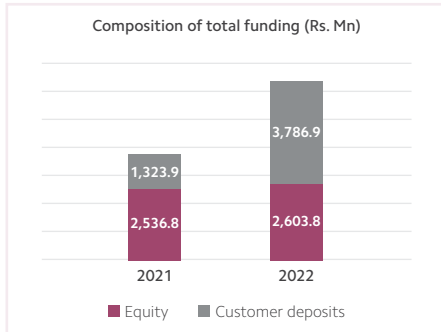
Deposit mobilization has been carried out by the Company during the year under review with due consideration given to the funding strategy formulated based on the fund requirements in both short and long term.

## Shareholders' funds

The equity base of the Company recorded a net increase of Rs. 67.0 Mn (2.6%) in 2022 with the profit of the year. The Tier I capital adequacy ratio (CAR) and Total CAR stood at 46.36% as at 31 December 2022, which were well above the CBSL's prescribed minimum thresholds of 8.5% for Tier I CAR and 12.5% for Total CAR.

Core capital of the Company stood at Rs. 2,603.8 Mn as at 31 December 2022 which was well above the CBSL's prescribed minimum threshold of Rs. 2,500 Mn.

# Management Discussion and Analysis



## Liquidity

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

	At 31 December 2022		At 31 December 2021	
	Actual	CBSL minimum requirement	Actual	CBSL minimum requirement
Total liquid assets (Rs. Mn)	3,068,055	395,858	969,040	147,046
Approved government securities (Rs. Mn)	535,348	85,427	797,139	71,618

## Net asset value per share and earnings per share

Net assets per share increased to Rs. 22.18 as at 31 December 2022 from Rs. 21.61 as at 31 December 2021 in line with the growth in loan book and financial investments. Earnings per share improved to Rs. 0.57 (Positive) for the year ended 31 December 2022 from Rs. 0.70 (negative) reported for the year ended 31 December 2021.

## Performance of the share

The Company's share price as at 31 December 2022 stood at Rs. 63.00 marking a decrease of Rs. 20.50 or 24.55% compared to the closing price of Rs. 83.50 as at 31 December 2021. The share price fluctuated between Rs. 119.0 at the lowest and Rs. 45.50 at the highest during the year under review.

## Outlook

Despite the challenging conditions in the local economy, it is vital that the finance sector remains robust and meets the stakeholder expectations. With the digital initiatives and innovative products already in place and with continuous improvements, Dialog Finance is geared to meet the diverse challenges in reaching and serving customers while continuously extending the assistance to the regulators and statutory bodies in making the economic recovery fast and focused. Furthermore, the Company will remain cautious on new lending opportunities in 2023 to ensure high quality loan book is maintained, given the challenging macroeconomic environment.



# Corporate Governance

## Introduction

Corporate Governance is the mechanism by which companies are directed, monitored and controlled. The Board of Directors is responsible for the governance of the Company and have 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 Company's corporate governance practices are underpinned by the requirements set out in directions, rules, guidelines and/or principles stipulated by; the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka (DSNBFI), the Colombo Stock Exchange (CSE) as well as the Securities and Exchange Commission of Sri Lanka (SEC).

As required by Section 16.1.x of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 issued by the DSNBFI (the Direction), the Company has further disclosed by way of a check list presented at the end of this report, the manner and extent to which the Company has complied with the requirements of the Direction along with an assurance statement obtained from the external auditors of the Company of the compliance with the said Direction.

## 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 31st December 2022 was as follows:

Name of Director	Position	Date of Appointment
Renuka Nandini Kurukulasuriya Fernando (Chairperson)	Non-Independent, Non-Executive	22 May 2020
Wewage Viranga Supun Dep Weerasinghe	Non-Independent, Non-Executive	9 November 2017
Patrick Priyan Edirisinghe	Independent Non-Executive	19 January 2016
Lakshman Dileep Roshaan Hettiaratchi	Independent, Non-Executive	9th February 2016
Mohamed Hassen Nazeem Mohamed*	Non-Independent, Executive	24 June 2022

\* Mr Sheyantha Abeykoon resigned as a Non-Independent, Non-Executive director of the Company with effect from 27 July 2022

The profiles of each Director are given on pages 10 to 12.

As at 31 December 2022, the Board comprised of five (5) Directors, 4 of which were Non-Executive Directors and 1 Executive Director. The Non-Executive Directors possess a depth of knowledge and the requisite skills gained from their breadth of experience to guide the Company objectively, in the face of issues on strategy, performances 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 Colombo Stock Exchange and the Corporate Governance Directions issued by CBSL. The other two (2) Non-Executive Directors are considered Non-Independent as they are nominees of Dialog Axiata PLC, the major shareholder of the Company.

# Corporate Governance

## Board Meeting and Attendance

The Board meets once a month unless the business exigencies demand the convening of special board meetings. Accordingly, Thirteen (13) Board meetings were held during the year under review. Members of the management, external auditors, internal auditors 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
Ms. Renuka Fernando	13/13
Mr. Supun Weerasinghe	12/13
Mr. Roshaan Hettiarachchi	12/13
Mr. Priyan Edirisinghe	12/13
Mr. Sheyantha Abeykoon**	4/6
Mr. Nazeem Mohamed**	7/7

\*\*Mr. Sheyantha Abeykoon resigned from the Board with effect from 27 July 2022 and Mr. Nazeem Mohamed was appointed to the Board with effect from 24 June 2022

## Delegation of Authority and Board Committees

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

In compliance with the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 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 67 to 74.

The Company has also established several Management Committees for Information Technology, Information Security, Recoveries, Credit, Assets and Liability Management and Customer Experience to oversee the specific areas and thereby ensuring that decision-making is on a participatory basis.

## The Management

The Company has entrusted its day-to day operations to the Senior Management Team headed by the Chief Executive Officer whereas the Senior Management Team takes steps to identify opportunities while minimizing risk to achieve targets within defined time frame and budgets.

## Access to Information

The Board is provided with comprehensive and accurate information prior to each meeting with the Board inclusive of an agenda, minutes, board papers together with explanatory information, financial and operational performance reports. Any Director may call for any additional information as required. The Company Secretary is responsible to the Board for compliance with Board procedures and applicable rules and regulations. All Directors have access to the advice and services of the Company Secretary. Furthermore, the Directors have access to independent professional advice at any juncture during the course of fulfilling their responsibilities, at the expense of the Company.

## Financial Disclosure and Transparency

The Company prepares its Financial Statements 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.

# Corporate Governance

## 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. The Company has adopted 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.

## 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 the Annual Finance Statements are given on page 76.

## Respect for the Rights of Shareholders

The Shareholders of the Company and their rights thereof are equally safeguarded by the Company at all times. 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 the 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 of the Company.

### 2. Announcements to the Colombo Stock Exchange (CSE)

Announcements of quarterly interim financial results and various announcements on corporate actions are disclosed to the CSE in a prompt and timely manner 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 year 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

The Compliance Report on the adherence with the requirements of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 (the 'Direction') effective 01st July 2022 subject to the specific transitional provisions, are tabulated below. Unless otherwise specified in this report the Company is also compliant with the relevant requirements under the Finance Business Act (Corporate Governance) Direction No. 03 of 2018 as amended ('Revoked Direction') for the period 1st January 2022 – 31st June 2022.

Section	Requirement	Status of Compliance	Comments
<b>1. Boards Overall Responsibilities</b>			
1.1	The Board shall have overall responsibility and accountability for the Finance Company (FC), including approving and overseeing management's implementation of the FCs corporate strategy, setting up the governance framework, establishing corporate culture and ensuring compliance with regulatory requirements	Complied	
<b>1.2 Business Strategy and Governance Framework</b>			
1.2.a	Approving and overseeing the implementation of the Company's overall business strategy with measurable goals for next three years and update it annually in view of the business environment	Complied	The Board has approved the Business Strategy with measurable goals on 22.09.2022 for year 2023 up to 2025
1.2.b	Approving and implementing the Company's governance framework commensurate with the Company's size complexity, business strategy and regulatory requirements	Complied	
1.2.c	Assessing the effectiveness of the Company's governance framework periodically	N/A	The governance framework was only introduced last year along with this Direction and will be assessed annually
1.2.d	Appointing the Chairperson and the Chief Executive Officer (CEO) and define the roles and responsibility	Complied	
<b>1.3 Corporate Culture and Values</b>			
1.3.a	Ensuring that there is a sound corporate culture within the Company, which reinforces ethical, prudent and professional behavior	Complied	
1.3.b	Playing a lead role in establishing the Company's corporate culture and values, including developing a code of conduct and managing conflicts of interest	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
1.3.c	Promoting sustainable finance through appropriate environmental, social and governance considerations in the Company's business strategies	Complied	
1.3.d	Approving the policy of communication with all stakeholders, including depositors, shareholders, borrowers and other creditors, in the view of projecting a balanced view of the Company's performance, position and prospects in public and regulators	Complied	The Communication Policy was approved on 17.12.2021
<b>1.4 Risk Appetite, Risk Management and Internal Controls</b>			
1.4.a	Establishing and reviewing the Risk Appetite Statement (RAS) in line with the Company's business strategy and governance framework	Complied	The Risk Appetite Statement of the Company was adopted by the Company on 23.11.2020
1.4.b	Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently	Complied	
1.4.c	Adopting and reviewing the adequacy and the effectiveness of the Company's internal control systems and management information systems periodically	Complied	
1.4.d	Approving and overseeing business continuity and disaster recovery plan for the Company to ensure stability, financial strength, and preserve critical operations and services under unforeseen circumstances	Complied	The business continuity and disaster recovery plan for the Company was approved on the 11.12.2018
<b>1.5 Board Commitment and Competency</b>			
1.5.a	All members of the Board shall devote sufficient time on dealing with the matters relating to affairs of the Company	Complied	
1.5.b	All members of the Board shall possess necessary qualifications, adequate skills, knowledge and experience	Complied	
1.5.c	The Board shall regularly review and agree the training and development needs of all the members	Complied	
1.5.d	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually on individual performance, of its Board as a whole and that of its committees and maintain records of such assessments	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
1.5.e	The Board shall resolve to obtain external independent professional advice to the Board to discharge duties to the Company	N/A	No such circumstances arose during the period under review
<b>1.6 Oversight of Senior Management</b>			
1.6.a	Identifying and designating senior management, who are in a position to significantly influence policy, direct activities and exercise control over business operations and risk management	Complied	
1.6.b	Defining the areas of authority and key responsibilities for the senior management	Complied	
1.6.c	Ensuring the senior management possess the necessary qualifications, skills, experience and knowledge to achieve the Company's strategic objectives	Complied	
1.6.d	Ensuring there is an appropriate oversight of the affairs of the Company by senior management	Complied	
1.6.e	Ensuring the Company has an appropriate succession plan for senior management	Complied	The succession plan for the senior management was approved on 23.06.2022
1.6.f	Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives	Complied	This is carried out at the monthly board meetings
<b>1.7 Adherence to the Existing Legal Framework</b>			
1.7.a	Ensuring that the Company does not act in a manner that is detrimental to the interests of and obligations to, depositors, shareholders and other stakeholders	Complied	
1.7.b	Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards	Complied	
1.7.c	Acting with due care and prudence, and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently	Complied	

# Corporate Governance

Section	Requirement	Status of Compliance	Comments
<b>2. Governance Framework</b>			
2.1	Board shall develop and implement a governance framework in line with the Direction	Complied	
<b>3. Composition of the Board</b>			
3.1	The Board's composition shall ensure a balance of skills and expertise as maybe deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the Company	Complied	
3.2	The number of director's of the Board shall not be less than 07 and not more than 13.	Complied	Transitional Provision w.e.f. 01.07.2024. S.4 of the Revoked Direction applies
3.3	The total period of service of a director other than a director who holds the position of CEO/executive director shall not exceed nine years	Complied	
3.4	Non-executive directors are eligible to hold office exceeding 9 years of service with prior approval of the Director of Supervision of Non-Bank Financial Institutions (DSNBFI) subject to the provisions of the Direction provided that the non-executive directors eligible to exceed 9 years are limited to ¼ of the total number of directors on the Board.	Complied	
<b>3.5 Executive Directors</b>			
3.5.a	Only an employee of the Company shall be nominated, elected and appointed as an executive director of the Company, provided that the number of executive directors shall not exceed 1/3 of the total number of directors of the Board	Complied	Transitional Provision w.e.f. 01.07.2024 S.4 of the Revoked Direction applies
3.5.b	A shareholder who directly or indirectly holds more than 10% shares of the Company shall not be appointed as an executive director or as senior management. Provided however that existing executive directors with a contract of employment and functional reporting line and existing senior management are allowed to continue as an executive director/senior management until the retirement age of the Company and maybe appointed as a non executive director subject to the provisions of the Direction.	N/A	The executive director or any of the members of the senior management are not shareholders who directly or indirectly hold more than 10% shares of the Company

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
3.5.c	In the event of presence of the executive directors, CEO shall be one of the executive directors and maybe designated as the managing director of the Company	Complied	The CEO is appointed as an executive director to the Board wef June 2022
3.5.d	All executive directors shall have a functional reporting line in the organization structure of the Company.	Complied	
3.5.e	The executive directors are required to report to the Board through CEO.	Complied	
3.5.f	Executive directors shall refrain from holding executive directorships or senior management positions in any other entity	Complied	
<b>3.6 Non-executive Directors</b>			
3.6.a	Non-executive directors shall possess credible track records, and have necessary skills, competency and experience to bring independent judgement on the issues of strategy, performance, resources and standards of business conduct	Complied	
3.6.b	A non-executive director cannot be appointed or function as the CEO/executive director of the Company	Complied	
<b>3.7 Independent Directors</b>			Transitional Provision w.e.f. 01.07.2024 S.4 of the Revoked Direction applies
3.7.a	The number of independent directors of the Board shall be atleast 3 or 1/3 of the total number of directors of the Board, whichever is higher.	Complied	The number of independent directors are 1/3 of the total number of directors i.e. 2
3.7.b	Independent directors appointed shall be of highest caliber, with professional track record and sufficient experience	Complied	
3.7.c	Instances wherein a non-independent director shall not be considered independent.	Complied	
3.7.d	The nomination committee of the Board should determine whether there is circumstance or relationship, which is not listed in the Directions which might impact a director's independence, or the perception of independence.	Complied	



Section	Requirement	Status of Compliance	Comments
3.7.e	An independent director shall immediately disclose to the Board any change in circumstances that may affect the status as an independent director.	N/A	No such circumstances have arisen during the period under review
<b>3.8 Alternate Directors</b>			
3.8.a	Instances under which representation through an alternate director is permitted under the Direction	N/A	No alternate directors have been appointed to the Board
3.8.b	The existing directors of the Company cannot be appointed as an alternate director to another existing director of the Company	N/A	No alternate directors have been appointed to the Board
3.8.c	A person appointed as an alternate director to one of the directors cannot extend the role as an alternate director to another director in the same Board	N/A	No alternate directors have been appointed to the Board
3.8.d	An alternate director cannot be appointed to represent an executive director	N/A	No alternate directors have been appointed to the Board
3.8.e	In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that apply to an independent director	N/A	No alternate directors have been appointed to the Board
<b>3.9 Cooling off Period</b>			
3.9.a	There shall be a cooling off period of 6 months prior to an appointment of any person as a director, CEO of the Company, who was previously employed as a CEO or director of another LFC.	N/A	No such circumstances have arisen during the period under review
3.9.b	A director who fulfills the criteria to become an independent director shall only be considered for such appointment after a cooling off period of 1 year if such director has been previously considered as non-independent under the provisions of the Direction	N/A	No such circumstances have arisen during the period under review

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
<b>3.10 Common Directorships</b>			
	Director or senior management of the Company shall not be nominated, elected or appointed as a director of another LFC except where such LFC is a parent company, subsidiary company or an associate company or has a joint arrangement with the first mentioned LFC subject to conditions stipulated in the Directions.	Complied	
3.11	The Board shall determine the appropriate limits for directorships that can be held by directors. However, a director of the Company shall not hold office as a director or any other equivalent position (including alternate directors) in more than 20 companies/ societies/ bodies, including subsidiaries and associates of the Company.	Complied	
<b>4. Assessment of Fitness and Propriety Criteria</b>			
4.1	No person shall be nominated, elected or appointed as a director of the Company or continue as a Director of the Company unless that person is a fit and proper person to hold office as a director of the Company in accordance with the Finance Business Act (assessment of Fitness and Propriety of Key Responsible Persons) direction as amended.	Complied	
4.2	A person over the age of 70 years shall not serve as a director of the Company	N/A	No directors in the Board have reached the age of 70.
4.3	A director who is already holding office at the effective date of the Direction, who attains the age of 70 on or before 31st Mar 2025, is permitted to continue in office as a director, exceeding 70 years of age up to maximum of 75 years of age subject to the provisions of the Direction.	N/A	No directors in the Board have reached the age of 70.
<b>5. Appointment and resignations of directors and senior management</b>			
5.1	The appointments, resignations or removals shall be made in accordance with the provisions of the Finance Business Act (assessment of Fitness and Propriety of Key Responsible Persons) direction	Complied	

Section	Requirement	Status of Compliance	Comments
<b>6. The Chairperson and CEO</b>			
6.1	There shall be a clear division of responsibilities between the chairperson and CEO and responsibilities of each person shall be set out in writing.	Complied	
6.2	The chairperson shall be an independent director subject to 6.3	Complied	The chairperson is a Non-Independent, Non-Executive director and as such Mr. Priyan Edirisinghe who is an Independent Non-Executive director has been appointed as a Senior Director
6.3	In case where the chairperson is not independent, the Board shall appoint one of the independent directors as a senior director , with suitably documented terms of reference to ensure a greater independent element. Senior director will serve as a intermediary for other directors and shareholders. Non-executive directors including senior director shall assess the chairpersons performance at least annually.	Complied	The chairperson is a Non-Independent, Non-Executive director and as such Mr. Priyan Edirisinghe who is an Independent Non-Executive director has been appointed as a Senior Director
<b>6.4 Responsibilities of the Chairperson</b>			
6.4.a	Provide leadership to the Board	Complied	
6.4.b	Maintain and ensure a balance of power between executive and non-executive directors	Complied	
6.4.c	Secure effective participation of both executive and non-executive directors	Complied	
6.4.d	Ensure the Board works effectively and discharges its responsibilities	Complied	
6.4.e	Ensure all key issues are discussed by the Board in a timely manner	Complied	
6.4.f	Implement decisions / directions of the regulator	Complied	
6.4.g	Prepare the agenda for each Board Meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the company secretary	Complied	The Chairperson has delegated the function of preparing the agenda to the Company Secretary who carried out the function in consultation with the CEO and the Chairperson.

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
6.4.h	Not engage in activities involving direct supervision of senior management or any other day to day operational activities	Complied	
6.4.i	Ensure appropriate steps are taken to maintain effective communication with shareholders and that views of the shareholders are communicated to the Board	Complied	
6.4.j	Annual assessment on the performance and the contribution during the past 12 months of the Board and the CEO	Complied	
<b>6.5 Responsibilities of the CEO</b>			
6.5.a	Implementing business risk strategies in order to achieve the Company's strategic objectives	Complied	
6.5.b	Establishing a management structure that promotes accountability and transparency through the Company's operations and preserves the effectiveness and independence of control functions	Complied	
6.5.c	Promoting, together with the Board, a sound corporate culture and being accountable for accurate submission of information to the regulator	Complied	
6.5.d	Ensuring implementation of proper compliance culture and being accountable for accurate submission of information to the regulator	Complied	
6.5.e	Strengthening the regulatory and supervisory compliance framework	Complied	
6.5.f	CEO must devote the whole of the professional time to the service of the Company and shall not carry on any other business, except as a non-executive director of another company, subject to the provisions of the Direction.	Complied	
6.5.g	Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
<b>7. Meetings of the Board</b>			
7.1	The Board shall meet atleast 12 times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of papers to be avoided as much as possible	Complied	
7.2	The Board shall ensure that arrangements are in place to enable matters and proposals by all directors of the Board to be represented in the agenda for scheduled Board meetings	Complied	
7.3	A notice of at least 3 days shall be given for scheduled Board meeting. For all other Board meetings, a reasonable notice shall be given	Complied	
7.4	A director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions	Complied	
7.5	A meeting of Board shall not be constituted, although the number of directors required to constitute the quorum at such meeting is present unless atleast ¼ of the number of directors that constitute the quorum at such meeting are independent directors	Complied	
7.6	The chairperson shall hold meetings with the non-executive directors only, without the executive directors being present , as necessary and at least twice a year	Complied	
7.7	A director shall abstain from voting on any Board resolution in relation to a matter in which such director or relative or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item in the Board meeting	N/A	No such circumstance has arisen during the period under review.
7.8	A director who has not attended at least 2/3 of the meetings in the period of 12 months immediately preceding or has not attended three consecutive meetings held, shall cease to be a director. Provided that participation at the director's meetings through an alternate director shall be acceptable as attendance, subject to applicable provisions of the Direction	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
7.9	For the scheduled meetings, participation in person is encouraged and for ad hoc meetings where director cannot attend on short notice, participation through electronic means is acceptable	Complied	Except during the pandemic period where meetings were held virtually, commencing from September 2022 the Board participates for scheduled meetings in person.
<b>8. Company Secretary</b>			
8.1			
8.1.a	The Board shall appoint a company secretary considered to be a senior management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings, and to carry out other functions specified in the statutes and other regulations	Complied	The Board has appointed Ms. Viranthi Attygalle who functions as the Company Secretary of the Company.
8.1.b	The Board shall appoint its company secretary, subject to transitional provisions in the Directions, a person who possesses such qualifications as may be prescribed for a secretary of a company under section 222 of the Companies Act, No 7 of 2007 on being appointed the company secretary, such person shall become and employee of the Company and shall not an employee of any other institution	N/A	Transitional Provision w.e.f. 01.07.2024
8.2	All directors shall have access to advice and services of the company secretary with a view to ensuring the Board procedures laws, directions, rules and regulations are followed.	Complied	
8.3	The company secretary shall be responsible for preparing the agenda in the event chairperson has delegated carrying out such function	Complied	
8.4	The company secretary shall maintain minutes of the Board meetings with all submissions to the Board and/or voice recordings for a minimum period of 6 years	Complied	
8.5	The company secretary is responsible for maintaining minutes in an orderly manner and shall follow the proper procedure laid down in the Articles of Association of the Company.	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
8.6	Minutes of the Board meetings shall be recorded in sufficient detail so that it is possible to ascertain whether the Board acted with due care and prudence in performing its duties. The minutes of the Board Meeting shall clearly include the information stipulated in the Directions.	Complied	
8.7	The minutes shall be open for inspection at any reasonable time, on reasonable notice any director.	Complied	
<b>9. Delegation of Functions by the Board</b>			
9.1	The Board shall approve a Delegation of Authority (DA) and give clear directions to the senior management, as to the matters that shall be approved by the Board before decisions are made by senior management, on behalf of the Company.	Complied	
9.2	In the absence of any of the sub-committees mentioned in the Directions, the Board shall ensure the functions stipulated under such committees shall be carried out by the Board itself.	N/A	The sub-committees stipulated in the Directions have been established by the Board
9.3	The Board may establish appropriate senior management level sub-committees with appropriate DA to assist in Board decisions	Complied	
9.4	The Board shall not delegate any matters to a board sub-committee, executive directors or senior management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions	Complied	
9.5	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Company	Complied	
<b>10. Board Sub-Committees</b>			
10.1			Transitional Provision w.e.f. 01.07.2024 S.8 of the Revoked Direction applies

## Corporate Governance

Section	Requirement	Status of Compliance	Comments									
10.1.a	<p>For the purpose of specifying the requirements for Board Committees, the LFCs are divided into two categories based on the asset base as per the latest audited statement of financial position as LFCs with asset base more than 20Bn and LFCs with asset base of less than 20Bn subject to the transitional provisions of the Direction.</p> <table border="1"> <thead> <tr> <th></th> <th>Asset base more than 20Bn</th> <th>Asset base less than 20Bn</th> </tr> </thead> <tbody> <tr> <td><b>Board Sub Committee</b></td> <td>                     Board Audit Committee (BAC)                      Board Integrated Risk Management Committee (BIRMC)                      Nomination Committee                      Human Resource and Remuneration Committee                      Related Party Transactions Review Committee (RPTRC)                 </td> <td>                     BAC                      BIRMC                      RPTRC                 </td> </tr> <tr> <td><b>Meetings</b></td> <td>                     BAC and BIRMC – once in 2 months                      Other committees – annually                 </td> <td>                     BAC and BIRMC – quarterly                      Other committees – annually                 </td> </tr> </tbody> </table>		Asset base more than 20Bn	Asset base less than 20Bn	<b>Board Sub Committee</b>	Board Audit Committee (BAC) Board Integrated Risk Management Committee (BIRMC) Nomination Committee Human Resource and Remuneration Committee Related Party Transactions Review Committee (RPTRC)	BAC BIRMC RPTRC	<b>Meetings</b>	BAC and BIRMC – once in 2 months Other committees – annually	BAC and BIRMC – quarterly Other committees – annually	Complied	The Board has adopted an Audit Committee, Integrated Risk Management Committee, Nominating and Remuneration Committee and Related Party Transactions Review Committee in line with the requirements of Section 8 of the Revoked Direction.
	Asset base more than 20Bn	Asset base less than 20Bn										
<b>Board Sub Committee</b>	Board Audit Committee (BAC) Board Integrated Risk Management Committee (BIRMC) Nomination Committee Human Resource and Remuneration Committee Related Party Transactions Review Committee (RPTRC)	BAC BIRMC RPTRC										
<b>Meetings</b>	BAC and BIRMC – once in 2 months Other committees – annually	BAC and BIRMC – quarterly Other committees – annually										
10.1.b	Each Board sub-committee shall have a board approved written terms of reference specifying clearly its authority and duties	Complied										
10.1.c	The Board shall present a report on the performance of duties and functions of each Board sub-committee, at the annual general meeting of the Company.	Complied	A report on the performance of duties and functions of each Board sub-committee is included in the Annual Report of the Company.									
10.1.d	Each sub-committee shall appoint a secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records and carry out such other secretarial functions under the supervision of the chairperson of the committee.	Complied										



## Corporate Governance

Section	Requirement	Status of Compliance	Comments
10.1.e	Each Board sub-committee shall consist of atleast 3 Board members and shall only consist of members of the Board, who have the skills, knowledge and experience relevant to the responsibilities of the committee	Complied	
10.1.f	The Board may consider occasional rotation of members and of the chairperson of Board sub-committees, as to avoid undue concentration of power and promote new perspectives	N/A	
<b>10.2 Board Audit Committee (BAC)</b>			
10.2.a	The chairperson of BAC shall be an independent director who possesses qualifications and experience in accountancy and/or audit	Complied	The chairperson of the Audit Committee is Mr. Priyan Edirisinghe who is an independent non-executive director and a Chartered Accountant with over 15 years of professional experience.
10.2.b	The Board members appointed to the BAC shall be non-executive directors and majority shall be independent directors with necessary qualifications and experience relevant to the scope of the BAC	Complied	The Audit Committee consists of 3 non executive directors, 2 out of which are Independent directors.
10.2.c	The secretary to the BAC shall preferably be the Chief Internal Auditor (CIA)	N/A	The Company Secretary currently handles the role of secretary to BAC
<b>10.2.d External Audit Function</b>			
10.2.d.i	The BAC shall make recommendations on matters in connection with the appointment of the auditor for audit services to be provided in compliance with the relevant statutes, the service period, audit fee and any resignation or dismissal of the auditor	Complied	
10.2.d.ii	Engagement of an audit partner shall not exceed 5 years, and that the particular audit partner is not re-engaged for the audit before the expiry of 3 years from the date of the completion of the previous term. Further, the Company shall not use the service of the same external audit firm for not more than 10 years consecutively.	Complied	
10.2.d.iii	Audit partner of the Company shall not be a substantial shareholder, director, senior management or employee of the Company	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
10.2.d.iv	The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	
10.2.d.v	Audit partner shall not be assigned with any non-audit services with the Company during the same year in which the audit is being carried out. The BAC shall develop and implement a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit services does not impair the external auditor's independence or objectivity	Complied	
10.2.d.vi	The BAC shall before the audit commences discuss and finalize with the external auditors the nature and scope of the audit, including the matters set out in the Direction.	Complied	
10.2.d.vii	The BAC shall review the financial information of the Company, in order to monitor the integrity of the financial statements of the Company in its annual report, accounts and periodic reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the Company's annual report and accounts and periodical reports before submission to the Board, the committee shall focus primarily on the matters set out in the Direction.	Complied	
10.2.d.viii	The BAC 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 senior management, if necessary.	Complied	
10.2.d.ix	The BAC shall review the external auditor's management letter and the management's response thereto within 3 months if submission of such, and report to the Board.	Complied	
10.2.e	The BAC shall atleast annually conduct a review of the effectiveness of the system of internal controls.	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
10.2.f	The BAC shall ensure that the senior management are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to internal audit function of the Company	Complied	
<b>10.2.g Internal Audit Function</b>			
10.2.g.i	The committee shall establish an independent internal audit function that provides an objective assurance to the committee on the quality and effectiveness of the FC's internal control, risk management, governance systems and processes	Complied	The Company has appointed Ernst & Young audit firm as the internal auditors of the Company during the period under review.
10.2.g.ii	The internal audit function shall have a clear mandate, be accountable to the BAC, and be independent and shall have sufficient expertise and authority within the FC to carry out their assignments effectively and objectively.	Complied	
10.2.g.iii	The BAC shall take the steps morefully detailed in the Direction with regard to the internal audit function of the Company.	Complied	
10.2.h	The BAC shall review the statutory examination reports of the CBSL and ensure necessary corrective actions are taken on a timely manner and monitor the progress of implementing the time bound action plan quarterly.	N/A	No statutory examinations were carried out during the period under review subsequent to the Direction coming into effect
<b>10.2.i Meetings of the Committee</b>			
10.2.i.i	The BAC shall meet as specified in the Directions with due notice of its issues to be discussed and shall record its conclusions in discharging its duties and responsibilities	Complied	
10.2.i.ii	Other Board members, senior management or any other employee may attend Board meetings upon the invitation of the committee when discussing matters under their purview	Complied	
10.2.i.iii	BAC shall meet at least twice a year with the external auditors without any other directors/ senior management/ employees being present	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
<b>10.3 Board Integrated Risk Management Committee</b>			
10.3.a	The BIRMC shall be chaired by an independent director. The Board members appointed to BIRMC shall be non-executive directors with knowledge and experience in banking, finance, risk management issues and practices. The CEO and Chief Risk Officer (CRO) may attend the meetings upon invitation. The BIRMC shall work with senior management to closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	Complied	
10.3.b	The secretary to the committee may preferably be the CRO	N/A	Company Secretary functions as the Secretary for IRMC
10.3.c	The committee shall assess the impact of risks, including credit, market, liquidity, operational, strategic, compliance and technology, to the Company at least once in two months basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board.	Complied	
10.3.d	Developing the Company's risk appetite through the Risk Appetite Statement (RAS) which articulates the individual and aggregate level and types of risk that a Company will accept, or avoid, in order to achieve its strategic business objectives. The RAS should include the relevant matters as provided in the Direction.	Complied	
10.3.e	The BIRMC shall review the Company's risk policies including RAS at least annually	Complied	
10.3.f	The BIRMC shall review the adequacy and effectiveness of senior management level committees (such as credit, market, liquidity, investment, technology and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	Complied	Below management level committee decisions are briefed at BIRMC Meetings, - Asset and Liability Committee - Credit Committee - Information Technology and Security Steering Committee
10.3.g	The committee shall assess all aspects of risk management including updated business continuity and disaster recovery plans	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
10.3.h	BIRMC shall annually assess the performance of the compliance officer and the CRO	N/A	This new requirement under the Direction will be carried out from FY2023
<b>10.3.h.i Compliance Function</b>			
10.3.h.i.i	BIRMC shall establish an independent compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business operations.	Complied	
10.3.h.i.ii	For LFCs with asset base of more than Rs. 20 bn, a dedicated compliance officer considered to be senior management with sufficient seniority, who is independent from day-to-day management shall carry out the compliance function and report to the BIRMC directly. The compliance officer shall not have management or financial responsibility related to any operational business lines or income-generating functions, and there shall not be 'dual hatting', i.e. the chief operating officer, chief financial officer, chief internal auditor, chief risk officer or any other senior management shall not serve as the compliance officer.	N/A	Company asset base is below Rs.20Bn, Compliance Officer of the Company also functions as the head of Risk Management
10.3.h.i.iii	For LFCs with asset base of less than Rs. 20bn, an officer with adequate seniority considered to be senior management shall be appointed as compliance officer avoiding any conflict of interest.	Complied	
10.3.h.i.iv	The BIRMC shall ensure responsibilities of a compliance officer would broadly encompass the requirements as provided in the Direction	Complied	
<b>10.3.j Risk Management Function</b>			
10.3.j.i	BIRMC shall establish an independent risk management function responsible for managing risk-taking activities across the Company.	Complied	
10.3.j.ii	For LFCs with asset base of more than Rs.20 bn, it is expected to have a separate risk management department and a dedicated CRO considered to be senior management shall carry out the risk management function and report to the BIRMC periodically.	N/A	Company asset base is below Rs.20Bn

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
10.3.j.iii	The CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the Company's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.	Complied	
10.3.j.iv	The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers the relevant aspects of the Direction.	Complied	
10.3.j.v	The CRO shall also participate in key decision-making processes such as capital and liquidity planning, new product or service development, etc., and make recommendations on risk management.	Complied	
10.3.j.vi	The CRO shall maintain an updated risk register, which shall be submitted to the BIRMC on a quarterly basis.	Complied	
10.3.j.vii	The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.	Complied	
<b>10.4 Nomination Committee</b>			
10.4.a	The committee shall be constituted with non-executive directors and preferably the majority may be independent directors. An independent director shall chair the committee. The CEO may be present at meetings by invitation of the committee.	Complied.	The Nominating and Remuneration Committee of the Company consists of 3 Non Executive Directors out of which 2 are Independent Directors. The Chairman is an Independent, Non-Executive director.
10.4.b	Secretary to the nomination committee may preferably be the company secretary.	Complied	
10.4.c	The committee shall implement a formal and transparent procedure to select/appoint new directors and senior management. Senior management are to be appointed with the recommendation of CEO, excluding CIA, CRO and compliance officer.	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
10.4.d	The committee shall ensure that directors and senior management are fit and proper persons to perform their functions as per the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons Direction).	Complied	
10.4.e	The selection process shall include reviewing whether the proposed directors (1) possess the knowledge, skills, experience, independence and objectivity to fulfill their responsibilities on the board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities.	Complied	
10.4.f	The committee shall strive to ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the Company as a whole.	Complied	
10.4.g	The committee shall set the criteria, such as qualifications, experience and key attributes required for eligibility, to be considered for appointment to the post of CEO and senior management.	Complied	
10.4.h	Upon the appointment of a new director to the Board, the committee shall assign the responsibility to the company secretary to disclose to shareholders: (i) a brief resume of the director; (ii) the nature of the expertise in relevant functional areas; (iii) the names of companies in which the director holds directorships or memberships in Board committees; and (iv) whether such director can be considered as independent.	Complied	The Company has provided the relevant information as required under this Rule to the CSE at the time of appointing the relevant director.
10.4.i	The committee shall consider and recommend (or not recommend) the re- election of current directors, taking into account the combined knowledge, performance towards strategic demands faced by the Company and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
10.4.j	The committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and senior management	Complied	
10.4.k	A member of the nomination committee shall not participate in decision making relating to own appointment/ reappointment and the Chairperson of the board should not chair the committee when it is dealing with the appointment of the successor.	Complied	
<b>10.5 Human Resource and Remuneration Committee</b>			
10.5.a	The committee shall be chaired by a non-executive director and the majority of the members shall consist of non-executive directors.	Complied	The Nominating and Remuneration Committee of the Company consists of 3 Non-Executive Directors out of which 2 are Independent Directors
10.5.b	The secretary to the human resource and remuneration committee may preferably be the company secretary.	Complied	
10.5.c	The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to executive directors and senior management of the Company and fees and allowances structure for non-executive directors.	Complied	
10.5.d	There shall be a formal and transparent procedure in developing the remuneration policy.	Complied	
10.5.e	The committee shall recommend the remuneration policy for approval of the Board on paying salaries, allowances and other financial incentives for all employees of the FC. The policy shall be subject to periodic review of the Board, including when material changes are made.	Complied	
10.5.f	The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take excessive risk or to act in self-interest.	Complied	



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Section	Requirement	Status of Compliance	Comments
10.5.g	The committee shall review the performance of the senior management (excluding chief internal auditor, compliance officer, chief risk officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied	
10.5.h	The committee shall ensure that the senior management shall abstain from attending committee meetings, when matters relating to them are being discussed.	Complied	
<b>11. Internal Controls</b>			
11.1	The Company shall adopt well-established internal control systems, which include the Controls organizational structure, segregation of duties, clear management reporting lines and adequate operating procedures in order to mitigate operational risks.	Complied	
11.2	A proper internal control system shall: (a) promote effective and efficient operations; (b) provide reliable financial information; (c) safeguard assets; (d) minimize the operating risk of losses from irregularities, fraud and errors; (e) ensure effective risk management systems; and (f) ensure compliance with relevant laws, regulations, directions and internal policies.	Complied	
11.3	All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives.	Complied	
<b>12. Related Party Transactions</b>			
12.1	Board shall establish a policy and procedures for related party transactions	Complied	The Related Party Transactions Policy was established on 24.09.2020
12.1.a	All FCs shall establish a Related Party Transactions Review Committee (RPTRC) and the chairperson shall be an independent director and the members shall consist of non-executive directors.	Complied	
12.1.b	All related party transactions shall be prior reviewed and recommended by the RPTRC.	Complied	

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Section	Requirement	Status of Compliance	Comments
12.1.c	The business transactions with a related party that are covered shall be i. Granting accommodation. ii. Creating liabilities to the Company in the form of deposits, borrowings and any other payable. iii. Providing financial or non-financial services to the FC or obtaining those services from the Company. iv. Creating or maintaining reporting lines and information flows between the Company and any related party which may lead to share proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party.	Complied	
12.2	The committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the FC with any person, and particularly with the categories of persons who shall be considered as "related parties" in the Direction. In this regard, there shall be a named list of natural persons/ institutions identified as related parties, which is subject to periodic review as and when the need arises.	Complied	
12.3	The committee shall ensure that the FC does not engage in business transactions with a related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents of the Company.	Complied	
<b>13. Group Governance</b>			
13.1	Responsibilities of the Company as a Holding Company	N/A	The Company is not a holding company
13.1.a	The FC is responsible for exercising adequate oversight over its subsidiaries and associates while complying with the independent legal, regulatory and governance responsibilities that apply to them.	N/A	The Company is not a holding company

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Section	Requirement	Status of Compliance	Comments
13.1.b	The Board of the FC shall ensure that the i) Ensure that the group governance framework clearly defines the roles and responsibilities for the oversight and implementation of group-wide policies. ii) Ensure that the differences in the operating environment, including the legal and regulatory requirements for each company, are properly understood and reflected in the group governance framework. iii) Have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the holding FC and its subsidiaries. iv) Assess whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions; and v) Ensure that there are adequate resources to effectively monitor compliance of the FC and its subsidiaries with all applicable legal and regulatory requirements.	N/A	The Company is not a holding company
13.1.c	The Company, as the apex entity, shall ensure that the group structure does not undermine its ability to exercise effective oversight. The Board shall establish a clearly defined process of approving the creation of new legal entities under its management and identifying and managing all material group-wide risks through adequate and effective policies and controls.	N/A	The Company is not a holding company
13.1.d	The Board and senior management of the Company shall validate that the objectives, strategies, policies and governance framework set at the group level are fully consistent with the regulatory obligations of the Company and ensure that company-specific risks are adequately addressed.	N/A	The Company is not a holding company
13.1.e	The Company shall avoid setting up complicated structures that lack economic substance or business purpose that can considerably increase the complexity of the operations.	N/A	The Company is not a holding company
13.2	If the LFC is a subsidiary of another financial institution subject to prudential regulation, LFC shall discharge its own legal and governance responsibilities	N/A	The Company is not a subsidiary of another financial institution

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
<b>14. Corporate Culture</b>			
14.1	The Company shall adopt a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity of reporting, protection and proper use of company assets and fair treatment of customers.	Complied	The Company has adopted a Code of Conduct on 11/02/2022
14.2	The Company shall maintain records of breaches of code of conduct and address such breaches in a manner that upholds high standards of integrity.s	Complied	No such circumstances have arisen during the period of review
14.3	The Company shall establish a Whistleblowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Employees shall be able to raise concerns about illegal, unethical or questionable practices in a confidence manner and without the risk of reprisal. The BAC shall review the policy periodically.	Complied	The Board has approved a Whistleblowing Policy dated 28.09.2021 which provides for two-way communication with the whistleblower and enables employees to raise concerns about illegal, unethical or questionable practices in a confidence manner and without the risk of reprisal.
<b>15. Conflicts of Interest</b>			
15.1			
15.1.a	Relationships between the directors shall not exercise undue influence or Interest coercion. A director shall abstain from voting on any Board resolution in relation to a matter in which such director or any of the relatives or a concern in which such director has substantial interest, is interested, and such director shall not be counted in the quorum for the relevant agenda item in the Board meeting.	Complied	
15.1.b	The Board shall have a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties. The policy for managing conflicts of interest shall include the relevant matters required by the Direction	Complied	

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
<b>16. Disclosures</b>			
16.1	The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in Sinhala, Tamil and English. The Board shall ensure that the disclosures as required in the Direction are made in the Annual Report;	Complied	Annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards and such statements are published in the newspapers in Sinhala, Tamil and English.
16.1. i	<p>Financial Statements</p> <p>In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include;</p> <ul style="list-style-type: none"> <li>• A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</li> <li>• A statement of responsibility of the Board in preparation and presentation of financial statements.</li> </ul>	Complied	This is disclosed in the 'Annual Report of the Board of Directors' and 'Directors' Responsibility for Financial Reporting' in pages 75 to 80 of the Annual Report.

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
16.1.ii	<p>Chairperson, CEO and Board related disclosures</p> <ul style="list-style-type: none"> <li>• Name, qualification, and a brief profile.</li> <li>• Whether executive, non-executive and/or independent director.</li> <li>• Details of the director who is serving as the senior director, if any.</li> <li>• The nature of expertise in relevant functional areas.</li> <li>• Relatives and/or any business transaction relationships with other directors of the company.</li> <li>• Names of other companies in which the Director/CEO concerned serves as a director and whether in an executive or non-executive capacity.</li> <li>• Number/percentage of board meetings of the FC attended during the year; and Names of board committees in which the director serves as the chairperson or a member.</li> </ul>	Complied	<p>Please refer profiles of the Board of Directors in pages 10 – 12 which discloses the names, qualifications, brief profiles including the nature of expertise in relevant function areas. The profiles of the Board of Directors also specifies whether the board member is an executive/ non executive and/or independent director.</p> <p>The names of other companies in which the Director/CEO concerned serves as a director and whether in an executive or non-executive capacity has also been disclosed in the profiles of the Board of Directors.</p> <p>Details of the director serving as a Senior Director is disclosed under section 6.2 and 6.3 of this report.</p> <p>The Board members have declared in their annual self assessments that they have no relatives and/ or any business transaction relationships with other directors of the company.</p> <p>Please refer page 24 of this report which specifies the Number/ percentage of board meetings of the Company attended during the year; and refer committee reports in pages 67 to 74 where names of board committees in which the director serves as the chairperson or a member has been duly disclosed.</p>
16.1.iii	<p>Appraisal of Board Performance</p> <ul style="list-style-type: none"> <li>• An overview of how the performance evaluations of the Board and its committees have been conducted</li> </ul>		<p>A process is in place to conduct annual self-assessments by each director on individual performance, of its Board as a whole and that of its committees and the records of such assessments are maintained by the Company Secretary.</p>

Section	Requirement	Status of Compliance	Comments
16.1.iv	<p>Remuneration</p> <ul style="list-style-type: none"> <li>A statement on remuneration policy, which includes Board fee structure and breakdown of remuneration of senior management, level and mix of remuneration (financial and non- financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation)</li> <li>The aggregate values of remuneration paid by the Company to its directors and senior management.</li> </ul>	Complied	<p>The procedure for setting the remuneration at all levels is based on individual achievement, performance level against the set Key Performance Indicators during the performance year which are deriving from Annual Business Strategy, budgeting process and company scorecard. The procedure for remuneration for the Board, Senior Management and employees shall also be in relation with the long-term strategic focus, performance objectives, values and cost structure of the organization while following a market-based approach to ensure equitable and fair pay for everyone.</p> <p>The aggregate values of remuneration paid by the Company to the Board of Directors are disclosed in financial Note 41.</p> <p>The aggregate values of remuneration paid by the Company to the Senior Management is Rs. 43,717,642</p> <p>**The CEO was redesignated as the CEO/Executive Director of the Company wef 24 June 2022 and the aggregate remuneration as CEO and Board member commencing from 24 June 2022 has been disclosed in financial Note 41.</p>

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
16.1.v	<p>Related Party Transactions</p> <ul style="list-style-type: none"> <li>The nature of any relationship [including financial, business, family, or other material/ relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board.</li> <li>Total net accommodation granted 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 core capital.</li> <li>The aggregate values of the transactions of the FC with its senior management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the Company.</li> </ul>	Complied	<p>Declaration was obtained from the Board of Directors of the Company that there is no relationships with other Directors of the Company.</p> <p>Please refer Note 41 for net accommodation granted 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 core capital.</p> <p>The aggregate values of the transactions of the FC with its senior management during the financial year provided below.</p> <p>Net accommodation granted – Nil Deposits – Rs. 8,084,841 Investments - Nil</p>
16.1.vi	<p>Board appointed committees</p> <ul style="list-style-type: none"> <li>The details of the chairperson and members of the board committees and attendance at such meetings.</li> </ul>	Complied	Please refer committee reports in pages 67 to 74.
16.1.vii	<p>Group Structure</p> <ul style="list-style-type: none"> <li>The group structure of the Company within which it operates.</li> <li>The group governance framework.</li> </ul>	Complied	<p>The Company is 99.05% owned subsidiary of Dialog Axiata PLC.</p> <p>The Company fulfills its own governing obligations.</p>



## Corporate Governance

Section	Requirement	Status of Compliance	Comments
16.1.viii	<p>Director's report</p> <p>A report, which shall contain the following declarations by the Board:</p> <ul style="list-style-type: none"> <li>• The Company has not engaged in any activity, which contravenes laws and regulations.</li> <li>• The directors have declared all related party transactions with the Company and abstained from voting on matters in which they were materially interested.</li> <li>• The Company has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors.</li> <li>• The business is a going concern with supporting assumptions; and</li> <li>• The Board has conducted a review of internal controls covering material risks to the Company and have obtained reasonable assurance of their effectiveness.</li> </ul>	Complied	Disclosed in the "Directors' Statement on Internal Controls over Financial Reporting" in pages 81 to 82 in the Annual Report.
16.1.ix	<p>Statement on Internal Control</p> <ul style="list-style-type: none"> <li>• A report by the Board on the 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, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</li> <li>• The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published.</li> <li>• A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.</li> <li>• 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</li> </ul>	Complied	Disclosed in the 'Directors' Statement on Internal Controls over Financial Reporting' in page 81 to 82 in the Annual Report.

## Corporate Governance

Section	Requirement	Status of Compliance	Comments
16.1.x	<p>Corporate Governance report</p> <ul style="list-style-type: none"> <li>• Shall disclose the manner and extent to which the company has complied with Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction.</li> </ul>	Complied	This report covers this requirement.
16.1.xi	<p>Code of Conduct</p> <ul style="list-style-type: none"> <li>• The Company's code of business conduct and ethics for directors, senior management and employees.</li> <li>• The Chairperson shall certify that the company has no violations of any of the provisions of this code.</li> </ul>	Complied	<p>A Board approved Code of Conduct for directors and for all employees are in place.</p> <p>Please refer the Chairperson's message on pages 4 to 6 which certify that the company has no violations of any of the provisions of this code.</p>
16.1.xii	<p>Management Report</p> <ul style="list-style-type: none"> <li>• Industry structure and developments</li> <li>• Opportunities and threats</li> <li>• Risks and concerns</li> <li>• Sustainable finance activities carried out by the Company</li> <li>• Prospects for the future</li> </ul>	Complied	Please refer the Management Discussion and Analysis in pages 13 to 22.
16.1.xiii	<p>Communication with Stakeholders</p> <ul style="list-style-type: none"> <li>• The policy and methodology for communication with shareholders.</li> <li>• The contact person for such communication.</li> </ul>	Complied	<p>The key communication method and general policy with regard to communication with shareholders are disclosed in page 25 of this report.</p> <p>Ms. Viranthi Attygalle, the Company Secretary of the Company is the contact person for shareholder communications.</p>

# 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
<b>Contents of Annual Report</b>			
7.6 (i) to (xvi)	Contents of the Annual report	Complied	All relevant details required under this section has 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
<b>Compliance</b>			
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.
<b>7.10.1 Non-Executive Directors</b>			
7.10.1(a)	The board of directors of the Company shall include at least, <ul style="list-style-type: none"> <li>- two non-executive directors; or</li> <li>- such number of non-executive directors equivalent to 1/3 of the total number of directors whichever is higher.</li> </ul>	Complied	The Board of Directors of the Company consists of 4 Non-Executive Directors and 1 Executive Director
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.
<b>7.10.2 Independent Directors</b>			
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 three (03) 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.

## Corporate Governance

Section	Disclosure Requirement	Compliance/ Non-compliance	Details
<b>7.10.3 Disclosures Relating to Directors</b>			
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, non-executive directors and independent non-executive directors are disclosed in the Annual Report under Directors' profiles on pages 10 to 12
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 12
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.
<b>7.10.4 Criteria For Defining 'Independence'</b>			
	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
<b>7.10.5 Remuneration Committee</b>			
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.
<b>7.10.6 Audit Committee</b>			
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 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 75
168.1(b)	include financial statements for the accounting period completed and signed in accordance with section 151	Refer pages 89 to 155
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 85 to 88
168.1(d)	describe any change in accounting policies made during the accounting period	Refer Note 4 to the Financial Statements given pages 96 to 98
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 78
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 77
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 79
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 79
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 90 of Balance Sheet

# Risk Management

## 1. Overview

Sri Lanka faced unprecedented challenges as the foreign currency and sovereign debt crisis intensified the long-standing structural imbalances of the country. In addition, the country encountered social unrest and political tension during the first half of the year, with severe fuel shortages, power outages and widespread scarcity of imported raw material and essential goods. Global events such as the war between Russia and Ukraine had its impact on energy prices and food markets globally.

Amidst depleting foreign reserves, Sri Lanka announced the suspension of external debt service and a plan for restructuring of external debts in April 2022. As a result, the country's sovereign rating was downgraded significantly by the international sovereign credit rating agencies during the year. On a positive note, the government commenced talks with the International Monetary Fund (IMF) to secure financial assistance by way of an Extended Funded Facility (EFF) to support Sri Lanka's economic policies and reforms. As a result, IMF Board approved a 48 month extended arrangement with total funding amounting to USD 2.9Bn in March 2023.

The impact of the economic crisis drove the country's inflation to be 69.8% (CCPI – Headline YoY Change) by the end of the 3rd Quarter of the year. Globally inflation increased during the period under review due to Russia's war in Ukraine resulting in higher energy prices. This had an impact in the country's fuel prices as well.

### In 2022

- a) Sri Lanka faced its worst economic crisis since independence
- b) SL economy contracted by 7.8% (source: CBSL)
- c) Globally inflation increases due to energy price hike
- d) SL faces precedent foreign exchange crisis
- e) LFC and SLC sector stage 3 loan ratio increases

Table 1

However, to address the economic crisis, the country had to introduce drastic changes to the fiscal policy, the CBSL tightened the monetary policy by increasing the policy rates significantly to curb the increasing inflation and also measures were taken by the government to reduce government expenditure and increase government revenue. Tax reforms were introduced in the latter part of the year and import restrictions were placed on several products to restrict the US Dollar outflows. The government also proceeded with engaging the IMF to obtain financial assistance by way of an Extended Fund Facility (EFF) arrangement. The positive impact of these measures was evident in the reduction of inflation in December 2022 to 57.2%. (CCPI – Headline YoY Change)

## License Finance Companies (LFCs) and Specialised Leasing Companies performance

In the year under review the Asset base of the Non-Bank Financial Institutions (NBFIs) sector increased by 8.3% YoY to record Rs. 1,611.2Bn at end of December 2022 with the main contribution from investments and loans and advances which recorded increase of 19.3% and 5.0% respectively in 2022. However, asset quality deteriorated, due to moving to loan classification methodology in April 2022 to the SLFRS 9 based approach and the impact from adverse macroeconomic condition. Accordingly, the Gross and Net Non-Performing Advance Ratios (NPA) increased to 17.5% and 12.3% respectively, at end of December 2022. It is expected that the asset quality of the sector to deteriorate further with the impact of economic contraction and the possible downgrading of loans and advances after the expiration of the debt moratoria granted in consideration of the COVID-19 pandemic.

**(Source: Financial system stability review 2022 by CBSL)**

Amidst this challenging macroeconomic environment, it was the effective risk management framework implemented that supported the Company to withstand the economic challenges and to achieve its strategic objectives in providing Fintech solutions to the country.

# Risk Management

The Enterprise Risk Management Framework has been implemented under the oversight of the Integrated Risk Management Committee. The business strategy of the Company is developed and implemented taking into consideration the risk impact and mitigation actions for each strategy.

The Risk Management Framework is implemented 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.

## 2. Risk Governance

### 2.1 Risk Governance Structure

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

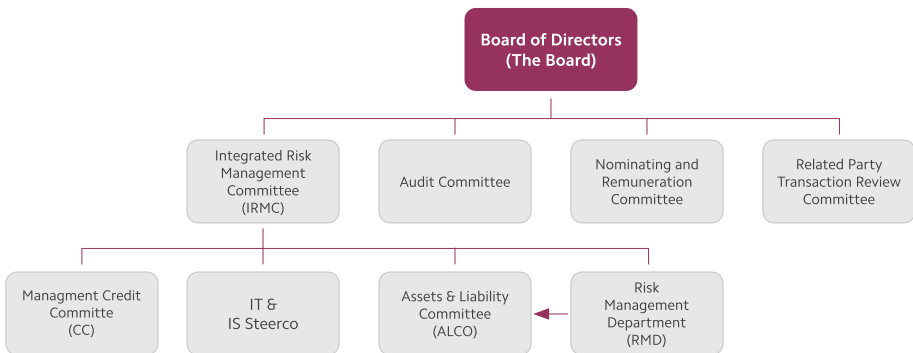


Figure 1

As stipulated in the Finance Business Act (Corporate Governance) Direction No 5 of 2021, The Board of Directors (‘the Board’) is responsible for the implementation of an effective Risk Management mechanism in the Company. The Board ensures that the Company implements a Risk Management framework to identify risks and mitigate the impact from such risks affecting the organization. This responsibility has been delegated to the Integrated Risk Management Committee.

### 2.2 Integrated Risk Management Committee (IRMC)

The IRMC currently consists of 3 Non-Executive Directors (appointed by the Board), Director/Chief Executive Officer, Head of Finance, Head of Risk and Compliance, Head of Collection and Recoveries and Head of Operations. The IRMC meets every quarter

and there were 7 meetings held during the period under review (4 quarterly meetings and 3 special meetings).

The IRMC ensures that the Company implements a system by which 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 amendment to the Compliance Policy and the risk appetite of the Company for FY2022 and noted, updates on decisions made by the Asset and Liability Committee, Credit Committee and the Information Technology and Information Security Steering Committee whilst providing guidance to the Company on risk mitigating initiatives.

# Risk Management

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## 2.3 Asset and Liability Committee (ALCO)

ALCO is a management committee established under the IRMC. It reviews and manages all risk related to assets and liability of the Company including liquidity risks. In the year under review, 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.

Carrying out pricing reviews, managing the funding requirements, and managing the interest rate risk were some key decisions taken by ALCO during the period under review.

## 2.4 Credit Committee

The Credit Committee is a management level committee established under the IRMC and is chaired by the Chief Executive of the Company whilst the Head of Credit, Head of Business Development and Head of Recoveries were members of the Committee. The Committee is responsible for the following:

- a) Acts as the first line of defence in credit.
- b) Carries delegated power to assess and approve credit within the Board approved Credit Policy of the Company.
- c) 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.

Key decisions made by the Credit Committee were apprised to the IRMC during the period under review on a quarterly basis.

## 2.5 Information Technology and Security Steering Committee

The above management level Committee is chaired by the Chief Executive Officer and consists of the Head of Information Technology, Head of Risk and Compliance, Head of Operations, Head of Finance. Key personnel from the IT division and other Heads of Departments are invited to meetings of the IT IS SteerCo if required. There were 12 meetings held during the year 2022.

Key IT and IS decisions and projects status are apprised to the IRMC on a quarterly basis.

## 2.6 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 Business Continuity plan is implemented by RMD based on a business impact analysis carried out in 2022.

## 2.7 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 monthly.



# Risk Management

## 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 for managing risk incidents as outlined below in table 2.

Lines of Defence	Risk Control Function	Responsible person / Function
1 <sup>st</sup> 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 Heads / Internal Business functions
2 <sup>nd</sup> Line of Defence	Developing, implementing risk framework and monitoring activity will be carried out by Risk Management and Compliance Departments	• Head of Risk & Compliance • RMD • IRMC
3 <sup>rd</sup> 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

### 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.

# Risk Management

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 lending book recorded a growth of 12.6% year-on-year to record gross loans and advances of Rs. 3.2Bn as at 31 December 2022 from Rs. 2.8Bn as at 31 December 2021. During the year, The Company ensured strict evaluation process for approval of credit facilities for both Consumer and Corporate segments. Through stringent credit risk management techniques, the Company's Gross Non-Performing Loans and Advances (NPL) ratio was at 1.32% as at end of December 2022. Figure 3 outlines the NPL performance during the period under review.

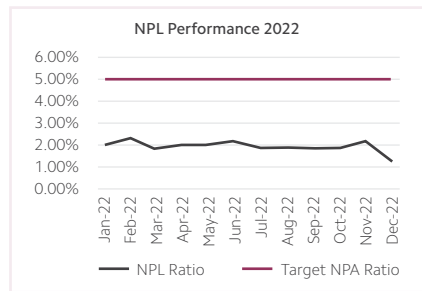


Figure 3

As indicated in figure 3 above the Company's NPL performance has been below 3.0% throughout 2022 which was well below the target NPL ratio.

The Company was able to manage the impact of a very volatile stock market during the period June to August 2022 through prudent risk preventing measures that ensured the Company's margin trading portfolio from being deteriorated.

# Risk Management

The Company uses an inhouse developed business model for lending to the consumer segment which is developed using stringent selection criteria. The Company commenced implementing the FICO scoring model for its consumer segment to ensure that the lending is made with minimum exposure to the NPL of the Company. In addition, the Company uses advance data analytics to actively manage the credit portfolio and to identify trends.

The Company has developed and implemented a process for early warning signals to identify possible customer defaults well in advance and to prevent the borrower from becoming default by taking proactive action and engaging with customers.

## 4.1 Impairment Charges

The Company adopts the SLFRS guidelines for impairments charges which 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.

Further information is available under Notes to the Financial Statements section 42.2 - Credit Risk on the process of Impairment and ECL calculation.

## 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, there were no operational losses incurred by the Company.

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. A review of

all process and controls were carried out during the month of February 2022 and all necessary amendments were made to the processes. The Risk Management Department carried out a review of the Internal control of the operations function during the latter part of 2022.

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. This is in addition to the security awareness training provided to staff of the Company by the Risk Management team and similar mandatory computer-based trainings on Information security and data privacy.

A gap analysis was performed by the Risk Management Department on data privacy and with support of the Group Risk and Compliance Division of the parent company, Dialog Axiata PLC to identify and document the functions and systems storing customer data and the protection of the same.

The Company has engaged Messrs Ernst and Young, 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. This is in addition to the external audits carried out by Messrs. PricewaterhouseCoopers, Chartered Accountants on quarterly and annual basis.

## 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 and lenders of the Company and the interest rate earned by the Company from its borrowers.

## Risk Management

During the year under review, where policy rates were raised by the regulator to curb inflation, the Company managed this situation by re-pricing its lending products and achieved its budgeted Net Interest Margin (NIM) targets for financial year 2022.

The ALCO monitors the fluctuation in market rates and recommends pricing changes accordingly.

As the Company does not deal with foreign currency transactions, the changes in foreign exchange rates did not have any significant impact. The Company does not have significant investments in equity.

Further information is available under Notes to the Financial Statements section 42.3 – Market risk on the analysis of Interest Rate Risk.

### 7. Liquidity Risk

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

The funding requirements and the liquidity position of the Company is managed through the ALCO.

The process of managing liquidity risk is stipulated in the Asset and Liability Management (ALM) Policy of the Company.

During the period under review, the Company maintained excess liquidity. The funding is derived through equity and deposits only. The funding mix of the Company as at 31 December 2022 is given in figure 4 below.

#### Funding Mix as at 31 December 2022

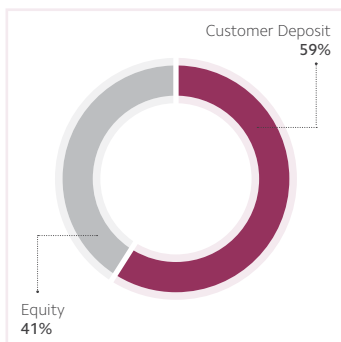


Figure 4

During the period under review, the Company witnessed an increase in the cost of funds due to increase in interest rates. However, the Company was able to manage Liquidity risk effectively through pricing of its products and prudent investments based on directions provided by ALCO and IRMC.

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.

Further information is available under Notes to the Financial Statements section 42.4 – Liquidity risk for further analysis on managing the liquidity risk of the Company.

### 8. Compliance Risk

Risk arising from non-compliance with statutes, rules and/or regulations specifically relevant to the industry in which Company operates and/or non-adherence to the Company's internal policies is referred to as Compliance Risk.

During the period under review, the Company complied with all CBSL and SEC requirements. The Company updated its Compliance Policy and developed a Compliance Plan for 2023 which was duly approved by the IRMC and the Board of Directors in December 2022.

Employees of the Company were trained on Compliance covering the Code of Conduct, the Anti-Bribery and Anti-Corruption Policy (ABAC), the Whistle blower Policy and Anti-Money Laundering measures adopted by the Company including the Customer Due Diligence requirements.

Senior Management and the Board of Directors attended the annual mandatory training session on Anti Money Laundering, ABAC, and Whistle blower policies of the Company.

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. The IRMC reviewed and approved the Institutional Risk Assessment for Money Laundering and Terrorist Financing (AML/TF) risk that was carried out by the Risk Management division. Further, the compliance division carries out frequent checks to ascertain the quality of KYC documents and the non-face to face verification process.

# 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 12 of the Annual Report.

The Members of the Committee as at 31 December 2022 were as follows:

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 the Institute of Chartered Accountants of Sri Lanka.

The Company Secretary functions as the Secretary to the Committee.

## Meetings

The Committee held five (05) meetings during the year ended 31 December 2022. The details of the attendance of the Committee Members at these meetings are given below.

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

The representatives of the Company's External Auditors, Messrs. PricewaterhouseCoopers participated in two (2) meetings, and the representatives of Messrs. Ernst and Young, Chartered Accountants, Internal Auditors of the Company participated in two

(2) meetings by invitation during the year ended 31 December 2022. 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 2022, the Audit Committee and the Audit Partner of PricewaterhouseCoopers met twice without 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 Business Act (Corporate Governance) Direction No. 5 of 2021, 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 the general oversight of financial reporting, internal controls, functions relating to internal and external audits including follow up actions by the Management and periodically appraises the Board on matters relating to the above.

## Activities for the year ended 31 December 2022

### 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 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.
- The Committee reviewed the adequacy of provision for Expected Credit Loss (ECL) recognized in the financial statements by factoring the potential impacts of current macro-economic situation of the country, and the moratorium schemes introduced by the government and the adjustments made to the economic factors in line with the adverse macro-economic.

## 2. Internal Controls over Financial Reporting

The Company is required to comply with Section 10 2) e) of the Finance Business Act (Corporate Governance) Direction No. 053 of 2021 and assess the effectiveness of internal control over financial reporting as at 31 December 2022.

The Statement of Internal Controls 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. Ernst and Young, Chartered Accountants with due consideration to the level of independency, 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 a 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 the 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 2022.

- Discussion with the External Auditors on the scope of the audit, audit approach and procedures.
- Review of the Management Letter along with the responses provided.
- Evaluation of the External Auditor 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 Auditor.

Messrs. PricewaterhouseCoopers, Chartered Accountants were re-appointed as the External Auditors of the Company at the Annual General Meeting held on 17 June 2022.

# Audit Committee Report

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 re-appointment of PricewaterhouseCoopers as the External Auditors of the Company for the financial year ending 31 December 2023, subject to the approval of the 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 the Annual Corporate Governance Report for the year ended 31 December 2022.

The findings of the Corporate Governance Report were reviewed by the Committee and were consistent with the matters disclosed in the report on pages 23 to 59.

## Reporting to the Board

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

## Conduct, Ethics and Good Governance

The Committee is consistently apprised on maintaining ethical values of the staff. In this regard, the Company has a Code of Ethics, a Whistleblower's Policy and an Anti-Bribery and Anti-Corruption Policy in place which encourage all staff members to be ethical, transparent and accountable in their practices and resort to whistleblowing if they suspect any wrongdoings or other improprieties.

Highest standards of corporate governance and adherence to the Company's Code of Ethics are ensured and the Whistleblower Policy assures the maintenance of strict confidentiality of the identity of the whistleblowers.

All appropriate practices were in place to conduct independent investigations into incidents reported through whistleblowing or identified through other means

## 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 Committee



**Mr. Priyan Edirisinghe**

Chairman – Audit Committee

30 April 2023

# 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 also 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. The profiles of the Members are given on pages 10 to 12 of the Annual Report.

The composition of the Committee 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 2022 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 six (06) 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	6/6
Mr. Priyan Edirisinghe	6/6
Mr. Supun Weerasinghe	0/6

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 the Board deliberates, 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 annual salary increments for FY 2022 and bonus payment for FY 2021
- Approval of the disbursement of CEO's annual salary increments for FY 2022 and bonus payment for FY 2021
- Approval of the reports required for the Annual Report – 2021
- Approval of the Company and CEO scorecard for FY 2022
- Approval of the Succession Plan
- Approval of a Quarterly Distress Bonus for staff
- Approval for adopting the Domestic Secondment Policy of Dialog Axiata PLC
- Approval of the revised Staff Loan Policy
- Approval of the appointment of the Chief Information Officer and the updated list of Key Management Personnel.

## 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 2023



# 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'), the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka ('the Code') and the Finance Business Act Direction No 5 of 2021 issued by Central Bank of Sri Lanka ('the Direction'). The Committee is a formally constituted sub-committee of the Board of Directors ('the Board') and reports to the Board.

## Composition

The Committee consists of the following Members whose profiles are given on pages 10 to 12 of the Annual Report. The composition below is compliant with the provisions of the Rules and the Direction 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 six (6) meetings during the year under review as required by Section 9.2.4 of the Listing Rules of the CSE. Details of attendance of the Members at these meetings are given below.

Name of Member	Attendance
Mr. Priyan Edirisinghe – Chairman	6/6
Mr. Roshaan Hettiaratchi	6/6
Mr. Supun Weerasinghe	0/6

## 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 is regularly reviewed to ensure new developments relating to Committee functions are addressed.

## 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 that the Related Party Transactions Policy is consistent with the provisions of the Code and the Rules for adoption by the Board.
2. Review all proposed and executed 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, 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 CSE, Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.
- Ensuring that the interests of shareholders are considered by the Company 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

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## Activities carried out during the year under review

The Committee reviewed all RPTs carried out during the year on a quarterly basis. Further, the Committee reviewed recurrent and non-recurrent RPTs prior to the transaction being entered into or if the transaction was expressed to be conditional on such review, prior to the completion of the transaction, as required by Section No. 9.2.1 of the Rules.

Declaration are obtained from each Director of the Company for the purpose of identifying parties related to them.

RPTs for the year ended 31 December 2022 (as defined in LKAS 24 - 'Related parties Disclosures') are set out in Note 41 to the financial statements

## Reporting to the Board

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

## Conclusion

The Committee is satisfied that all RPTs of the Company during the year under review were in compliance with the Rules, the Code and Direction and were at arm's length terms and not prejudicial to the interests of the Company and its minority shareholders and the observations 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 Transactions Review Committee

30 April 2023

# Integrated Risk Management Committee Report

## Role of the Committee

The Board of Directors of the Company have delegated their responsibility of the oversight function of Risk Management in the Company to the Integrated Risk Management Committee ('The Committee') which 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 on a quarterly basis through appropriate risk indicators and management information. The Committee reviews the adequacy of management level committees such as the Asset and Liability Committee (ALCO), the Credit Committee and the Information Security Steering 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 is periodically reviewed and revised when necessary.

## Composition

The Committee comprises of three (03) Non-Executive Directors, of whom a majority are Independent Directors and 5 Ex-Officio Members. The composition meets the requirements stipulated in the financial regulations issued by Central Bank of Sri Lanka ('the CBSL'). The Committee is chaired by Mr. Roshaan Hettiaratchi and the Company Secretary functions as the Secretary to the Committee.

The Members of the Committee as of 31 December 2022 were as follows:

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. Nazeem Mohamed – Executive Director / Chief Executive Officer

5. Ms. Yasoda Sewwandi – Head of Finance
6. Mr. Thissil Vincent – Head of Risk and Compliance
7. Mr. Ashok Vitanachy – Head of Operations
8. Ms. Samiddhi Perera – Head of Collections

## Meetings

The Committee held 7 meetings (4 quarterly meetings and 3 special 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	6/7
Mr. Priyan Edirisinghe	6/7
Mr. Supun Weerasinghe	1/7
Mr. Nazeem Mohamed	7/7
Ms. Yasoda Sewwandi	7/7
Mr. Thissil Vincent	7/7
Ms. Samiddhi Perera	7/7
Mr. Ashok Vitanachy	7/7

The Head of Credit Management of the Company attended the meetings by invitation on a need basis.

The Board is apprised by the Chairman of the Committee of the significant issues deliberated, considered and the recommendations made by the Committee during its meeting.

## Summary of Principal Activities of the Committee during the Year

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

### Credit Risk

- Reviewed the decisions made by the Credit Committee and provided guidance on managing the default risk of the Company due to the macro-economic crisis in the country.
- Reviewed the moratorium to be granted to customers affected by the economic crisis in the country.
- Reviewed the performance of top 10 borrowers of the Company.

# Integrated Risk Management Committee Report

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## Operations Risk

- Reviewed the Company's risks related to operations and ensured that the mitigation action plan was sufficient.
- Ensured that staff were adequately updated on the information and data protection process.
- Assessed the implementation of the internal controls in operations. Ensured that operational losses were identified and reported.

## Information Technology Risk

- Reviewed the decisions taken by the Information Security and Technology Steering Committee
- Guided the Company on information security related risks and ensured that the mitigation plan was being carried out.

## Liquidity Risk and Market Risk

- Reviewed the decisions made by the Asset and Liability Committee of the Company
- Guided the Management on having sufficient liquidity to manage the economic stress in the country.
- Reviewed the interest rate risk stress testing.

## Compliance Risk

- Reviewed and approved the Company's Annual Institutional Risk Assessment on Money Laundering Risks
- Reviewed the measures taken by the Company on Anti Money Laundering
- Approved the Company's Compliance Policy and the Compliance Plan for 2023.
- Ensured that the Company was compliant with all regulations of the Central Bank of Sri Lanka ('CBSL') and the Securities and Exchange Commission by assessing the compliance checklist of the Company.

## Other key matters

- Approved the Risk Appetite of the Company in line with the FY 2022 Business Plan
- Reviewed the financial performance of the Company and provided guidance on ensuring the performance of the Company was not significantly affected by the country's economic crisis.

## 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. Roshaan Hettiaratchi

Chairman – Integrated Risk Management Committee

30 April 2023

# Annual Report of the Board of Directors for the Year ended 31 December 2022

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 2022, 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 21 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 offers a comprehensive range of financial services which include fixed and savings deposits, margin trading facilities, revolving loans, debt factoring, payment services and other financial facilities.

## Financial Statements

The financial statements of the Company as set out on pages 89 to 155, 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 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 2022 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 2022 and their report on the financial statements, is set out on pages 85 to 88.

## Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are given on pages 94 to 114.

## 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 89 to 155 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 80 of this Annual report.

# Annual Report of the Board of Directors for the Year ended 31 December 2022

## 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. 101.27Mn (For the year ended 31 December 2021 – 25.13Mn) 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.

### Reserves

The aggregate value of reserves and their composition are set out in the Statement of Changes in Equity of the Company on page 87 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 2022 amounted to Rs. 2,934,582,100 consisting of 117,399,866 ordinary shares (31 December 2021 – Rs. 2,934,582,100 consisting of 117,399,866 ordinary shares).

### [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 2022. The main shareholders of the Company and corresponding holding percentages are set out below.

Name of Shareholder	31 December 2022	
	No of Shares	% Holding
1. Dialog Axiata PLC	116,290,376	99.05%
2. Hatton National Bank PLC/ C.J. Goonewardene	253,307	0.22%
3. Hatton National Bank PLC/ Dawi Investment Trust (Pvt) Ltd	97,595	0.08%
4. Mr.S.R.S. De Saram/ Mrs. S.T.T. Jayasundera (Joint)	85,459	0.07%
5. Dawi Investment Trust (Pvt) Ltd	38,752	0.03%
6. Mr. P.S.M. Fernando	24,282	0.02%
7. Mr. B.Y. Edirisuriya/ Mrs. R.D. Edirisuriya (Joint)	20,426	0.02%
8. Guardian Insurance Brokers (Pvt) Ltd	19,982	0.02%
9. Mrs. A.A. Raaymakers	19,711	0.02%
10. People's Leasing & Finance PLC/ C.D.Kohombanwickramage	18,152	0.02%
11. Mr. M.K. Gunawardena	16,190	0.01%
12. Mr. G. D. M Ranasinghe/ Mr. O. R. K Ranasinghe (joint)	14,029	0.01%
13. MR. P. Poongunaseelan	13,631	0.01%
14. Mrs. S. Suwandaratne	13,346	0.01%
15. Mr.B.C.V.Mendis	11,576	0.01%
16. Mr. C. Chanmugam	10,632	0.01%
17. Citizens Development Business Finance PLC/ K.D.C. Somalatha and K. Nandasiri	10,480	0.01%
18. Mr. T.D. Mahaliyana	10,082	0.01%
19. Miss. M.P.Radhakrishan	9,330	0.01%
20. Miss.A.Radhakrishan	9,132	0.01%
Others	413,396	0.35%
<b>Total</b>	<b>117,399,866</b>	<b>100.0%</b>

### [C]. Minimum Public Holding Requirement

The percentage of shares held by the public as at 31 December 2022 was 0.95%, in the hands of 726 public shareholders (31 December 2021 – 0.95% in the hands of 735 public shareholders)

# Annual Report of the Board of Directors for the Year ended 31 December 2022

The Company is not compliant with the Minimum Public Holding requirement under section 2 of Rule 7.14.1(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 treated equitably.

## Board of Directors

The Board of Directors of the Company comprise of 5 Directors (31 December 2021- 5) 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.

The Directors of the Company as at 31 December 2022 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	09 November 2017
Mr. Priyan Edirisinghe	IND/NED	19 January 2016
Mr. Roshan Hettiaratchi	IND/NED	09 February 2016
Mr. Nazeem Mohamed	NID/ED	24 June 2022

\*Mr. Nazeem Mohamed was appointed as a Non-Independent, Executive Director of the Company effective 24 June 2022. Mr. Sheyantha Abeykoon, Non-Independent, Non-Executive Director of the Company resigned from the Board of Directors of the Company with effect from 27 July 2022.

## 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 directly held any shares in the Company as at 31 December 2022. (As at 31 December 2021 – 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.

# Annual Report of the Board of Directors for the Year ended 31 December 2022

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## **Outstanding Litigation**

In the opinion of the Directors and in consultation with the Company lawyers, there were no pending litigations against the Company as at 31 December 2022 which would have a material impact on the reported financial results, or future operations, of the Company.

## **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 endeavour 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 not made any donations during the year ended 31 December 2022. (For the year ended 31 December 2021 – 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 2022. (For the year ended 31 December 2021 – Nil).

## **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 2022

## 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 2022 amounted to Rs. 1,286,000 (For the year ended 31 December 2021 – Rs. 1,071,630). In addition to the above, Rs. 844,000 was payable for the year ended 31 December 2022 (For the year ended 31 December 2021 – Rs. 700,050) 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 2022, the number of employees on the payroll of the Company was 85 (31 December 2021 – 69).

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 than those 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  
09 February 2023

# 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 81 to 84.

## 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 2022,
- 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 2022;
- 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 Head of Finance, the officer responsible for the preparation and the Chief Executive Officer and have been signed by two Directors on 09 February 2023 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  
09 February 2023

# 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 transitional provisions of the Finance Business Act (Corporate Governance) Direction No. 5 of 2021.

## 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 can only provide reasonable but not absolute assurance against errors and material misstatement of management and financial information and records or against financial losses 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 principles. 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 or financial losses. The management of the Company implements the Board

approved policies 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 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. Ernst & Young, 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 period ended 31 December 2022, 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 67 to 69.
- 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 processes to comply with requirements of recognition, measurement, classification and disclosure were further strengthened during the year.
  - Since the implementation of SLFRS 09 "Financial Instruments", the Company implemented and continued to improve the processes which are required to comply with the requirements of recognition, measurement, presentation and disclosures under the above accounting standard. The Company continuously refined the Expected Credit Loss (ECL) models while validating the appropriateness of the underlying assumptions, adjustments made to the micro economic factors and forward-looking statements and incorporating the potential impacts of the current macro-economic situation of the country. 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.

#### 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 financial statements for the year ended 31st December 2022, are prepared and presented in conformity with the requirements of the following.

- Sri Lanka Accounting Standards
- Companies Act No. 07 of 2007 (Companies Act)
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Finance Business Act No. 42 of 2011 and amendments thereto
- Listing Rules of the Colombo Stock Exchange (CSE)
- Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

#### 5. Review of the Statement by External Auditors

The external auditors, Messrs. PricewaterhouseCoopers has reviewed the above Directors' Statement of Internal Controls over Financial Reporting included in the Annual Report for the year ended 31 December 2022 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. Their report on the statement of Internal Control over Financial Reporting is given on pages 83 to 84 of the Annual Report.

By order of the Board



**Ms. Renuka Fernando**  
Chairperson



**Mr. Priyan Edirisinghe**  
Chairman – Audit Committee

Colombo  
30 April 2023

# Independent Assurance Report to the Board of Directors



To the Board of Directors of Dialog Finance PLC

## Report on the Directors' Statement on Internal Control over Financial Reporting

We were engaged by the Board of Directors of Dialog Finance PLC ("Licensed Finance Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the period ended 31 December 2022.

### Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Licensed Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008, by the Institute of Chartered Accountants of Sri Lanka.

### Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Our Responsibilities and compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Licensed Finance Company. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for Licensed Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This standard requires that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control. For purposes of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

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**Partners** D T S H Mudalige FCA, C S Manoharan FCA, Ms S Hadgie FCA, N R Gunasekera FCA, T U Jayasinghe FCA, H P V Lakdeva FCA, M D B Boyagoda FCA, Ms W D A S U Perera ACA, Ms L A C Tillekeratne ACA, K M D R P Manatunga ACA

PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

# Independent Assurance Report to the Board of Directors

## To the Board of Directors of Dialog Finance PLC (Contd.)

### Report on the Directors' Statement on Internal Control over Financial Reporting (Contd.)

#### Summary of work performed

Control over Financial Reporting Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for the Board of Directors and appropriately reflects the process the management have adopted in reviewing the system of internal control for the Licensed Finance Company.

To achieve this objective, appropriate evidence had been obtained by performing the following procedures:

- (a) Enquired from the Board of Directors and the management and obtained an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the statement made by the management.
- (b) Reviewed the documentation prepared by the management to support their Statement made.
- (c) Related the Statement made by the Board of Directors to the auditor's knowledge of the Company obtained during the audit of the financial statements.
- (d) Reviewed the minutes of the meetings of the Executive Committee and of relevant other Management Committees of the Company.
- (e) Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- (f) Obtained written representations from the Board of Directors and the management on matters material to the Statement on Internal Control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- (g) Discussed with the Directors whether the steps have been taken by them to determine what process it has applied to deal with material internal control aspects of any significant problems.

- (h) Obtained an understanding from the Board of Directors as to whether there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, whether it has been in place for year ender review, whether it is regularly reviewed and whether the explanations are consistent with auditor's understanding.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the License Finance Company/ Finance Leasing Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the Licensed Finance Company, the event or transaction in respect of which the Statement has been prepared.

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

#### Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control over financial reporting of Dialog Finance PLC.



CHARTERED ACCOUNTANTS

Colombo  
23 April 2023

# Independent Auditor's Report to the Shareholders



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 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **What we have audited**

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2022;
- 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 and other explanatory information.

### **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 for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka ("CA Sri Lanka Code of Ethics"). We have fulfilled our other ethical responsibilities in accordance with the CA Sri Lanka 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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# Independent Auditor's Report to the Shareholders

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><b>Impairment of loans and advances</b>  <b>Refer to the accounting policy Section 5.3: Impairment of financial assets and Notes 10 and 22 to the financial statements.</b></p> <p>As at 31 December 2022, total gross amount of loans and advances amounted to LKR 3,182 million, with a total allowance for impairment of LKR 125 million. Total net amount of loans and advances contribute 46% to the total assets.</p> <p>Management assesses whether the credit risk of loans and advances to customers have increased significantly since their initial recognition and applies a three-stage impairment model to calculate their ECL. ECL is calculated on either an individual basis or a collective basis. Collective impairment is calculated incorporating key parameters, including probability of default, loss given default, exposure at default and discount rates. Individual impairment is determined using discounted cash flows.</p> <p>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"> <li>• The ECL model involves complex calculations with key variables used in the model requiring significant management judgment and use of assumptions.</li> <li>• The magnitude of the reported amounts of loans and advances to customers and the impairment allowances thereof.</li> <li>• The determination of expected loss rates in an uncertain economic environment.</li> </ul>	<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"> <li>• Understanding, evaluating and testing the design and operating effectiveness of key controls in the lending and credit risk mitigation process including information systems;</li> <li>• Assessing the appropriateness of the criteria used by management to determine whether customer credit facilities are impaired;</li> <li>• Assessing the appropriateness of the design and implementation of the ECL model, including the reasonableness of significant judgements made assumptions used by management;</li> <li>• Checking the reasonability of the macro-economic and other forward-looking information used by management, by comparing them against reliable publicly available information;</li> <li>• For loans and advances individually impaired, assessing the reasonability on a sample basis, future cash flows forecasted by management and the discount rates supporting the loss allowance computation;</li> <li>• Checking the underlying calculations and data on a sample basis for accuracy and completeness;</li> <li>• Assessing the accuracy and sufficiency of related disclosures.</li> </ul>



# Independent Auditor's Report to the Shareholders

## 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 2022 ("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 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 the 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 scepticism 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.

# Independent Auditor's Report to the Shareholders

## 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 relevant ethical requirements 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  
09 February 2023

# Statement of Profit or Loss and Other Comprehensive Income


For the year ended 31 December, (All amounts in Sri Lanka Rupees thousands)	Note	2022	2021
Interest income		984,853	261,067
Less: Interest expense		(359,526)	(56,629)
<b>Net interest income</b>	6	<b>625,327</b>	<b>204,438</b>
Fee and commission income		17,908	6,399
Less: Fee and commission expenses		(2,792)	(1,185)
<b>Net fee and commission income</b>	7	<b>15,116</b>	<b>5,214</b>
Net gains from trading	8	947	406
Other operating income	9	26,190	3,741
<b>Total operating income</b>		<b>667,580</b>	<b>213,799</b>
Less: Impairment charges and other losses	10	(84,884)	(10,247)
<b>Net operating income</b>		<b>582,696</b>	<b>203,552</b>
<b>Less: Operating expenses</b>			
Personnel expenses	11	(208,444)	(123,319)
Depreciation and amortisation	12	(46,250)	(43,256)
Other expenses	13	(212,729)	(109,529)
<b>Operating profit / (loss) before taxes on financial services</b>		<b>115,273</b>	<b>(72,552)</b>
Less: Taxes on financial services	14	(48,177)	(4,689)
<b>Profit / (loss) before tax for the year</b>		<b>67,096</b>	<b>(77,241)</b>
Income tax reversal	15	-	-
<b>Profit / (loss) for the year</b>		<b>67,096</b>	<b>(77,241)</b>
Basic / diluted profit / (loss) per share for losses attributable to the ordinary equity holders of the Company (Rs.)	16	0.57	(0.70)
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
- changes in the fair value of equity investments at fair value through other comprehensive income (note 23)		19	3
- remeasurement of defined benefit obligation (note 31.1a)		(198)	1,779
- deferred tax effect on other comprehensive income		57	(427)
<b>Other comprehensive income, net of tax</b>		<b>(122)</b>	<b>1,355</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>66,974</b>	<b>(75,886)</b>

The notes on pages 93 to 155 form an integral part of these financial statements.

# Statement of Financial Position

As at 31 December, (All amounts in Sri Lanka Rupees thousands)	Note	2022	2021
<b>Assets</b>			
Cash and cash equivalents	18	170,399	136,222
Placements with financial institutions	19	2,427,981	-
Securities purchased under repurchase agreements	20	288,795	194,641
Financial assets at fair value through profit or loss	21	2,866	1,919
Financial assets at amortised cost - loans and advances	22	3,056,448	2,742,531
Financial assets at fair value through other comprehensive income	23	2,120	2,101
Financial investments at amortised cost	24	221,329	597,106
Other assets	25	46,730	33,981
Current tax receivable		6,255	6,255
Right-of-use assets	26	11,102	17,601
Property, plant and equipment	27	53,980	60,807
Intangible assets	28	173,171	104,823
Deferred tax asset	29	123,450	123,393
<b>Total assets</b>		<b>6,584,626</b>	<b>4,021,380</b>
<b>Liabilities</b>			
Financial liabilities at amortised cost – due to customers	30	3,786,922	1,323,916
Lease liabilities	26	13,833	20,142
Retirement benefit obligations	31	8,989	7,258
Other liabilities	32	171,113	133,269
<b>Total liabilities</b>		<b>3,980,857</b>	<b>1,484,585</b>
<b>Equity</b>			
Stated capital	33	2,934,582	2,934,582
Statutory reserve fund	34	14,716	11,361
Fair value through other comprehensive income	35	1,596	1,580
Accumulated losses	35	(347,125)	(410,728)
<b>Total equity</b>		<b>2,603,769</b>	<b>2,536,795</b>
<b>Total equity and liabilities</b>		<b>6,584,626</b>	<b>4,021,380</b>
Net asset per share (Rs.)		<b>22.18</b>	<b>21.61</b>
Commitments and contingencies	37	<b>505,052</b>	<b>378,648</b>

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



**Director / 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  
09 February 2023



**Director**  
Priyan Edirisinghe

The notes on pages 93 to 155 form an integral part of these financial statements.

# Statement of Changes in Equity

For the year ended 31 December, <i>(All amounts in Sri Lanka Rupees thousands)</i>	Note	Stated capital	Statutory reserve fund	Retained earnings / (accumulated losses)	Fair value through OCI reserve	Total
Balance at 1 January 2022		2,934,582	11,361	(410,728)	1,580	2,536,795
Profit for the year		-	-	67,096	-	67,096
Other comprehensive income, net of tax		-	-	(138)	16	(122)
<b>Total comprehensive income for the year</b>		-	-	<b>66,958</b>	<b>16</b>	<b>66,974</b>
Transferred to statutory reserve fund	34	-	3,355	(3,355)	-	-
<b>Balance at 31 December 2022</b>		<b>2,934,582</b>	<b>14,716</b>	<b>(347,125)</b>	<b>1,596</b>	<b>2,603,769</b>
Balance at 1 January 2021		2,374,509	11,361	(333,575)	1,577	2,053,872
Loss for the year		-	-	(77,241)	-	(77,241)
Other comprehensive income, net of tax		-	-	1,352	3	1,355
<b>Total comprehensive income for the year</b>		-	-	<b>(75,889)</b>	<b>3</b>	<b>(75,886)</b>
Rights issue during the year	33	560,073	-	-	-	560,073
Rights issue expense		-	-	(1,264)	-	(1,264)
Transferred to statutory reserve fund	34	-	-	-	-	-
<b>Balance at 31 December 2021</b>		<b>2,934,582</b>	<b>11,361</b>	<b>(410,728)</b>	<b>1,580</b>	<b>2,536,795</b>

The notes on pages 93 to 155 form an integral part of these financial statements.

# Statement of Cash Flows

For the year ended 31 December, (All amounts in Sri Lanka Rupees thousands)	Note	2022	2021
<b>Cash flows from operating activities</b>			
Profit / (Loss) before income tax		67,096	(77,241)
<b>Adjustment for,</b>			
Interest expenses	6.2	359,526	56,629
Impairment charges and other losses	10	84,884	10,247
Provision for retirement benefits obligation	11	2,727	1,860
Depreciation of property plant and equipment	12	19,641	19,982
Depreciation of right-of-use assets	12	6,499	6,499
Amortisation of intangible assets	12	20,110	16,775
Interest on lease liabilities	26.2	1,814	2,441
Net gains on financial assets at fair value through profit or loss	8	(947)	(406)
<b>Cash generated from operations before working capital changes</b>		<b>561,350</b>	<b>36,786</b>
(Increase) in loans and advances		(348,522)	(1,936,199)
(Increase) / decrease in other assets		(12,807)	160,863
Increase in amounts due to customers		2,463,006	259,741
Increase in other liabilities		31,535	52,665
<b>Cash generated from / (used in) operations</b>		<b>2,694,562</b>	<b>(1,426,144)</b>
Interest paid		(383,416)	(62,798)
Retirement benefits paid	31.1	(1,195)	(1,251)
<b>Net cash generated from / (used in) operating activities</b>		<b>2,309,951</b>	<b>(1,490,193)</b>
<b>Cash flows from investing activities</b>			
Acquisition of property plant and equipment and intangible assets		(101,272)	(25,133)
Net investment in treasury bills		363,278	(594,920)
Net placements with financial institutions		698	-
Net cash flows from securities purchased under repurchased agreement		(101,674)	(116,919)
<b>Net cash generated from / (used in) investing activities</b>		<b>161,030</b>	<b>(736,972)</b>
<b>Cash flows from financing activities</b>			
Net cash received from rights issue	33 (a)	-	558,809
Principle element of lease payment	26.3	(8,123)	(7,265)
<b>Net cash (used in) / generated from financing activities</b>		<b>(8,123)</b>	<b>551,544</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>2,462,858</b>	<b>(1,675,621)</b>
Cash and cash equivalents at the beginning of the year		136,261	1,811,882
<b>Cash and cash equivalents at the end of the year</b>		<b>2,599,119</b>	<b>136,261</b>
<b>Analysis of cash and cash equivalents at the end of the year</b>			
Cash and bank balances		170,440	136,261
Placements with financial Institutions (less than 90 days)		2,428,679	-
		<b>2,599,119</b>	<b>136,261</b>
Less: Impairment provision		(739)	(39)
		<b>2,598,380</b>	<b>136,222</b>

The notes on pages 93 to 155 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 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 2022 is 85 (31 December 2021 - 69).

### 1.5 Approval of financial statements by directors

The financial statements of the Company, for the period ended 31 December 2022, were authorised for issue by the Board of Directors on 09 February 2023. 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. Basis of preparation (Contd.)

### 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an accounting standard.

### 2.7 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 recognised.

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.



# Notes to the Financial Statements

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

## 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 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 multiple economic scenarios 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 into 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 results 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,

# 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.)

### 3.6 Defined benefit obligation (Contd.)

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.

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

The Company reviews annually the estimated useful lives of PPE and intangible assets 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 and intangible assets would increase the recorded depreciation charge and decrease the carrying value of PPE and intangible assets.

### 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 consults 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 2022

The Company has applied the following amendments for the first time for their reporting period commencing 1 January 2022:

#### (a) Amendment to LKAS 16, Property, Plant and Equipment

Proceeds before intended use –this amendment 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 technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. 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.

#### (b) Amendments to SLFRS 3, Reference to the Conceptual Framework

Minor amendments were made to SLFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and to add an exception for the recognition of liabilities and contingent liabilities within the scope of LKAS 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.

#### (c) Amendments to LKAS 37, Onerous Contracts – Cost of Fulfilling a Contract

The amendment to LKAS 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.

#### (d) Annual Improvements to SLFRS Standards 2018–2020

The following improvements were finalised in May 2020:

- SLFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- SLFRS 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.

# Notes to the Financial Statements

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

- SLFRS 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 SLFRS 1 exemption.
- LKAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under LKAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

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 and future periods.

## 4.2 New standards, amendments and interpretations issued but not yet adopted in 2022 by the Company

The following standards and interpretations had been issued but not mandatory for annual reporting periods ending 31 December 2022. Further, the group has not early adopted these new standards and/or amendments.

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

The narrow-scope amendments to LKAS 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 (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what LKAS 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 LKAS 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. This amendment is not yet adopted in Sri Lanka.

### (b) SLFRS 17, ‘Insurance contracts’

SLFRS 17 was issued in May 2017 as replacement for SLFRS 4 Insurance Contracts. It requires a current measurement model where estimates are remeasured in each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under SLFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity’s share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Targeted amendments made in July 2020 aimed to ease the implementation of the standard by reducing implementation costs and making it easier for entities to explain the results from applying SLFRS 17 to investors and others. The amendments also deferred the application date of SLFRS 17 to 1 January 2023. This amendment will be effective from 01 January 2025 in Sri Lanka.

# 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.)

### 4.2 New standards, amendments and interpretations issued but not yet adopted in 2022 by the Company (Contd.)

Further amendments made in December 2021 added a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of SLFRS 17. The classification overlay applies to all financial assets, including those held in respect of activities not connected to contracts within the scope of SLFRS 17. It allows those assets to be classified in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of SLFRS 9. The classification can be applied on an instrument-by-instrument basis. This standard will be effective from 01 January 2025 in Sri Lanka.

#### (c) Disclosure Initiative: Accounting Policies - Amendments to LKAS 1

The amendments to LKAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies.

The amendments to LKAS 1 will be effective for annual reporting periods beginning on or after 1 January 2023. This amendment is not yet adopted in Sri Lanka.

#### (d) Definition of Accounting Estimates (Amendments to LKAS 8)

The amendments introduced the definition of accounting estimates and included other amendments to LKAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after 1 January 2023. This amendment is not yet adopted in Sri Lanka.

(e) Amendment to LKAS 12 – Deferred tax related to assets and liabilities arising from a single transaction  
LKAS 12 Income Taxes specifies how a company accounts for income tax, including deferred tax, which represents tax payable or recoverable in the future. In specified circumstances, companies are exempt

from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations—transactions for which companies recognise both an asset and a liability.

The amendments clarify that the exemption does not apply and that companies are required to recognise deferred tax on such transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. This amendment is not yet adopted in Sri Lanka.

## 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 marketplace.

#### (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)

## (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, revolving and 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 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.

# 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.)

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

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in liabilities in the statement of financial position.

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 2022.

# Notes to the Financial Statements

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

## (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.

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

# 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.)

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.

(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:

**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.



# Notes to the Financial Statements

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

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 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 12m ECL. The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 42.2.

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 12m ECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments. Asset classes where the Company calculates ECL on individual basis include credit impaired facilities of individually significant customers. Those financial assets for which, the Company determines that no provision is required under individual impairment are then collectively assessed for ECL. Financial assets are grouped based on similar risk characteristics for the purpose of ECL calculation on collective basis. Loans and advances to other customers are grouped into homogeneous portfolios, based on a combination of product and customer characteristics.

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 12m ECLs. 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 key elements used in the ECL calculations are outlined below;

**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.

# 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.)

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

**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.

#### 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 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.

# Notes to the Financial Statements

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

## (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;
- 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).

## 5.5 Write-off of loans and advances

Loans and advances are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

## 5.6 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.

# 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 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.

### 5.8 Accounting for leases where the Company is the lessee

Leases are recognised as a right-of-use (ROU) 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.

# Notes to the Financial Statements

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

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).

The Company reassess 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.

## 5.9 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	40
Computer equipment	5
Office furniture	5
Office equipment	5
Motor vehicles	5

# 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.)

### 5.9 Property, plant and equipment (PPE) (Contd.)

#### (a) Measurement (Contd.)

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.

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.

### 5.10 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

# Notes to the Financial Statements

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

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.

## 5.11 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.

## 5.12 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.

## 5.13 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.

# 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.)

### 5.13 Employee benefits (Contd.)

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.

#### (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.

### 5.14 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.

### 5.15 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.

### 5.16 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



# Notes to the Financial Statements

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

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.

## **(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, transaction 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

# 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 Recognition of income and expenses (Contd.)

#### (c) Other operating income (Contd.)

##### (i) Dividend income (Contd.)

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.

#### (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 recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay all employee benefits relating to employee services in the current and prior periods and the obligation can be estimated reliably.

### 5.17 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.

# Notes to the Financial Statements

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

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, SSCL 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 recognised as expense in the period it becomes due.

## (c) Social Security Contribution Levy (SSCL) on financial services

SSCL on financial services is calculated in accordance with the Social Security Contribution Levy Act No.25 of 2002. The base for the computation of value added tax on financial services is the accounting profit before VAT, SSCL 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 SSCL on Financial service is recognised as expense in the period it becomes due.

## (d) Deposit insurance and liquidity support scheme

In terms of sections 38, 39 and 41 of the Finance Business Act, No. 42 of 2011, all finance companies are required to insure their deposit liabilities under the deposit insurance scheme or under a body corporate authorised by the Monetary Board. Accordingly, all Finance Companies are required to insure their deposit liabilities in the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" operated under the Sri Lanka.

Deposit Insurance and Liquidity Support Scheme Regulations, No.02 of 2021 issued under the section 32E of the Monetary Law Act with effect from 6 August 2021.

The deposits to be insured shall include eligible demand, time and savings deposit liabilities as defined in the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations, No.02 of 2021

Registered finance companies are required to pay a premium of 0.15% on total amount of eligible deposits as at end of the month within a period of 15 days from the end of the respective month.

## (e) 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

## (e) 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.

## 5.18 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.

# 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.)

### 5.19 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, factoring and revolving loans, term loans and treasury which are the Company's strategic products / divisions. Those offer different products 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.

### 5.20 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	
	2022	2021
Placements with banks and financial institutions	325,760	54,140
Securities purchased under repurchase agreements	99,464	4,930
Sri Lanka government securities	40,607	9,591
Lease/hire purchase receivable	46,363	10,654
Factoring and revolving loans	123,861	48,895
Margin trading receivables	156,879	50,767
Term loans	191,919	82,090
<b>Total interest income</b>	<b>984,853</b>	<b>261,067</b>

### 6.2 Interest expense

	Year ended 31 December	
	2022	2021
Deposits from customers	359,526	56,629
<b>Total interest expense</b>	<b>359,526</b>	<b>56,629</b>
<b>Net interest income</b>	<b>625,327</b>	<b>204,438</b>

## 7. Net fee and commission income

### 7.1 Fee and commission income

	Year ended 31 December	
	2022	2021
Loans & advances related services	8,121	4,576
Other financial services	9,787	1,823
<b>Total fee and commission income</b>	<b>17,908</b>	<b>6,399</b>

### 7.2 Fee and commission expenses

	Year ended 31 December	
	2022	2021
Other financial services	2,792	1,185
<b>Total fee and commission expenses</b>	<b>2,792</b>	<b>1,185</b>
<b>Net fee and commission income</b>	<b>15,116</b>	<b>5,214</b>

# Notes to the Financial Statements

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

## 8. Net gains from trading

	Year ended 31 December	
	2022	2021
<b>Equities</b>		
Net gains on financial assets at fair value through profit or loss (Note 21.2)	947	406
	<b>947</b>	<b>406</b>

## 9. Other operating income

	Year ended 31 December	
	2022	2021
Default charges	2,224	1,687
Recovery of bad debt written off	5,250	420
Dividend income (Note 23)	-	240
Other income	18,716	1,394
	<b>26,190</b>	<b>3,741</b>

## 10. Credit loss expense on financial assets and other losses

The table below shows the expected credit loss (ECL) charges/ (reversals) for financial assets for the year ended 31 December 2022 and for the year ended 31 December 2021 recorded in the income statement.

	Year ended 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (Note 18.1)	2	-	-	2
Placement with financial institutions (Note 19.1)	698	-	-	698
Securities purchased under repurchase agreements (Note 20.1)	7,520	-	-	7,520
Financial investments at amortised cost (Note 24.1)	12,500	-	-	12,500
Lease/hire purchase receivable (Note 22.1.c)	8,523	11,280	(4,375)	15,428
Factoring and Revolving Loans (Note 22.2.b)	(31)	185	(997)	(843)
Margin Trading receivable (Note 22.3.b)	4,267	-	-	4,267
Term Loans (Note 22.4.b)	8,934	32,844	3,534	45,312
	<b>42,413</b>	<b>44,309</b>	<b>(1,838)</b>	<b>84,884</b>

	Year ended 31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (Note 18.1)	(112)	-	-	(112)
Placements with financial institutions (Note 19.1)	(207)	-	-	(207)
Lease/hire purchase receivable (Note 22.1.c)	2,744	50	2,514	5,308
Factoring and Revolving Loans (Note 22.2.b)	6,986	(1,483)	52	5,555
Margin trading receivable (Note 22.3.b)	-	-	-	-
Term Loans (Note 22.4.b)	8,345	(12,827)	4,185	(297)
	<b>17,756</b>	<b>(14,260)</b>	<b>6,751</b>	<b>10,247</b>

# Notes to the Financial Statements

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

## 11. Personnel expenses

	Year ended 31 December	
	2022	2021
Wages, salaries and others	172,657	103,634
staff allowances and benefits	18,015	6,289
Contributions to defined contribution plans	15,045	11,536
Contributions to defined benefit plans (Note 31.1.(a))	2,727	1,860
	<b>208,444</b>	<b>123,319</b>

## 12. Depreciation and amortisation

	Year ended 31 December	
	2022	2021
Depreciation of property, plant and equipment (Note 27)	19,641	19,982
Amortisation of intangible assets (Note 28)	20,110	16,775
Depreciation of right-of-use assets (Note 26.2)	6,499	6,499
	<b>46,250</b>	<b>43,256</b>

## 13. Other Expenses

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

	Year ended 31 December	
	2022	2021
Directors' emoluments	2,227	2,594
Independence Auditor's remuneration		
- Audit fees	1,286	1,072
- Non-audit and other services	844	700
Professional and legal expenses	12,772	5,792
Deposit insurance premium	2,155	1,295
Interest on lease liability (Note 26.2)	1,814	2,441
IT related expenses	99,811	68,676
Advertising & sales promotion expenses	15,039	3,242
Office administration expenses	15,456	7,025
Payment services operating expenses	33,290	4,002
Other expenses	28,035	12,690
	<b>212,729</b>	<b>109,529</b>

## 14. Taxes on financial services

	Year ended 31 December	
	2022	2021
Value added tax on financial services	46,141	4,689
Social Security levy on financial services	2,036	-
	<b>48,177</b>	<b>4,689</b>

# Notes to the Financial Statements

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

## 15. Income tax (reversal) / expense

15.1 The major components of income tax expense for the year ended 31 December 2022 and for the year ended 31 December 2021 are as follows:

	Year ended 31 December	
	2022	2021
<b>Current tax expense</b>		
Current tax expense for the year	-	-
Under / (over) provision of current taxes in respect of previous years	-	-
	-	-
<b>Deferred tax reversal</b>		
Deferred tax reversal for the year (Note 29)	-	-
	-	-
<b>Deferred tax reversal / (charge) on other comprehensive income</b>	56	(427)
<b>Effective tax rate</b>	0.00%	0.00%

## 15.2 Reconciliation of effective tax rate

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

	Year ended 31 December	
	2022	2021
Profit/ (loss) before tax	67,096	(77,241)
At the statutory income tax rate of 30% (2021 - 24%)	20,129	(18,538)
Tax effect of non-deductible expenses	(17,967)	(10,486)
Tax effect of other allowable credits	56,618	17,669
Tax effect of losses claimed	(58,780)	-
Deferred tax reversal / (expense) not recognised	-	11,355
	-	-

The Company's profit is subjected to a corporate tax of 30% during the year ended 31 December 2022.

The standard tax rate applicable for the Company was increased from 24% to 30% with effect from October 1, 2022 by the Inland Revenue (Amendment) Act, No. 45 of 2022 which was certified by the Parliament on 19th December 2022.



# Notes to the Financial Statements

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

## 16. Profit/(loss) per share – basic

### 16.1 Profit/(loss) per share

	Year ended 31 December	
	2022	2021
Profit/(loss) attributable to the equity holders of the Company	67,096	(77,241)
Weighted average number of ordinary shares during the year (Note 16.2)	117,399,866	110,653,427
<b>Basic profit/loss per share (Rs.)</b>	<b>0.57</b>	<b>(0.70)</b>

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

### 16.2 Weighted average number of ordinary shares

	Number of shares		Weighted average number of shares	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Number of ordinary shares in issue as at 1 January	117,399,866	108,783,362	117,399,866	108,783,362
Number of shares issued under right issue	-	8,616,504	-	1,870,065
Number of shares in issue / weighted average number of ordinary shares as at 31 December	<b>117,399,866</b>	<b>117,399,866</b>	<b>117,399,866</b>	<b>110,653,427</b>

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 year. 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 2022	Amortised cost	Equity instrument - FVTPL	Equity instrument - FVTOCI	Total
<b>Financial assets</b>				
Cash and cash equivalents	170,399	-	-	170,399
Placements with banks and financial institutions	2,427,981	-	-	2,427,981
Securities purchased under repurchase agreements	288,795	-	-	288,795
Financial assets at fair value through profit or loss	-	2,866	-	2,866
Financial assets at amortised cost - loans and advances	3,056,448	-	-	3,056,448
Financial assets at fair value through other comprehensive income	-	-	2,120	2,120
Financial investments at amortised cost	221,329	-	-	221,329
<b>Total financial assets</b>	<b>6,164,952</b>	<b>2,866</b>	<b>2,120</b>	<b>6,169,938</b>
<b>Financial liabilities</b>				
Financial liabilities at amortised cost – due to customers	3,786,922	-	-	3,786,922
Lease liabilities	13,833	-	-	13,833
<b>Total financial liabilities</b>	<b>3,800,755</b>	<b>-</b>	<b>-</b>	<b>3,800,755</b>

# Notes to the Financial Statements

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

## 17. Analysis of financial instruments by measurement basis (Contd.)

As at 31 December 2021	Amortised cost	Equity instrument - FVTPL	Equity instrument - FVTOCI	Total
<b>Financial assets</b>				
Cash and cash equivalents	136,222	-	-	136,222
Placements with banks and financial institutions	-	-	-	-
Securities purchased under repurchase agreements	194,641	-	-	194,641
Financial assets at fair value through profit or loss	-	1,919	-	1,919
Financial assets at amortised cost - loans and advances	2,742,531	-	-	2,742,531
Financial assets at fair value through other comprehensive income	-	-	2,101	2,101
Financial investments at amortised cost	597,106	-	-	597,106
<b>Total financial assets</b>	<b>3,670,500</b>	<b>1,919</b>	<b>2,101</b>	<b>3,674,520</b>
<b>Financial liabilities</b>				
Financial liabilities at amortised cost – due to customers	1,323,916	-	-	1,323,916
Lease liabilities	20,142	-	-	20,142
<b>Total financial liabilities</b>	<b>1,344,058</b>	<b>-</b>	<b>-</b>	<b>1,344,058</b>

## 18. Cash and cash equivalents

	31 December	
	2022	2021
Cash in hand	-	33
Cash in eZ cash wallet	5,096	1,988
Balances with banks	165,344	134,240
Less: Allowance for expected credit loss (Note 18.1)	(41)	(39)
	<b>170,399</b>	<b>136,222</b>

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

	2022	2021
Balance as at 1 January	39	151
Charge for the year	2	(112)
<b>Balance as at 31 December</b>	<b>41</b>	<b>39</b>

### 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:

	2022	2021
Cash and cash equivalents as at 31 December	170,399	136,222
Placement with financial institutions (less than 3 months) (Note 19)	2,427,981	-
<b>Cash and cash equivalents as at 31 December as per Cash Flow Statement</b>	<b>2,598,380</b>	<b>136,222</b>

There were no cash and cash equivalents held by the Company that were not available for use by the Company.

# 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	
	2022	2021
Placement with financial institutions (less than 3 months)	2,428,679	-
Less: Allowance for expected credit losses	(698)	-
	2,427,981	-

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

	2022	2021
Balance as at 1 January	-	207
Charge for the year	698	(207)
<b>Balance as at 31 December</b>	<b>698</b>	<b>-</b>

## 20. Securities purchased under repurchase agreements

	31 December	
	2022	2021
Repos	296,315	194,641
Less: allowance for expected credit loss (Note 20.1)	(7,520)	-
	288,795	194,641

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

	2022	2021
Balance as at 1 January	-	-
Charge for the year	7,520	-
<b>Balance as at 31 December</b>	<b>7,520</b>	<b>-</b>

## 21. Financial assets at fair value through profit or loss

	31 December	
	2022	2021
Quoted equity shares (Note 21.1)	2,866	1,919
	2,866	1,919

### 21.1 Quoted equity shares

	31 December 2022		31 December 2021	
	No of Shares	Carrying / Fair value	No of Shares	Carrying / Fair value
Balangoda Plantations PLC	22,000	1,804	22,000	667
Tokyo Cement Company (Lanka) PLC	8,157	269	8,157	488
The Kingsbury PLC	30,000	255	15,000	285
John Keells Hotels PLC	32,584	538	32,584	479
<b>Total market value</b>		<b>2,866</b>		<b>1,919</b>

# Notes to the Financial Statements

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

## 21. Financial assets at fair value through profit or loss (Contd.)

### 21.2 The amount of investment in quoted equity shares is as follows

	31 December	
	2022	2021
Balance at the beginning of the year	1,919	1,513
Fair value gain (Note 8)	947	406
Disposals	-	-
<b>Balance at the end of the year</b>	<b>2,866</b>	<b>1,919</b>

## 22. Loans and advances

	31 December	
	2022	2021
Gross loans and advances	3,181,605	2,826,065
Less: provision for impairment	(125,157)	(83,534)
	<b>3,056,448</b>	<b>2,742,531</b>

	Notes	31 December	
		2022	2021
Lease/hire purchase receivable	22.1	322,924	154,464
Factoring and revolving loans	22.2	604,847	714,083
Margin trading receivables	22.3	648,925	989,183
Term loans	22.4	1,479,752	884,801
		<b>3,056,448</b>	<b>2,742,531</b>

### 22.1 Lease / hire purchase receivable

	31 December	
	2022	2021
<b>At amortised cost</b>		
Total rental receivable		
Within one year	174,712	74,428
From one to five years	286,142	141,157
More than five years	-	-
	<b>460,854</b>	<b>215,585</b>
Less: Unearned interest income	(110,042)	(43,924)
Less: Prepaid rentals	-	(167)
<b>Gross receivable</b>	<b>350,812</b>	<b>171,494</b>
Less: Provision for impairment		
Stage 1	(12,669)	(4,146)
Stage 2	(12,799)	(1,519)
Stage 3	(2,420)	(11,365)
<b>Net receivable</b>	<b>322,924</b>	<b>154,464</b>

The Company provides finance leasing facilities. No lease receivables as at 31 December 2022 have been assigned for funding arrangements. (31 December 2021 - Nil).

# Notes to the Financial Statements

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

## (a) Maturity analysis of net receivable

As at 31 December 2022	1 Year	1 - 5 Years	More than 5 Years	Total
Total rental receivable	174,712	286,142	-	460,854
Less: Unearned interest income	(46,546)	(63,496)	-	(110,042)
<b>Gross receivable</b>	<b>128,166</b>	<b>222,646</b>	<b>-</b>	<b>350,812</b>
Less: Allowance for expected credit losses	(6,397)	(21,491)	-	(27,888)
<b>Net receivable</b>	<b>121,769</b>	<b>201,155</b>	<b>-</b>	<b>322,924</b>

As at 31 December 2021	1 Year	1 - 5 Years	More than 5 Years	Total
Total rental receivable	74,261	141,157	-	215,418
Less: Unearned interest income	(17,252)	(26,672)	-	(43,924)
<b>Gross receivable</b>	<b>57,009</b>	<b>114,485</b>	<b>-</b>	<b>171,494</b>
Less: Allowance for expected credit losses	(5,630)	(11,400)	-	(17,030)
<b>Net receivable</b>	<b>51,379</b>	<b>103,085</b>	<b>-</b>	<b>154,464</b>

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

As at 31 December 2022	Stage 1	Stage 2	Stage 3	Total
Individually impaired receivable	-	-	2,547	2,547
Receivable - subject to collective impairment	287,133	59,878	1,254	348,265
Allowance for expected credit losses	(12,669)	(12,799)	(2,420)	(27,888)
	<b>274,464</b>	<b>47,079</b>	<b>1,381</b>	<b>322,924</b>

As at 31 December 2021	Stage 1	Stage 2	Stage 3	Total
Individually impaired lease receivable	-	-	13,375	13,375
Receivable - subject to collective impairment	143,950	8,517	5,652	158,119
Allowance for expected credit losses	(4,146)	(1,519)	(11,365)	(17,030)
	<b>139,804</b>	<b>6,998</b>	<b>7,662</b>	<b>154,464</b>

## (c) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2022	4,146	1,519	11,365	17,030
(Reversal) / Charge to income statement (Note 10)	8,523	11,280	(4,375)	15,428
Write off of receivables	-	-	(4,570)	(4,570)
<b>Balance as at 31 December 2022</b>	<b>12,669</b>	<b>12,799</b>	<b>2,420</b>	<b>27,888</b>

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	1,402	1,469	8,851	11,722
(Reversal) / Charge to income statement (Note 10)	2,744	50	2,514	5,308
Write off of receivables	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>4,146</b>	<b>1,519</b>	<b>11,365</b>	<b>17,030</b>

# Notes to the Financial Statements

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

## 22. Loans and advances (Contd.)

### 22.1 Lease / hire purchase receivable (Contd.)

(d) Lease income from lease / hire purchase contracts

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

	31 December	
	2022	2021
Interest income from leases the company acts as the lessor	46,363	10,654
	<b>46,363</b>	<b>10,654</b>

### 22.2 Factoring & revolving loans

	31 December	
	2022	2021
<b>Gross factoring &amp; revolving loan receivable</b>	<b>617,645</b>	<b>727,724</b>
Less: Provision for impairment		
Stage 1	(9,194)	(9,225)
Stage 2	(193)	(8)
Stage 3	(3,411)	(4,408)
	<b>604,847</b>	<b>714,083</b>

(a) Analysis of factoring & revolving loan receivable on maximum exposure to credit risk

As at 31 December 2022	Stage 1	Stage 2	Stage 3	Total
Individually impaired receivable	-	-	3,762	3,762
Receivable - subject to collective impairment	610,648	3,235	-	613,883
Allowance for expected credit losses (ECL)	(9,194)	(193)	(3,411)	(12,798)
	<b>601,454</b>	<b>3,042</b>	<b>351</b>	<b>604,847</b>

As at 31 December 2021	Stage 1	Stage 2	Stage 3	Total
Individually impaired receivable	-	-	8,615	8,615
Receivable - subject to collective impairment	719,101	8	-	719,109
Allowance for expected credit losses (ECL)	(9,225)	(8)	(4,408)	(13,641)
	<b>709,876</b>	<b>-</b>	<b>4,207</b>	<b>714,083</b>

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2022	9,225	8	4,408	13,641
(Reversal) / charge to income statement [Note 10]	(31)	185	(997)	(843)
Write off impact	-	-	-	-
<b>Balance as at 31 December 2022</b>	<b>9,194</b>	<b>193</b>	<b>3,411</b>	<b>12,798</b>

# Notes to the Financial Statements

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

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	2,239	1,491	4,356	8,086
(Reversal) / charge to income statement [Note 10]	6,986	(1,483)	52	5,555
Write off impact	-	-	-	-
Balance as at 31 December 2021	9,225	8	4,408	13,641

## 22.3 Margin trading receivables

	31 December	
	2022	2021
Opening balance	989,788	109,526
Net payment and receipts	(335,991)	880,262
<b>Margin trading receivable</b>	<b>653,797</b>	<b>989,788</b>
Less: Provision for impairment		
Stage 1	(4,872)	(605)
<b>Margin trading receivable (net of provisions)</b>	<b>648,925</b>	<b>989,183</b>

### (a) Analysis of Factoring receivable on maximum exposure to credit risk

As at 31 December 2022	Stage 1	Stage 2	Stage 3	Total
Individually impaired receivable	-	-	-	-
Receivable - subject to collective impairment	653,797	-	-	653,797
Allowance for expected credit losses (ECL)	(4,872)	-	-	(4,872)
	<b>648,925</b>	-	-	<b>648,925</b>

As at 31 December 2021	Stage 1	Stage 2	Stage 3	Total
Individually impaired receivable	-	-	-	-
Receivable - subject to collective impairment	989,788	-	-	989,788
Allowance for expected credit losses (ECL)	(605)	-	-	(605)
	<b>989,183</b>	-	-	<b>989,183</b>

### (b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2022	605	-	-	605
(Reversal) / charge to income statement [Note 10]	4,267	-	-	4,267
Write off	-	-	-	-
Balance as at 31 December 2022	4,872	-	-	4,872

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	605	-	-	605
(Reversal) / charge to income statement [Note 10]	-	-	-	-
Write off	-	-	-	-
Balance as at 31 December 2021	605	-	-	605

# Notes to the Financial Statements

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

## 22. Loans and advances (Contd.)

### 22.4 Term Loans

	31 December	
	2022	2021
Gross investment in term loans	2,006,415	1,158,428
Term loans in arrears	56,089	41,308
	<b>2,062,504</b>	<b>1,199,736</b>
Unearned loan income	(503,154)	(262,677)
<b>Net investment in term loans</b>	<b>1,559,350</b>	<b>937,059</b>
Less: Provision for impairment		
Stage 1	(18,589)	(9,655)
Stage 2	(33,359)	(515)
Stage 3	(27,650)	(42,088)
<b>Net investment in term loans after impairment</b>	<b>1,479,752</b>	<b>884,801</b>

(a) Analysis of term loan receivable on maximum exposure to credit risk

As at 31 December 2022	Stage 1	Stage 2	Stage 3	Total
Individually impaired loan receivable	-	33,799	19,869	53,668
Loan receivable - subject to collective impairment	1,457,773	25,811	22,098	1,505,682
Allowance for expected credit losses (ECL)	(18,589)	(33,359)	(27,650)	(79,598)
	<b>1,439,184</b>	<b>26,251</b>	<b>14,317</b>	<b>1,479,752</b>

As at 31 December 2021	Stage 1	Stage 2	Stage 3	Total
Individually impaired loan receivable	-	-	46,613	46,613
Loan receivable - subject to collective impairment	870,062	9,686	10,698	890,446
Allowance for expected credit losses (ECL)	(9,655)	(515)	(42,088)	(52,258)
	<b>860,407</b>	<b>9,171</b>	<b>15,223</b>	<b>884,801</b>

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2022	9,655	515	42,088	52,258
(Reversal) / charge to statement of profit or loss and Other [Note 10]	8,934	32,844	3,534	45,312
Write off	-	-	(17,972)	(17,972)
<b>Balance as at 31 December 2022</b>	<b>18,589</b>	<b>33,359</b>	<b>27,650</b>	<b>79,598</b>



# Notes to the Financial Statements

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

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2021	1,310	13,342	37,903	52,555
(Reversal) / charge to statement of profit or loss and other comprehensive income (Note 10)	8,345	(12,827)	4,185	(297)
Write off	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>9,655</b>	<b>515</b>	<b>42,088</b>	<b>52,258</b>

During the year loans and advances written-off amounting to Rs. 24.96Mn, was being subjected to enforcement activities.

## 23. Financial assets fair value through other comprehensive income

	31 December	
	2022	2021
Financial assets at fair value through other comprehensive income (FVOCI)	2,120	2,101
	2,120	2,101

(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.

## 24. Financial investments at amortised cost

	31 December	
	2022	2021
Financial investments at amortised cost	233,829	597,106
Less: allowance for expected credit loss (Note 24.1)	(12,500)	-
<b>Total other assets</b>	<b>221,329</b>	<b>597,106</b>

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

	31 December	
	2022	2021
Balance as at 1 January	-	-
Charge for the year	12,500	-
<b>Balance as at 31 December</b>	<b>12,500</b>	<b>-</b>

## 25. Other assets

	31 December	
	2022	2021
Amounts due from related companies	7,799	5,466
Deposits and prepayments	14,360	13,216
VAT on financial service overpayment	-	5,178
Debit card inventory	10,213	-
Other receivable	14,358	10,121
<b>Total other assets</b>	<b>46,730</b>	<b>33,981</b>

# Notes to the Financial Statements

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

## 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	
	2022	2021
<b>Right-of-use assets</b>		
Buildings	11,102	17,601
	11,102	17,601
<b>Lease liabilities</b>		
Current	8,048	6,908
Non-current	5,785	13,234
	<b>13,833</b>	<b>20,142</b>

### 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	
	2022	2021
Depreciation charge of right-of-use assets (Note 12)	6,499	6,499
Interest expense (Note 13)	1,814	2,441

### 26.3 Amounts presented in the statement of cash flows

	Year ended 31 December	
	2022	2021
Total cash outflow for leases	8,123	7,265

### 26.4 Right-of-use (ROU) assets

	Year ended 31 December	
	2022	2021
At beginning of the year	17,601	24,100
Remeasurement	-	-
Depreciation during the year	(6,499)	(6,499)
<b>At end of the year</b>	<b>11,102</b>	<b>17,601</b>

### 26.5 Lease liabilities

	Year ended 31 December	
	2022	2021
At beginning of the year	20,142	24,966
Payments during the year	(8,123)	(7,265)
Interest for the year	1,814	2,441
<b>At end of the year</b>	<b>13,833</b>	<b>20,142</b>

# 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	Furniture, fittings and other equipment	Computers	Motor vehicles	Total
<b>At 31 December 2022</b>					
Cost	23,835	35,828	85,583	240	145,486
Accumulated depreciation	(8,173)	(19,196)	(63,897)	(240)	(91,506)
<b>Net book amount</b>	<b>15,662</b>	<b>16,632</b>	<b>21,686</b>	<b>-</b>	<b>53,980</b>
<b>Year ended 31 December 2022</b>					
Opening net book amount	15,958	22,500	22,349	-	60,807
Additions	-	194	12,620	-	12,814
Disposals - Cost	-	-	-	-	-
Disposals - Accumulated depreciation	-	-	-	-	-
Depreciation charge	(296)	(6,062)	(13,283)	-	(19,641)
<b>Closing net book amount</b>	<b>15,662</b>	<b>16,632</b>	<b>21,686</b>	<b>-</b>	<b>53,980</b>
<b>At 31 December 2021</b>					
Cost	23,835	35,634	72,963	240	132,672
Accumulated depreciation	(7,877)	(13,134)	(50,614)	(240)	(71,865)
<b>Net book amount</b>	<b>15,958</b>	<b>22,500</b>	<b>22,349</b>	<b>-</b>	<b>60,807</b>
<b>Period ended 31 December 2021</b>					
Opening net book amount	16,488	26,802	34,265	-	77,555
Additions	-	199	3,035	-	3,234
Disposals - Cost	-	-	-	-	-
Disposals - Accumulated depreciation	-	-	-	-	-
Depreciation charge	(530)	(4,501)	(14,951)	-	(19,982)
<b>Closing net book amount</b>	<b>15,958</b>	<b>22,500</b>	<b>22,349</b>	<b>-</b>	<b>60,807</b>

### 27.1 Property, plant and equipment acquired during the financial year

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 12.81 Mn (31 December 2021 – Rs. 3.23Mn).

### 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 2022 is Rs. 22.31 Mn. (31 December 2021 – Rs. 21.20Mn).

### 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 2022	31 Dec 2021
No : 21, Kumara Veediya, within Ward No: 19 of Kandy Municipal Council, Kandy District, Central Province	0A-0R-4.75P	3040	1	8,313	15,522	15,662	15,958

# 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
<b>At 31 December 2022</b>			
Cost	216,913	26,743	243,656
Accumulated amortisation	(70,485)	-	(70,485)
<b>Net book amount</b>	<b>146,428</b>	<b>26,743</b>	<b>173,171</b>
<b>Year ended 31 December 2022</b>			
Opening net book amount	104,625	198	104,823
Additions	61,913	26,545	88,458
Depreciation charge	(20,110)	-	(20,110)
<b>Closing net book amount</b>	<b>146,428</b>	<b>26,743</b>	<b>173,171</b>
<b>At 31 December 2021</b>			
Cost / valuation	155,000	198	155,198
Accumulated depreciation	(50,375)	-	(50,375)
<b>Net book amount</b>	<b>104,625</b>	<b>198</b>	<b>104,823</b>
<b>Period ended 31 December 2021</b>			
Opening net book amount	92,841	6,858	99,699
Additions	21,701	198	21,899
Disposals / Transfers	6,858	(6,858)	-
Depreciation charge	(16,775)	-	(16,775)
<b>Closing net book amount</b>	<b>104,625</b>	<b>198</b>	<b>104,823</b>

### 28.1 Intangible assets acquired during the financial year

During the financial year, the Company acquired intangible assets (computer software) to the aggregate value of Rs. 88.46Mn. (31 December 2021: Rs. 21.90Mn).

### 28.2 Fully amortised intangible assets

Cost of fully depreciated intangible assets, which are still in use as at 31 December 2022 was Rs. 12.63Mn (31 December 2021: Rs. 8.00Mn).

# 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 operation	Total
	Property plant and equipment	Leased assets					
Balance as at 1 January 2022	(7,495)	339	(175)	9,414	1,742	119,568	123,393
Income statement (Note 15.1)	(4,008)	(1,062)	(70)	20,964	896	(16,720)	-
Other comprehensive income	-	-	(3)	-	60	-	57
<b>Balance as at 31 December 2022</b>	<b>(11,503)</b>	<b>(723)</b>	<b>(248)</b>	<b>30,378</b>	<b>2,698</b>	<b>102,848</b>	<b>123,450</b>
Balance as at 1 January 2021	(6,477)	(920)	(175)	6,390	2,359	122,643	123,820
Income statement (Note 15.1)	(1,018)	1,259	-	3,024	(190)	(3,075)	-
Other comprehensive income	-	-	-	-	(427)	-	(427)
<b>Balance as at 31 December 2021</b>	<b>(7,495)</b>	<b>339</b>	<b>(175)</b>	<b>9,414</b>	<b>1,742</b>	<b>119,568</b>	<b>123,393</b>

The total temporary differences of Rs. 428.45Mn arising from tax losses and tax credits has resulted in deferred tax asset amounted to Rs.149.13Mn as at 31 December 2022. 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 2022 has been limited to Rs. 123.45Mn and the unrecognised deferred tax asset as at 31 December 2022 was Rs. 25.68Mn.

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.

## 30. Financial liabilities at amortised cost – due to customers

	31 December	
	2022	2021
Savings deposits	341,645	294,028
Time deposits	3,445,277	1,029,888
	<b>3,786,922</b>	<b>1,323,916</b>

# 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 obligations

(a) The movement in the present value of defined benefit obligation over the year is as follows :

	31 December	
	2022	2021
At 1 January	7,258	8,429
Current service cost	1,958	1,292
Interest expense	770	568
<b>Total amount recognized in profit and loss</b>	<b>2,728</b>	<b>1,860</b>
<b>Amount recognized in other comprehensive income</b>		
Remeasurement (gain) / losses on defined benefit obligations	198	(1,780)
<b>Total amount recognized in other comprehensive income</b>	<b>198</b>	<b>(1,780)</b>
Benefits paid	(1,195)	(1,251)
<b>At 31 December</b>	<b>8,989</b>	<b>7,258</b>

This obligation is not externally funded.

An actuarial valuation of the gratuity fund was carried out as at 31 December 2022 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	
	2022	2021
Discount rate per annum	16.90%	10.61%
Future salary increment rate	17.00%	10.00%
Retirement age (years)	60 years	60 years
Mortality	A 1967/70 Mortality Table	A 1967/70 Mortality Table

Expected average future working life of the active participants is 4.54 years (31 December 2021 – 4.64 years).

### 31.3 The sensitivity of the defined benefit obligation to changes in the principal assumptions is as follows:

	Change in assumption	31 December 2022		31 December 2021	
		Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by 5.12%	Increase by 5.62%	Decrease by 5.14%	Increase by 5.68%
Future salary growth rate	1.00%	Increase by 5.76%	Decrease by 5.33%	Increase by 5.87%	Increase by 5.40%

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.

# Notes to the Financial Statements

(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	
	2022	2021
Within the next 12 months	1,116	965
Between 1-2 years	2,573	2,119
Between 3-5 years	4,024	2,708
Between 6-10 years	9,016	3,810
Beyond 10 years	18,481	5,841
	<b>35,210</b>	<b>15,443</b>
Weighted average duration of defined benefit obligation	6.20 years	5.95 years

## 32. Other liabilities

	31 December	
	2022	2021
Amounts due to related companies (Note 42)	34,265	5,548
Payable to margin trading customers	18,464	49,580
Accrued expenses	62,037	30,019
Vendor & other payables	47,596	27,447
Other liabilities	8,751	20,675
<b>Total other liabilities</b>	<b>171,113</b>	<b>133,269</b>

## 33. Stated capital

	31 December 2022		31 December 2021	
	Number of shares	Amount	Number of shares	Amount
<b>Authorized, Issued and fully paid Ordinary shares</b>				
Ordinary Shares as at 1 January	117,399,866	2,934,582	108,783,362	2,374,509
Right issue (a)	-	-	8,616,504	560,073
<b>Ordinary Shares as at 31 December</b>	<b>117,399,866</b>	<b>2,934,582</b>	<b>117,399,866</b>	<b>2,934,582</b>

33.1 The shares of the Company are quoted on the Colombo Stock Exchange. The holders of ordinary shares are entitled to one vote per share at General Meetings of the Company.

### (a) Rights issue

	Year ended 31 December	
	2022	2021
Total amount raised from the rights issue	-	560,073
Rights issue expenses	-	(1,264)
Net proceeds from the rights issue	-	558,809

# 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) During the previous year, the Company issued 8,616,504 ordinary shares by way of a Rights Issue in the proportion of eight (8) Ordinary Shares for every hundred and one (101) Ordinary shares held in the capital of the Company and shares were listed on 13 October 2021. The Company raised Rs. 560,072,760 from the Rights Issue and increased the Stated Capital of the Company from Rs. 2,374,509,340 representing 108,783,362 shares to Rs. 2,934,582,100 representing 117,399,866 shares.

## 34. Statutory reserve funds

	31 December	
	2022	2021
Balance as at 1 January	11,361	11,361
Transfers during the year	3,355	-
<b>Balance as at 31 December</b>	<b>14,716</b>	<b>11,361</b>

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.

## 35. Other reserves

The movement of the reserves is as follows:

	Fair value through other comprehensive income	(Accumulated losses)	Total
<b>Balance at 1 January 2022</b>	<b>1,580</b>	<b>(410,728)</b>	<b>(409,148)</b>
Profit for the year	-	67,096	67,096
Other comprehensive income, net of tax	16	(138)	(122)
Total comprehensive income for the period	<b>16</b>	<b>66,958</b>	<b>66,974</b>
Rights issue expense	-	-	-
Transferred to retained earnings	-	(3,355)	(3,355)
<b>Balance as at 31 December 2022</b>	<b>1,596</b>	<b>(347,125)</b>	<b>(345,529)</b>
<b>Balance at 1 January 2021</b>	<b>1,577</b>	<b>(333,575)</b>	<b>(331,998)</b>
Loss for the year	-	(77,241)	(77,241)
Other comprehensive income, net of tax	3	1,352	1,355
Total comprehensive income for the period	<b>3</b>	<b>(75,889)</b>	<b>(75,886)</b>
Rights issue expense	-	(1,264)	(1,264)
<b>Balance as at 31 December 2021</b>	<b>1,580</b>	<b>(410,728)</b>	<b>(409,148)</b>

35.1 The changes in fair value of unquoted equity securities are recognised in fair value through other comprehensive income. (Note 23)



# 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	
	2022	2021	2022	2021	2022	2021
<b>As at 31 December</b>						
<b>Financial Assets</b>						
Financial assets at FVTPL	2,866	1,919	-	-	2,866	1,919
Financial assets at FVTOCI	-	-	2,120	2,101	2,120	2,101
	<b>2,866</b>	<b>1,919</b>	<b>2,120</b>	<b>2,101</b>	<b>4,986</b>	<b>4,020</b>

### 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 2022	31 Dec 2021		31 Dec 2022	31 Dec 2021	
Unlisted equity securities	2,120	2,101	Adjusted net assets value per share	2,120	2,101	31 December 2022: increasing / decreasing adjusted net assets per share by 5% would change the fair value by Rs 105,000. 31 December 2021: increasing / decreasing adjusted net assets per share by 5% would change the fair value by Rs 106,000.

# 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 summarises the movement of recurring FV measurement categorised within level 3.

	31 December	
	2022	2021
Amount as at the beginning of the year	2,101	2,098
Total gain / (loss) included under the other comprehensive income	19	3
<b>Amount as at the end of the year</b>	<b>2,120</b>	<b>2,101</b>

### 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	
<b>As at 31 December 2022</b>					
<b>Financial assets</b>					
Financial assets at amortised cost -					
Loans and advances	3,056,448	-	3,056,448	-	3,056,448
Financial investments at amortised cost (Treasury Bills / Bonds)	221,329	-	221,329	-	221,329
<b>Total financial assets</b>	<b>3,277,777</b>	<b>-</b>	<b>3,277,777</b>	<b>-</b>	<b>3,277,777</b>
<b>As at 31 December 2021</b>					
<b>Financial assets</b>					
Financial assets at amortised cost -					
Loans and advances	2,742,531	-	2,742,531	-	2,742,531
Financial investments at amortised cost (Treasury Bills / Bonds)	597,106	-	597,106	-	597,106
<b>Total financial assets</b>	<b>3,339,637</b>	<b>-</b>	<b>3,339,637</b>	<b>-</b>	<b>3,339,637</b>

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 and Treasury Bonds)  
 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	
	2022	2021
<b>Commitments</b>		
<b>Commitment for unutilised facilities</b>		
- Factoring & revolving loans	476,594	345,537
Capital commitments	28,458	33,111
	505,052	378,648
<b>Contingent liabilities</b>		
Guarantees	-	-
<b>Total commitments and contingencies</b>	<b>505,052</b>	<b>378,648</b>

### 37.1 Commitment and contingencies

As at 31 December 2022	On demand	Within 01 year	1 - 5 years	More than 5 years	Total
<b>Commitments</b>					
<b>Commitment for unutilised facilities</b>					
- Factoring & revolving loans	476,594	-	-	-	476,594
Capital commitments	-	28,458	-	-	28,458
	476,594	28,458	-	-	505,052
<b>Contingent liabilities</b>					
Guarantees	-	-	-	-	-
<b>Total commitments and contingencies</b>	<b>476,594</b>	<b>28,458</b>	<b>-</b>	<b>-</b>	<b>505,052</b>

As at 31 December 2021	On demand	Within 01 year	1 - 5 years	More than 5 years	Total
<b>Commitments</b>					
<b>Commitment for unutilised facilities</b>					
- Factoring & revolving loans	345,537	-	-	-	345,537
Capital commitments	-	33,111	-	-	33,111
	345,537	33,111	-	-	378,648
<b>Contingent liabilities</b>					
Guarantees	-	-	-	-	-
<b>Total commitments and contingencies</b>	<b>345,537</b>	<b>33,111</b>	<b>-</b>	<b>-</b>	<b>378,648</b>

### 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 2022 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)*

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## 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. Unusual events or transactions affecting assets, liabilities, equity, net income or cash flows

### Implications of acute economic crisis

Sri Lanka is engulfed in an economic and political crisis resulting from the impacts of COVID-19, significant tax cuts and large sovereign debt repayments collectively depleting the country's limited foreign reserves. As a policy response, The Central Bank of Sri Lanka increased the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 700 basis points to 13.50 per cent and 14.50 per cent, respectively, effective from 08 April 2022 to arrest the inflationary pressures in the economy, to stabilise the exchange rate and also to correct anomalies observed in the market interest rate structure. After considering the current and expected macroeconomic developments both globally and domestically, The Central Bank of Sri Lanka further increased the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 100 basis points to 14.50 per cent and 15.50 per cent, respectively, effective from 06 July 2022.

The current situation has caused a significant rise in inflation, prolonged power cuts and a shortage of essential supplies including fuel and medicine resulting in significant challenges in business operations. The future impact will heavily depend on the time taken for the economy to rebound. The overall impact on the economy, consumer spending and the recovery of the country's enterprises will also be key determinants of future impact on our business. The board continues to monitor the potential implications of these factors on the Company's business activities and takes the required proactive steps. Furthermore, accounting assumptions and estimates used in the preparation of financial statements have been carefully evaluated given the movements in macroeconomic variables. Necessary changes have been incorporated where applicable, and further changes will be incorporated appropriately based on these evaluations.

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 period ended 31 December 2022.

## 40. Comparative information

The comparative information is reclassified wherever necessary to conform to the current period's presentation.

## 41. Related party transactions

The Company carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with the parties who are defined as Related Parties as per the LKAS 24. 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".

### 41.1 Parent and ultimate parent

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.

### 41.2 Transactions with key Management Personnel

According to Sri Lanka Accounting Standard-LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all of the three activities mentioned in the above definition (i.e. planning, directing and controlling the activities of the entity). Such KMPs include the Board of Directors of the Company.

# Notes to the Financial Statements

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

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

	31 December	
	2022	2021
<b>Statement of Financial Position</b>		
<b>Assets</b>		
Financial assets at amortised cost - Loans and advances	-	-
<b>Liabilities</b>		
Financial liabilities at amortised cost - Due to depositors	93,059	39,105
<b>Net accommodation as a % of Company's regulatory capital</b>		
Direct accommodation	0.0%	0.0%

	Year ended 31 December	
	2022	2021
<b>Statement of Profit or Loss</b>		
<b>Expenses</b>		
Directors' fees and short-term employee benefits	7,119	3,735
Interest expense	13,273	859

## 41.3 Transactions with related companies

### (a) Transactions with the Parent Company

	31 December	
	2022	2021
<b>Statement of Financial Position</b>		
<b>Assets</b>		
Cash in eZ cash wallet	5,096	1,988
Other assets	7,499	3,152
<b>Liabilities</b>		
Financial liabilities at amortised cost - Due to depositors	616,910	587,413
Other liabilities	4,511	238
<b>Issues of shares</b>		
Proceed of right issues of shares	-	549,487

# 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 related companies (Contd.)

#### (a) Transactions with the Parent Company (Contd.)

	Year ended 31 December	
	2022	2021
<b>Statement of Profit or Loss</b>		
<b>Income</b>		
Interest & Fee income	1,902	1,693
<b>Expenses</b>		
Interest expense	53,106	21,339
Hosting fee	953	-
Telecommunication Services	1,109	648

#### (b) Transactions with the Affiliates

	31 December	
	2022	2021
<b>Statement of Financial Position</b>		
<b>Assets</b>		
Financial assets at amortised cost - Loans and advances	-	7,785
Other assets	300	2,313
<b>Liabilities</b>		
Financial liabilities at amortised cost - Due to depositors	2,231,009	311
Other liabilities	29,754	5,310
<b>Net accommodation as a % of Company's regulatory capital</b>		
Direct accommodation	0.0%	0.3%

	Year ended 31 December	
	2022	2021
<b>Statement of Profit or Loss</b>		
<b>Income</b>		
Interest & Fee income	321	4,475
Lease rental	276	-
<b>Expenses</b>		
Interest expense	227,009	163
Telecommunication Services	44,521	40,409

# Notes to the Financial Statements

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

## 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.

#### (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 such as Asset and Liability Management Committee (ALCO) and Credit Committee.
- 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. Investment related risks are also reviewed. Significant decisions made by ALCO is updated to the BIRMC and to the Board of Directors on a quarterly basis.

Further, Credit Committee decisions and credit related risks are also updated to BIRMC 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.

# Notes to the Financial Statements

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

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## 42. Risk management (Contd.)

### 42.1 Introduction (Contd.)

#### (a) Risk Governance (Contd.)

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

BIRMC, ALCO, Head of Risk and Compliance and Head of Legal and Regulatory will develop, implement & monitor effective Enterprise Risk Management Framework to ensure risks are within the risk appetite of the company.

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.

##### (iii) 3rd Line of Defence

Oversight by Internal Audit and Board Audit Committee.

Based on the above the Company is exposed to Credit Risk, Market Risk- Interest Rate Risk, Liquidity Risk, Regulatory & 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 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 behavioral 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.



# Notes to the Financial Statements

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

## **(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. 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 unlikelihood to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal assessment of the borrower indicating default 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 decreases in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decreases 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 evidence.

# 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 2022				At 31 December 2021					
		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	170,440	-	-	170,440	-	-	136,261	136,261	2.68%	3.62%
Placements with banks	19	2,428,679	-	-	2,428,679	-	-	-	-	38.17%	0.00%
Securities purchased under repurchase agreements	20	296,315	-	-	194,641	-	-	77,722	77,722	5.17%	2.64%
Financial assets at fair value through profit or loss	21	2,866	-	-	2,866	-	-	1,919	1,919	0.05%	0.05%
Lease/hire purchase receivable	22.1	176,058	172,207	2,547	350,812	2,547	14,125	13,156	171,494	5.51%	4.56%
Factoring & revolving loans	22.2	610,598	3,285	3,762	617,645	3,762	162	4,921	727,724	9.71%	19.34%
Margin trading receivable	22.3	653,797	-	-	653,797	-	-	989,788	989,788	10.28%	26.30%
Term loans	22.4	916,556	589,126	53,668	1,559,350	53,668	281,221	615,743	937,059	24.51%	24.90%
Financial assets at fair value through other comprehensive income	23	2,120	-	-	2,120	-	-	2,101	2,101	0.03%	0.06%
Financial investment at amortised cost	24	233,829	-	-	597,106	-	-	2,186	2,186	15.87%	0.07%
Other financial assets		46,730	-	-	46,730	-	-	5,466	5,466	0.73%	0.15%
<b>Total</b>		<b>5,537,988</b>	<b>764,618</b>	<b>59,977</b>	<b>6,362,583</b>	<b>59,977</b>	<b>295,508</b>	<b>3,409,879</b>	<b>3,763,559</b>	<b>100.00%</b>	<b>100.00%</b>

## Notes to the Financial Statements

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

(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.

	31 December 2022					31 December 2021				
	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/hire purchase receivable	111,074	53,352	6,527	1,254	172,207	12	8,446	70	5,597	14,125
Factoring & revolving loans	-	3,285	-	-	3,285	154	8	-	-	162
Margin trading receivable	-	-	-	-	-	-	-	-	-	-
Term loans	541,216	16,087	9,725	22,098	589,126	263,984	8,443	1,242	7,552	281,221
<b>Total</b>	<b>652,290</b>	<b>72,724</b>	<b>16,252</b>	<b>23,352</b>	<b>764,618</b>	<b>264,150</b>	<b>16,897</b>	<b>1,312</b>	<b>13,149</b>	<b>295,508</b>

(c) Maximum exposure to credit risk

	At 31 December 2022		At 31 December 2021	
	Maximum exposure to credit risk	Net exposure	Maximum exposure to credit risk	Net exposure
<b>Financial assets</b>				
Cash and bank balances	170,440	170,399	136,261	136,222
Placements with banks	2,428,679	2,427,981	-	-
Securities purchased under repurchase agreements	296,315	288,795	194,641	194,641
Financial assets at fair value through profit or loss	2,866	2,866	1,919	1,919
Lease/hire purchase receivable	350,812	322,924	171,494	154,464
Factoring & revolving loans	617,645	604,847	727,724	714,083
Margin trading receivable	653,797	648,925	989,788	989,183
Term loans	1,559,350	1,479,752	937,059	884,801
Financial assets at fair value through other comprehensive income	2,120	2,120	2,101	2,101
Financial investment at amortised cost	233,829	221,329	597,106	597,106
Other financial assets	46,730	46,730	5,466	5,466
<b>Total financial assets</b>	<b>6,362,583</b>	<b>6,216,668</b>	<b>3,763,559</b>	<b>3,679,986</b>

99.96% of loans and advances are secured against securities including immovable property, movable property, deposits held within the Company and other securities as at end of 31 December 2022.

(31 December 2021 – 100%)

(d) Collateral and other credit enhancements – Stage 3 Loans and advances

	31 December 2022				31 December 2021			
	Vehicles	Land Security	Other Security	Total	Vehicles	Land Security	Other Security	Total
Lease/hire purchase receivable	3,801	-	-	3,801	19,009	-	-	19,009
Margin trading receivable	1,923	-	1,839	3,762	1,923	-	6,692	8,615
Term loans	1,464	5,604	34,899	41,967	2,165	9,319	45,827	57,311
<b>Total</b>	<b>7,188</b>	<b>5,604</b>	<b>36,738</b>	<b>49,530</b>	<b>23,097</b>	<b>9,319</b>	<b>52,519</b>	<b>84,935</b>

# 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

The following table shows the risk concentration by sector for the financial assets components of the statement of financial position.

As at 31 December 2022	Manu- facturing	Tourism	Agric- culture	Trade	Con- struc- tion	Transport	Services	Gover- nment	Financial Institutions	Con- sumption	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	170,399	-	-	170,399
Placements with banks	-	-	-	-	-	-	-	-	2,427,981	-	-	2,427,981
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	-	288,795	-	-	288,795
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	2,866	2,866
Lease/hire purchase receivable	66,950	-	-	89,028	8,898	3,489	34,207	-	8,993	111,359	-	322,924
Factoring & revolving loans	3,039	-	-	324,464	129,711	72,178	75,455	-	648,925	-	-	604,847
Margin trading receivables	-	-	-	-	-	-	-	-	-	-	-	648,925
Term loans	3,321	-	32,706	255,450	5,682	10,133	553,379	-	41,359	577,722	-	1,479,752
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	2,120	2,120
Financial investments at amortised cost	-	-	-	-	-	-	-	221,329	-	-	-	221,329
Other financial assets	-	-	-	-	-	-	-	-	-	-	46,730	46,730
<b>Total financial assets</b>	<b>73,310</b>	<b>-</b>	<b>32,706</b>	<b>668,942</b>	<b>144,291</b>	<b>85,800</b>	<b>663,041</b>	<b>221,329</b>	<b>3,586,452</b>	<b>689,081</b>	<b>51,716</b>	<b>6,216,668</b>

# Notes to the Financial Statements

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

As at 31 December 2021	Manu- facturing	Tourism	Agri- culture	Trade	Con- struction	Transport	Services	Gover- nment	Financial Institutions	Con- sumption	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	136,222	-	-	136,222
Placements with banks	-	-	-	-	-	-	-	-	-	-	-	-
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	-	194,641	-	-	194,641
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	1,919	1,919
Lease/hire purchase receivable	12,177	-	-	34,915	15,056	3,387	10,270	-	10,959	67,700	-	154,464
Factoring & revolving loans	5,508	-	-	315,170	260,944	26,554	88,644	-	11,347	5,916	-	714,083
Margin trading receivables	-	-	-	-	-	-	-	-	989,183	-	-	989,183
Term loans	1,732	-	-	118,745	41,784	-	413,429	-	13,692	295,419	-	884,801
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	2,101	2,101
Financial investments at amortised cost	-	-	-	-	-	-	-	597,106	-	-	-	597,106
Other financial assets	-	-	-	-	-	-	-	-	-	-	5,466	5,466
<b>Total financial assets</b>	<b>19,417</b>	<b>-</b>	<b>-</b>	<b>468,830</b>	<b>317,784</b>	<b>29,941</b>	<b>512,343</b>	<b>597,106</b>	<b>1,356,044</b>	<b>369,035</b>	<b>9,486</b>	<b>3,679,986</b>

## 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 organisation.

### (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)

## 42. Risk management (Contd.)

### 42.3 Market Risk (Contd.)

#### (a) Interest Rate Risk (IRR) (Contd.)

##### 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 2022	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
<b>Financial assets</b>							
Cash and cash equivalents	170,399	-	-	-	-	-	170,399
Placements with financial institution	2,427,981	-	-	-	-	-	2,427,981
Securities purchased under repurchase agreements	288,795	-	-	-	-	-	288,795
Financial assets at fair value through profit or loss	-	-	-	-	-	2,866	2,866
Lease/hire purchase receivable	44,719	77,050	134,203	66,952	-	-	322,924
Factoring & revolving loans	171,452	433,395	-	-	-	-	604,847
Margin trading receivables	648,925	-	-	-	-	-	648,925
Term loans	270,251	309,638	602,213	297,650	-	-	1,479,752
Equity instruments at fair value through other comprehensive Income	-	-	-	-	-	2,120	2,120
Financial investments at amortised cost	221,329	-	-	-	-	-	221,329
Other financial assets	-	-	-	-	-	46,730	46,730
<b>Total financial assets</b>	<b>4,243,851</b>	<b>820,083</b>	<b>736,416</b>	<b>364,602</b>	<b>-</b>	<b>51,716</b>	<b>6,216,668</b>
<b>Financial liabilities</b>							
Financial liabilities at amortised cost – due to customers	3,227,715	538,597	11,700	8,910	-	-	3,786,922
Lease liabilities	2,387	5,661	5,785	-	-	-	13,833
Other financial liabilities	-	-	-	-	-	171,113	171,113
<b>Total financial liabilities</b>	<b>3,230,102</b>	<b>544,258</b>	<b>17,485</b>	<b>8,910</b>	<b>-</b>	<b>171,113</b>	<b>3,971,868</b>
<b>Interest sensitivity gap</b>	<b>1,013,749</b>	<b>275,825</b>	<b>718,931</b>	<b>355,692</b>	<b>-</b>	<b>(119,397)</b>	<b>2,244,800</b>

# Notes to the Financial Statements

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

As at 31 December 2021	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
<b>Financial assets</b>							
Cash and cash equivalents	136,222	-	-	-	-	-	136,222
Placements with financial institution	-	-	-	-	-	-	-
Securities purchased under repurchase agreements	194,641	-	-	-	-	-	194,641
Financial assets at fair value through profit or loss	-	-	-	-	-	1,919	1,919
Lease/hire purchase receivable	19,944	31,435	54,787	48,298	-	-	154,464
Factoring & revolving loans	456,731	257,352	-	-	-	-	714,083
Margin trading receivables	989,183	-	-	-	-	-	989,183
Term loans	101,151	158,378	378,288	241,748	5,236	-	884,801
Equity instruments at fair value through other comprehensive Income	-	-	-	-	-	2,101	2,101
Financial investments at amortised cost	597,106	-	-	-	-	-	597,106
Other financial assets	-	-	-	-	-	5,466	5,466
<b>Total financial assets</b>	<b>2,494,978</b>	<b>447,165</b>	<b>433,075</b>	<b>290,046</b>	<b>5,236</b>	<b>9,486</b>	<b>3,679,986</b>
<b>Financial liabilities</b>							
Financial liabilities at amortised cost – due to customers	1,024,541	274,724	24,451	200	-	-	1,323,916
Lease liabilities	2,090	4,818	13,234	-	-	-	20,142
Other liabilities	-	-	-	-	-	133,269	133,269
<b>Total financial liabilities</b>	<b>1,026,631</b>	<b>279,542</b>	<b>37,685</b>	<b>200</b>	<b>-</b>	<b>133,269</b>	<b>1,477,327</b>
<b>Interest sensitivity gap</b>	<b>1,468,347</b>	<b>167,623</b>	<b>395,390</b>	<b>289,846</b>	<b>5,236</b>	<b>(123,783)</b>	<b>2,202,659</b>

## ii. Interest Rate Risk Exposure on Non-Trading Financial Assets & Liabilities

The table below analyses the sensitivity of the Company's Income Statement (net impact) due to change in interest rates by 100 bps on interest bearing non trading financial assets and liabilities with all other variables held constant as at the reporting date.

The impact of changes in interest rates on NII is measured applying interest rate shocks on static balance sheet. In line with the industry practices, interest rate shocks of 100 bps is applied on Rs. denominated assets and liabilities. The potential impact on the Company's profitability due to changes in interest rates is evaluated to ensure that the volatilities are prudently managed within the internal tolerance limits.

	2022		2021	
	Interest rate increase	Interest rate decrease	Interest rate increase	Interest rate decrease
<b>Impact on Net Interest Income</b>				
Average for the period	24,680	(24,680)	19,280	(19,280)

## (b) Equity Price risk

Equity price risk arises as a result of any change in market prices and volatilities of individual equities. The Company conducts mark-to-market calculations on a daily, monthly and on a need basis to identify the impact due to changes in equity prices. The table below summarises the impact (both to Income Statement and to equity) due to a change of 10% on equity prices.

# 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.)

#### (b) Equity Price risk (Contd.)

Year ended 31 December	2022	2021
	Financial assets recognised through profit or loss	Financial assets recognised through profit or loss
Market value of equity securities	2,866	1,919
<b>Stress Level</b>	<b>Impact</b>	<b>Impact</b>
Shock of 10% on equity prices (upward)	287	192
Shock of 10% on equity prices (downward)	(287)	(192)

### 42.4 Liquidity risk

The Risk of an organisation not having funds to meet its payment obligations is defined as Liquidity Risk. The company has maintained sufficient levels of liquidity 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.

#### 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 implemented the Asset and Liability Management (ALM) policy, 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 Liquid Asset

Liquid asset calculation is performed based on the following calculations as prescribed in the sections 2, 3 and 4 of the Finance Companies (liquid assets) Direction No.04 of 2013.

#### Liquid assets requirement

Every finance company shall maintain a minimum holding of 15% of savings deposit liabilities, 10% of non-transferable certificates and time deposit liabilities and 5.0% of borrowings at the close of the business on any day. (as per the section 2 and 3 of the said direction).



# Notes to the Financial Statements

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

## Sri Lanka Government Treasury Bills, Sri Lanka Government Securities and the Central Bank of Sri Lanka Securities requirement

Every finance company shall maintain a minimum holding of 7.5% of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per the section 4 of the said direction). Liquid assets are maintained in the form of Sri Lanka Government Treasury Bills, Sri Lanka Government Securities and the Central Bank of Sri Lanka Securities which constitutes a part of a liquid asset requirement defined above as per the section 2 and 3 of the said direction.

The Company maintained statutory liquid assets above the level prescribed by the Central Bank of Sri Lanka throughout the year.

	31 December 2022		31 December 2021	
	Actual	CBSL minimum requirement	Actual	CBSL minimum requirement
Total liquid assets	3,068,055	395,858	969,040	147,046
Approved government securities	535,348	85,427	797,139	71,618

## 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 2022.

The table below analyses the company's internal interest rate risk exposure on non-trading financial assets & liabilities. The company's assets & liabilities are included at carrying amount and categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2022	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
<b>Financial assets</b>						
Cash and cash equivalents	170,440	-	-	-	-	170,440
Placements with financial institutions	2,427,981	-	-	-	-	2,427,981
Securities purchased under repurchase agreements	296,315	-	-	-	-	296,315
Financial assets at fair value through profit or loss	2,866	-	-	-	-	2,866
Lease/hire purchase receivable	62,511	112,201	188,154	97,988	-	460,854
Factoring & revolving loans	177,685	439,960	-	-	-	617,645
Margin trading receivables	653,797	-	-	-	-	989,788
Term loans	354,948	471,717	839,143	396,696	-	2,062,504
Financial assets at fair value through OCI	-	-	-	-	2,120	2,120
Financial investments at amortised cost	233,829	-	-	-	-	233,829
Other financial assets	38,932	7,798	-	-	-	46,730
<b>Total financial assets</b>	<b>4,419,304</b>	<b>1,031,676</b>	<b>1,027,297</b>	<b>494,684</b>	<b>2,120</b>	<b>6,975,081</b>
<b>Financial liabilities</b>						
Financial liabilities at amortised cost – due to depositors	3,307,819	600,532	14,352	16,486	-	3,939,189
Lease liabilities	2,729	6,389	6,035	-	-	15,153
Other liabilities	136,848	34,265	-	-	-	171,113
<b>Total financial liabilities</b>	<b>3,447,396</b>	<b>641,186</b>	<b>20,387</b>	<b>16,486</b>	<b>-</b>	<b>4,125,455</b>
<b>Net financial assets / liabilities</b>	<b>971,908</b>	<b>390,490</b>	<b>1,006,910</b>	<b>478,198</b>	<b>2,120</b>	<b>2,849,626</b>

# Notes to the Financial Statements

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

## 42. Risk Management (Contd.)

### 42.4.2 Contractual maturities of undiscounted cash flows of financial assets and financial liabilities (Contd.)

As at 31 December 2021	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
<b>Financial assets</b>						
Cash and cash equivalents	136,261	-	-	-	-	136,261
Placements with financial institutions	-	-	-	-	-	-
Securities purchased under repurchase agreements	194,641	-	-	-	-	194,641
Financial assets at fair value through profit or loss	1,919	-	-	-	-	1,919
Lease/hire purchase receivable	27,045	47,383	81,196	59,961	-	215,585
Factoring & revolving loans	465,481	262,243	-	-	-	727,724
Margin trading receivables	989,788	-	-	-	-	989,788
Term loans	135,988	243,252	525,902	288,926	5,668	1,199,736
Financial assets at fair value through other comprehensive income	-	-	-	-	2,101	2,101
Financial investments at amortised cost	597,106	-	-	-	-	597,106
Other financial assets	-	5,466	-	-	-	5,466
<b>Total financial assets</b>	<b>2,548,229</b>	<b>558,344</b>	<b>607,098</b>	<b>348,887</b>	<b>7,769</b>	<b>4,070,327</b>
<b>Financial liabilities</b>						
Financial liabilities at amortised cost – due to depositors	1,026,568	287,123	29,218	260	-	1,343,169
Lease liabilities	2,605	6,117	14,554	-	-	23,276
Other liabilities	107,068	26,201	-	-	-	133,269
<b>Total financial liabilities</b>	<b>1,136,241</b>	<b>319,441</b>	<b>43,772</b>	<b>260</b>	<b>-</b>	<b>1,499,714</b>
<b>Net financial assets / liabilities</b>	<b>1,411,988</b>	<b>238,903</b>	<b>563,326</b>	<b>348,627</b>	<b>7,769</b>	<b>2,570,613</b>

## 43. Capital management

The primary objective of the Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and maintains healthy capital ratios in order to support its business and to maximize shareholders' value. The Company is required to maintain minimum capital requirements as per the guidelines issued by the Central Bank of Sri Lanka (CBSL).

The Company maintained capital and reserves of Rs. 2,603,769,487 as at 31 December 2022 which was above the minimum capital requirement of Rs. 2,500,000,000 as at that date.

Further, the Tier I capital adequacy ratio (CAR) and total CAR of the Company recorded at 46.36% as at 31 December 2022, which were well above the CBSL's prescribed minimum thresholds. The Company is required to maintain Tier I CAR at 8.5% and total CAR at 12.5%.

# 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 2022	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
<b>Assets</b>						
Cash and cash equivalents	170,399	-	-	-	-	170,399
Placements with financial institutions	2,427,981	-	-	-	-	2,427,981
Securities purchased under repurchase agreements	288,795	-	-	-	-	288,795
Financial assets at fair value through profit or loss	2,866	-	-	-	-	2,866
Lease/hire purchase receivable	44,719	77,050	134,203	66,952	-	322,924
Factoring & revolving loans	171,452	433,395	-	-	-	604,847
Margin trading receivables	648,925	-	-	-	-	648,925
Term loans	270,251	309,638	602,213	297,650	-	1,479,752
Financial asset at fair value through other comprehensive income	-	-	-	-	2,120	2,120
Financial investments at amortised cost	221,329	-	-	-	-	221,329
Other assets	38,932	7,798	-	-	-	46,730
Income tax receivable	6,255	-	-	-	-	6,255
Right-of-use assets	-	-	-	11,102	-	11,102
Property, plant and equipment	-	-	-	21,686	32,294	53,980
Intangible assets	-	-	-	-	173,171	173,171
Deferred tax assets	-	-	123,450	-	-	123,450
<b>Total assets</b>	<b>4,291,904</b>	<b>827,881</b>	<b>859,866</b>	<b>397,390</b>	<b>207,585</b>	<b>6,584,626</b>
<b>Liabilities</b>						
Financial liabilities at amortised cost						
Financial liabilities at amortised cost—due to customers	3,227,715	538,597	11,700	8,910	-	3,786,922
Retirement benefit obligations	-	-	-	-	8,989	8,989
Lease liabilities	2,387	5,661	5,785	-	-	13,833
Other liabilities	136,848	34,265	-	-	-	171,113
<b>Total liabilities</b>	<b>3,366,950</b>	<b>578,523</b>	<b>17,485</b>	<b>8,910</b>	<b>8,989</b>	<b>3,980,857</b>
<b>Equity</b>						
Stated capital	-	-	-	-	2,934,582	2,934,582
Statutory reserve fund	-	-	-	-	14,716	14,716
Fair value through other comprehensive income	-	-	-	-	1,596	1,596
Retained earnings	-	-	-	-	(347,125)	(347,125)
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,603,769</b>	<b>2,603,769</b>
<b>Total liabilities and equity</b>	<b>3,366,950</b>	<b>578,523</b>	<b>17,485</b>	<b>8,910</b>	<b>2,612,758</b>	<b>6,584,626</b>

# 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 2021	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
<b>Assets</b>						
Cash and cash equivalents	136,222	-	-	-	-	136,222
Placements with financial institutions	-	-	-	-	-	-
Securities purchased under repurchase agreements	194,641	-	-	-	-	194,641
Financial assets at fair value through profit or loss	1,919	-	-	-	-	1,919
Lease/hire purchase receivable	19,944	31,435	54,787	48,298	-	154,464
Factoring & revolving loans	456,731	257,352	-	-	-	714,083
Margin trading receivables	989,183	-	-	-	-	989,183
Term loans	101,151	158,378	378,288	241,748	5,236	884,801
Financial asset at fair value through other comprehensive income	-	-	-	-	2,101	2,101
Financial investments at amortised cost	597,106	-	-	-	-	597,106
Other assets	28,516	5,466	-	-	-	33,981
Income tax receivable	6,255	-	-	-	-	6,255
Right-of-use assets	-	-	-	17,601	-	17,601
Property, plant and equipment	-	-	-	22,349	38,458	60,807
Intangible assets	-	-	-	-	104,823	104,823
Deferred tax assets	-	-	123,393	-	-	123,393
<b>Total assets</b>	<b>2,531,668</b>	<b>452,631</b>	<b>556,468</b>	<b>329,996</b>	<b>150,618</b>	<b>4,021,380</b>
<b>Liabilities</b>						
Financial liabilities at amortised cost—due to customers	1,024,541	274,724	24,451	200	-	1,323,916
Retirement benefit obligations	-	-	-	-	7,258	7,258
Lease liabilities	2,090	4,818	13,234	-	-	20,142
Other liabilities	107,068	26,201	-	-	-	133,269
<b>Total liabilities</b>	<b>1,133,699</b>	<b>305,743</b>	<b>37,685</b>	<b>200</b>	<b>7,258</b>	<b>1,484,585</b>
<b>Equity</b>						
Stated capital	-	-	-	-	2,934,582	2,934,582
Statutory reserve fund	-	-	-	-	11,361	11,361
Fair value through other comprehensive income	-	-	-	-	1,580	1,580
Retained earnings	-	-	-	-	(410,728)	(410,728)
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,536,795</b>	<b>2,536,795</b>
<b>Total liabilities and equity</b>	<b>1,133,699</b>	<b>305,743</b>	<b>37,685</b>	<b>200</b>	<b>2,544,053</b>	<b>4,021,380</b>

# 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 ended 31 Dec	Leasing and Hire purchase		Factoring & revolving loans		Margin Trading		Term loans		Treasury/ investments		Unallocated		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Interest income	46,363	10,654	123,861	48,895	156,879	50,767	191,919	82,090	465,831	68,661	-	-	984,853	261,067
Interest Expenses	(13,063)	(1,597)	(18,821)	(6,708)	(25,170)	(8,109)	(44,464)	(13,934)	(258,008)	(26,281)	-	-	(359,526)	(56,629)
<b>Net interest income</b>	<b>33,300</b>	<b>9,057</b>	<b>105,040</b>	<b>42,187</b>	<b>131,709</b>	<b>42,658</b>	<b>147,455</b>	<b>68,156</b>	<b>207,823</b>	<b>42,380</b>	-	-	<b>625,327</b>	<b>204,438</b>
Net fees and commission income / (expense)	362	243	929	2,231	-	-	7,285	2,263	-	-	-	6,540	477	15,116
Net other income	631	594	-	-	-	-	6,860	1,515	947	646	-	18,699	1,392	27,137
<b>Operating income by segment</b>	<b>34,293</b>	<b>9,894</b>	<b>105,969</b>	<b>44,418</b>	<b>131,709</b>	<b>42,658</b>	<b>161,600</b>	<b>71,934</b>	<b>208,770</b>	<b>43,026</b>	-	<b>25,239</b>	<b>1,869</b>	<b>667,580</b>
<b>Total Operating Income</b>	<b>34,293</b>	<b>9,894</b>	<b>105,969</b>	<b>44,418</b>	<b>131,709</b>	<b>42,658</b>	<b>161,600</b>	<b>71,934</b>	<b>208,770</b>	<b>43,026</b>	-	<b>25,239</b>	<b>1,869</b>	<b>667,580</b>
Impairment (expense) / reversal	(15,428)	(5,308)	843	(5,555)	(4,267)	-	(45,313)	297	(20,719)	319	-	-	(84,884)	(10,247)
<b>Net operating income / (expense)</b>	<b>18,865</b>	<b>4,586</b>	<b>106,812</b>	<b>38,863</b>	<b>127,442</b>	<b>42,658</b>	<b>116,287</b>	<b>72,231</b>	<b>188,051</b>	<b>43,345</b>	-	<b>25,239</b>	<b>1,869</b>	<b>582,696</b>
Operating expenses	(24,152)	(6,021)	(39,917)	(24,523)	(54,173)	(29,904)	(94,486)	(49,081)	-	-	-	-	(212,728)	(109,529)
Depreciation and amortisation	(5,251)	(2,378)	(8,679)	(9,685)	(11,778)	(11,810)	(20,543)	(19,383)	-	-	-	-	(46,251)	(43,256)
<b>Segment result</b>	<b>(10,538)</b>	<b>(3,813)</b>	<b>58,216</b>	<b>4,655</b>	<b>61,491</b>	<b>944</b>	<b>1,258</b>	<b>3,767</b>	<b>188,051</b>	<b>43,345</b>	-	<b>25,239</b>	<b>1,869</b>	<b>323,717</b>
Personnel expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	(208,444)
<b>Profit / (loss) from operations</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>115,273</b>
VAT on financial services	-	-	-	-	-	-	-	-	-	-	-	-	-	(48,177)
Income tax reversal / (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Profit / (loss) for the period</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>67,096</b>
<b>Other information</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>(77,241)</b>
<b>Balance at 31 Dec</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Segment assets	322,924	154,464	604,847	714,083	648,925	989,183	1,479,752	884,801	3,108,504	931,988	419,675	346,861	6,584,626	4,021,380
<b>Total assets</b>	<b>322,924</b>	<b>154,464</b>	<b>604,847</b>	<b>714,083</b>	<b>648,925</b>	<b>989,183</b>	<b>1,479,752</b>	<b>884,801</b>	<b>3,108,504</b>	<b>931,988</b>	<b>419,675</b>	<b>346,861</b>	<b>6,584,626</b>	<b>4,021,380</b>
Segment liabilities	451,970	81,611	746,958	332,394	1,013,762	405,325	1,768,167	665,255	-	-	-	-	3,980,857	1,484,585
<b>Total liabilities</b>	<b>451,970</b>	<b>81,611</b>	<b>746,958</b>	<b>332,394</b>	<b>1,013,762</b>	<b>405,325</b>	<b>1,768,167</b>	<b>665,255</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,980,857</b>	<b>1,484,585</b>

# Five Year Summary

## Income Statements

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020	9 months ended 31 December 2019	Year ended 31 March 2019
Interest income	984,853	261,067	214,700	198,179	231,115
Interest expense	(359,526)	(56,629)	(67,090)	(48,102)	(86,676)
Net interest income	625,327	204,438	147,610	150,077	144,439
Other income	42,253	9,361	21,090	69,912	99,473
Total operating income	667,580	213,799	168,700	219,989	243,912
Impairment charges and other losses	(84,884)	(10,247)	(63,339)	(105,901)	(133,136)
Net operating income	582,696	203,552	105,361	114,088	110,776
Operating expenses	(467,423)	(276,104)	(291,660)	(257,864)	(238,948)
Operating profit	115,273	(72,552)	(186,299)	(143,776)	(128,172)
Taxes on financial service	(48,177)	(4,689)	-	-	(823)
Profit / (loss) before tax	67,096	(77,241)	(186,299)	(143,776)	(128,995)
Income tax reversal / (expense)	-	-	86,780	110	(415)
<b>Profit / (loss) after tax</b>	<b>67,096</b>	<b>(77,241)</b>	<b>(99,519)</b>	<b>(143,666)</b>	<b>(129,410)</b>

## Statements of Financial Position

	31 December 2022	31 December 2021	31 December 2020	31 December 2019	31 March 2019
<b>Assets</b>					
Cash and cash equivalents and short-term funds	2,887,175	330,863	1,889,246	853,000	272,559
Financial assets at amortised cost-loan and advances	3,056,448	2,742,531	806,332	1,023,629	991,417
Financial investment at a mortised cost	221,329	597,106	2,186	2,085	66,368
Property, plant and equipment and intangible assets	227,151	165,630	177,254	171,017	154,135
Other assets	192,523	185,250	352,204	334,351	136,989
<b>Total assets</b>	<b>6,584,626</b>	<b>4,021,380</b>	<b>3,227,222</b>	<b>2,384,082</b>	<b>1,621,468</b>
<b>Liabilities and shareholders' funds</b>					
Financial liabilities at amortised cost - due to customers	3,786,922	1,323,916	1,064,175	818,869	632,209
Other liabilities	193,935	160,669	109,175	111,551	155,711
Shareholders' funds	2,603,769	2,536,795	2,053,872	1,453,662	833,548
<b>Total liabilities and shareholders' funds</b>	<b>6,584,626</b>	<b>4,021,380</b>	<b>3,227,222</b>	<b>2,384,082</b>	<b>1,621,468</b>
<b>Ratios</b>					
Return on average assets	1.03%	-2.24%	-6.44%	-9.00%	-9.00%
Return on equity	2.61%	-3.52%	-4.83%	-14.40%	-20.80%
Net interest margin	10.99%	7.31%	5.33%	8.70%	9.80%
Profit / (loss) per share (Rs.)	0.57	(0.70)	(0.98)	(1.61)	(1.97)
Net asset per share (Rs.)	22.18	21.61	18.88	15.92	11.54

# Share Information

## Information on Ordinary Shares of the Company

Market price per share

For the year ended 31 December	2022 Rs.	2021 Rs.
Highest price	119.00	122.75
Lowest price	45.50	50.00
Last traded price	63.00	83.50

## Shareholders' Information

Twenty largest shareholders of the Company

	Name of shareholders	31 December 2022		31 December 2021	
		No. of shares	% Holding	No. of shares	% Holding
1	Dialog Axiata PLC	116,290,376	99.05%	116,290,376	99.05%
2	Hatton National Bank PLC/ Rohan Chanaka Joseph Goonewardene	253,307	0.22%	252,407	0.21%
3	Hatton National Bank PLC/ Dawi Investment Trust (Pvt) Ltd	97,595	0.08%	N/Q	N/Q
4	Mr.S.R.S. De Saram/ Mrs. S.T.T. Jayasundera (Joint)	85,459	0.07%	76,234	0.06%
5	Dawi Investment Trust (Pvt) Ltd	38,752	0.03%	64,450	0.05%
6	Mr. P.S.M. Fernando	24,282	0.02%	24,282	0.02%
7	Mr. B.Y. Edirisuriya/ Mrs. R.D. Edirisuriya (Joint)	20,426	0.02%	11,995	0.01%
8	Guardian Insurance Brokers (Pvt) Ltd	19,982	0.02%	N/Q	N/Q
9	Mrs. A.A. Raaymakers	19,711	0.02%	19,711	0.02%
10	People's Leasing & Finance PLC/ C.D.Kohombanwickramage	18,152	0.02%	18,152	0.02%
11	Mr. M.K. Gunawardena	16,190	0.01%	16,190	0.01%
12	Mr. G. D. M Ranasinghe/ Mr. O. R. K Ranasinghe (joint)	14,029	0.01%	14,029	0.01%
13	Mr. P. Poongunaseelan	13,631	0.01%	11,205	0.01%
14	Mrs. S. Suwandaratne	13,346	0.01%	10,792	0.01%
15	Mr. B.C.V. Mendis	11,576	0.01%	11,576	0.01%
16	Mr. C. Chanmugam	10,632	0.01%	10,632	0.01%
17	Citizens Development Business Finance PLC/ K.D.C. Somalatha And K. Nandasiri	10,480	0.01%	11,580	0.01%
18	Mr. T.D. Mahaliyana	10,082	0.01%	N/Q	N/Q
19	Miss. M.P.Radhakrishan	9,330	0.01%	N/Q	N/Q
20	Miss. A..Radhakrishan	9,132	0.01%	N/Q	N/Q
		<b>116,986,470</b>	<b>99.65%</b>	<b>116,843,611</b>	<b>99.53%</b>
	Others	413,396	0.35%	556,255	0.47%
	<b>Total</b>	<b>117,399,866</b>	<b>100.00%</b>	<b>117,399,866</b>	<b>100.00%</b>

N/Q- Not qualify for top 20 shareholders as at 31 December 2022

## Share Information

### Directors' shareholdings

Directors'/ CEO's Holding in Shares as at 31 December	2022	2021
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. Nazeem Mohamed	Nil	Nil

### Public shareholdings

Information pertaining to public shareholding is as follows:

	31 December	
	2022	2021
Public holding percentage	0.95%	0.95%
Number of public shareholders	726	735

- (a) Float adjusted market capitalisation as at 31 December 2022 was Rs. 69,894,010/-. (31 December 2021 was Rs. 93,127,444/-)
- (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 2022

#### Rights issue – October 2021

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	558,897,760	Within 12 months ending October 2021	558,897,760	99.77%	365,308,211	65.36%	Remaining funds are placed with government securities
2	Expenses relating to the Rights Issue	1,175,000	-	1,175,000	0.23%	1,175,000	100%	-



## Share Information

### 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	597	75,160	0.06	4	1,271	-	601	76,431	0.06
1001 to 10000 Shares	101	330,713	0.28	7	24,714	0.02	108	355,427	0.30
10001 to 100000 Shares	16	424,325	0.36	-	-	-	16	424,325	0.36
100001 to 1000000 Shares	1	253,307	0.22	-	-	-	1	253,307	0.22
Over 1000000 Shares	1	116,290,376	99.05	-	-	-	1	116,290,376	99.05
<b>Total</b>	<b>716</b>	<b>117,373,881</b>	<b>99.98</b>	<b>11</b>	<b>25,985</b>	<b>0.02</b>	<b>727</b>	<b>117,399,866</b>	<b>100.00</b>

Categories of shareholders	No. of shareholders	No. of shares
Individual	685	617,648
Institutional	42	116,782,218
<b>Total</b>	<b>727</b>	<b>117,399,866</b>

# 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)

No Non-Recurrent Related Party Transactions exceeding 10% of the Equity or 5% of the Total assets (Disclosure as per section 9 of the CSE Listing Rules) during the year under review.

## 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	Value of the Related Party Transactions entered into during the financial year Rs.000'	Value of Related Party Transactions as % of the Gross Revenue/ Income	Terms and Conditions of the Related Party Transactions
Axiata Investment Labuan Limited	Affiliate	Fixed Deposit	Deposits received - Rs. 2,000,000 (Rs' 000)	194.2%	3 Month (Renewal) Rate of Interest - (5.5% -18.0% per annum)
			Interest accrued - Rs. 226,943 (Rs' 000)	22.0%	

## Recurrent Related Party Transactions exceeding 10% of the Gross Revenue / Income (Disclosure as per section 9 of the CSE Listing Rules)

No Recurrent Related Party Transactions exceeding 10% of the Gross Revenue / Income (Disclosure as per section 9 of the CSE Listing Rules) during the year under review.

## 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 ended 31 December	2022	2021
<b>Direct economic value generated</b>		
Interest income	984,853	261,067
Fee and commission income	17,908	6,399
Other income	27,137	4,147
	<b>1,029,898</b>	<b>271,613</b>
<b>Economic value distributed</b>		
<b>To depositors and lenders</b>		
Interest expense	359,526	56,629
	<b>359,526</b>	<b>56,629</b>
<b>Operating costs</b>		
Depreciation and amortisation	46,250	43,256
Fee and commission expenses	2,792	1,185
Other expenses	212,729	109,529
	<b>261,771</b>	<b>153,970</b>
<b>To employees</b>		
Salary and bonus	172,656	102,079
Other benefits	35,788	21,240
	<b>208,444</b>	<b>123,319</b>
<b>Payments to government</b>		
Income tax (reversal) / expense	-	-
Taxes on financial services	48,177	4,689
Crop insurance levy	-	-
	<b>48,177</b>	<b>4,689</b>
<b>Payments to providers of capital</b>		
Dividends to shareholders	-	-
	<b>-</b>	<b>-</b>
Economic value distributed	877,918	338,607
Economic value retained	151,980	(66,994)
	<b>1,029,898</b>	<b>271,613</b>

# Glossary of Financial Terms

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## 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

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## **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

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## **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

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## **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

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## **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

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## **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

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## **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

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## **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 FORTY SECOND ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD AS A FULLY VIRTUAL MEETING ON MONDAY, 5 JUNE 2023 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 2022 and the Auditors' Report thereon.

## 2. Ordinary Resolution 2

To re-elect as a Director, Mr. Mohamed Hassen Mohamed Nazeem, who was appointed to the Board since the last Annual General Meeting pursuant to Article 28 (3) of the Articles of Association of the Company.

## 3. Ordinary Resolution 3

To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.

## 4. Ordinary Resolution 4

To authorise the Directors to determine and make donations.

By Order of the Board



**Viranthi Attygalle**  
Company Secretary

30 April 2023  
Colombo

### Notes:

- i) 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 1 June 2023 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 or any other Director of the Company 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 42<sup>nd</sup> Annual General Meeting

The 42<sup>nd</sup> Annual General Meeting (AGM) of Dialog Finance PLC (the “Company”) will be held as a fully virtual meeting on Monday, 5 June 2023 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 Monday, 5 June 2023 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 Board Room 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-notice](http://www.dialogfinance.lk/important-notice).

## No Personal Attendance at AGM

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) duly appointing a 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 1 June 2023 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-notice](http://www.dialogfinance.lk/important-notice) on or before 4:00PM on 1 June 2023.
- (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 login information closer to the AGM. Please note that the login 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 login information.

# Administrative Details for the 42<sup>nd</sup> 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 or any one of the Directors of the Company to participate and vote on their behalf such that each shareholder's vote may be identified and recorded as if such shareholder were present at the meeting.
- (c) In order to be valid, the Form of Proxy must be duly completed and forwarded to the Company Secretary via post to Dialog Finance PLC, No. 475, Union Place, Colombo 2 and must be received not later than 48 hours before the time appointed for holding the meeting, i.e. before 4:00PM on 3 June 2023.

## Annual Report 2022

The Annual Report 2022 has been published on the corporate website and may be accessed at [www.dialogfinance.lk/financial-statements](http://www.dialogfinance.lk/financial-statements). If a shareholder wishes to receive a printed copy of the Annual Report 2022, 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 1 June 2023 via [agminfo@dialog.lk](mailto: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-notice](http://www.dialogfinance.lk/important-notice) or contact Ms. Divya Ranaraj on +94 773 908 929 during working hours.

## 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, or failing her, any one of the Directors of the Company as my/our proxy to participate and vote on my/our behalf in accordance with the preference as indicated below at the **Forty Second Annual General Meeting of the Company** to be held by virtual means on 5 June 2023 at 4:00PM (IST – India Standard time) and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

RESOLUTIONS	FOR	AGAINST
<b>Ordinary Business:</b>		
Ordinary Resolution 1		
Ordinary Resolution 2		
Ordinary Resolution 3		
Ordinary Resolution 4		

(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 or any other Director of the Company 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 to the Company Secretary via post to Dialog Finance PLC, No. 475, Union Place, Colombo 2 and must be received not later than 48 hours before the time appointed for holding the meeting, i.e. before 4:00PM on 3 June 2023.
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 at [www.dialogfinance.lk/important-notices](http://www.dialogfinance.lk/important-notices).
7. If a shareholder has submitted a Form of Proxy prior to the 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

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## Name of the Company

Dialog Finance PLC

## Company Secretary

Ms. Viranthi Attygalle

## Company Registration No.

PB 765 PQ

## Compliance Officer

Mr. Thissil Vincent

## Date of Incorporation

25 November 1981

## Registrars

SSP Corporate Services (Private) Limited

No. 101, Inner Flower Road,

Colombo 03.

**Tel** : + 94 11 2573894

**Fax** : + 94 11 2573609

## Registered Address

No. 475, Union Place, Colombo 02.

## 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

## Auditors

Messrs. PricewaterhouseCoopers

Chartered Accountants

100, Braybrooke Place,

Colombo 02.

## Legal Form and Stock Exchange Listing

A Public Listed Company with Limited Liability which was listed 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.

## 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

## Board of Directors

- Ms. Renuka Fernando - Chairperson
- Mr. Supun Weerasinghe
- Mr. Priyan Edirisinghe
- Mr. Roshan Hettiaratchi
- Mr Nazeem Mohamed

## Credit Rating

National Long-Term Rating of 'AA(Ika)';

Outlook – Stable (as at 31 December 2022)

Current Rating 'AA(Ika)' RWN

(Issued by Fitch Ratings Lanka)

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](mailto:financialservice@dialog.lk) **Web :** [www.dialogfinance.lk](http://www.dialogfinance.lk)

